Consolidated Financial Statements

USHIO INC.

Year ended March 31, 2014 with
Independent Auditor's Report

EY
Building a better working world

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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, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 26, 2014
Tokyo, Japan

USHIO INC. and Consolidated Subsidiaries

Consolidated Balance Sheet

	As of March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and deposits *(Notes 3, 9 and 16)*	**¥ 46,146**	¥ 42,136	**$ 448,372**
Notes and accounts receivable – trade *(Note 9)*	**39,853**	34,565	**387,232**
Securities *(Notes 9 and 10)*	**12,724**	14,140	**123,635**
Merchandise and finished goods	**24,321**	21,757	**236,318**
Work in process	**5,836**	5,817	**56,706**
Raw materials and supplies	**11,691**	10,405	**113,598**
Deferred tax assets *(Note 4)*	**5,678**	5,042	**55,172**
Prepaid expenses and other current assets	**7,449**	7,497	**72,380**
Less: Allowance for doubtful accounts *(Note 9)*	**(697)**	(717)	**(6,776)**
Total current assets	**153,004**	140,646	**1,486,637**
Property, plant and equipment, at cost:			
Buildings and structures	**39,362**	37,546	**382,459**
Machinery, equipment and other *(Notes 3 and 8)*	**47,133**	43,013	**457,960**
Land	**9,266**	9,057	**90,039**
Construction in progress	**1,421**	1,220	**13,808**
	97,183	90,837	**944,267**
Less: Accumulated depreciation	**(58,057)**	(54,061)	**(564,101)**
Property, plant and equipment, net	**39,126**	36,776	**380,166**
Intangible assets *(Note 8)*	**4,159**	2,863	**40,413**
Investments and other assets:			
Investment securities *(Notes 9 and 10)*	**54,844**	45,327	**532,888**
Investments in and advances to associates	**38**	56	**372**
Deferred tax assets *(Note 4)*	**1,177**	636	**11,438**
Other assets	**2,987**	2,350	**29,031**
Total investments and other assets	**59,048**	48,371	**573,729**
Total assets	**¥ 255,338**	¥ 228,657	**$ 2,480,944**

	As of March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable - trade *(Note 9)*	**¥ 16,757**	¥ 16,610	**$ 162,823**
Short-term loans payable *(Notes 3 and 9)*	**1,669**	1,904	**16,218**
Current portion of long-term loans payable *(Notes 3 and 9)*	**3,255**	4,732	**31,636**
Income taxes payable	**3,381**	1,927	**32,856**
Deferred tax liabilities *(Note 4)*	**83**	146	**807**
Provision for bonuses	**2,641**	2,581	**25,663**
Provision for product warranties	**1,695**	1,549	**16,474**
Other current liabilities	**10,472**	8,498	**101,758**
Total current liabilities	**39,957**	37,950	**388,242**
Long-term liabilities:			
Long-term loans payable *(Notes 3 and 9)*	**3,334**	2,791	**32,397**
Deferred tax liabilities *(Note 4)*	**2,347**	1,089	**22,810**
Retirement benefits *(Note 12)*	**–**	2,441	**—**
Net defined benefit liability	**10,687**	–	**103,841**
Provision for directors' retirement benefits	**538**	253	**5,232**
Other long-term liabilities	**7,226**	7,348	**70,213**
Total long-term liabilities	**24,134**	13,922	**234,494**
Net assets:			
Shareholders' equity:			
Capital stock:			
Authorized – 300,000,000 shares			
Issued – 139,628,721 shares	**19,556**	19,556	**190,015**
Capital surplus	**28,371**	28,371	**275,664**
Retained earnings	**134,798**	126,912	**1,309,744**
Treasury shares, at cost	**(13,244)**	(12,231)	**(128,683)**
Total shareholders' equity	**169,482**	162,609	**1,646,740**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**21,407**	14,666	**207,997**
Deferred gains or losses on hedges	**(7)**	(23)	**(68)**
Foreign currency translation adjustment	**1,590**	(3,623)	**15,454**
Remeasurements of defined benefit plans	**(4,687)**	–	**(45,548)**
Total accumulated other comprehensive income	**18,302**	11,019	**177,835**
Minority interests	**3,461**	3,155	**33,634**
Total net assets *(Note 15)*	**191,246**	176,784	**1,858,208**
Total liabilities and net assets	**¥ 255,338**	¥ 228,657	**$ 2,480,944**

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Income

	Years ended March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales	**¥ 157,800**	¥ 143,461	**$ 1,533,234**
Cost of sales	**101,809**	95,196	**989,207**
Gross profit	**55,991**	48,264	**544,027**
Selling, general and administrative expenses *(Note 5)*	**43,881**	40,682	**426,361**
Operating income	**12,110**	7,582	**117,667**
Other income (expenses):			
Interest and dividend income	**1,574**	1,417	**15,302**
Interest expenses	**(214)**	(211)	**(2,085)**
Foreign exchange gains	**1,678**	255	**16,308**
Gain on trading securities	**271**	405	**2,640**
Share of loss of entities accounted for using equity method	**(36)**	(16)	**(359)**
Gain on sales of investment securities, net	**2,087**	952	**20,282**
Loss on valuation of investment securities *(Note 10)*	**(1,162)**	(243)	**(11,295)**
Provision of allowance for doubtful accounts	–	(119)	**–**
Impairment loss *(Note 6)*	**(419)**	(69)	**(4,072)**
Loss on liquidation of business *(Note 7)*	**(168)**	(4,042)	**(1,642)**
Loss on step acquisitions	**(5)**	–	**(49)**
Extra retirement payment	**(447)**	–	**(4,347)**
Other, net	**247**	141	**2,407**
	3,405	(1,531)	**33,090**
Income before income taxes and minority interests	**15,515**	6,050	**150,757**
Income taxes *(Note 4)*:			
Current	**5,379**	4,591	**52,272**
Deferred	**(714)**	(5,516)	**(6,942)**
	4,665	(924)	**45,330**
Income before minority interests	**10,850**	6,975	**105,427**
Minority interests	**79**	(179)	**775**
Net income *(Note 15)*	**¥ 10,770**	¥ 7,155	**$ 104,653**

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Years ended March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Income before minority interests	**¥ 10,850**	¥ 6,975	**$ 105,427**
Other comprehensive income *(Note 13)*:			
Valuation difference on available-for-sale securities	**6,740**	2,040	**65,490**
Deferred gains or losses on hedges	**16**	(23)	**158**
Foreign currency translation adjustment	**5,414**	8,662	**52,611**
Share of other comprehensive income of entities accounted for using equity method	**6**	10	**59**
Total other comprehensive income	**12,177**	10,689	**118,319**
Comprehensive income	**¥ 23,027**	¥ 17,665	**$ 223,746**
Comprehensive income attributable to owners of the parent	**¥ 22,741**	¥ 17,650	**$ 220,965**
Comprehensive income attributable to minority interests	**286**	14	**2,781**

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of capital stock issued	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
	(Thousands)						*(Millions of yen)*						
Balance as of April 1, 2012	139,628	¥ 19,556	¥ 28,371	¥ 122,642	¥ (12,228)	¥ 158,341	¥ 12,628	¥ –	¥ (12,103)	¥ –	¥ 524	¥ 3,183	¥ 162,048
Dividends from surplus				(2,884)		(2,884)							(2,884)
Net income				7,155		7,155							7,155
Purchase of treasury shares					(2)	(2)							(2)
Net changes of items other than shareholders' equity							2,038	(23)	8,480	–	10,495	(27)	10,467
Balance as of March 31, 2013	**139,628**	**19,556**	**28,371**	**126,912**	**(12,231)**	**162,609**	**14,666**	**(23)**	**(3,623)**	**–**	**11,019**	**3,155**	**176,784**
Dividends from surplus				**(2,884)**		**(2,884)**							**(2,884)**
Net income				**10,770**		**10,770**							**10,770**
Purchase of treasury shares					**(1,012)**	**(1,012)**							**(1,012)**
Net changes of items other than shareholders' equity							**6,740**	**16**	**5,213**	**(4,687)**	**7,283**	**305**	**7,589**
Balance at March 31, 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**

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
						(Thousands of U.S. dollars)						
Balance as of March 31, 2013	**$ 190,015**	**$ 275,664**	**$ 1,233,121**	**$ (118,841)**	**$ 1,579,958**	**$ 142,501**	**$ (227)**	**$ (35,204)**	**$ –**	**$ 107,070**	**$ 30,661**	**$ 1,717,690**
Dividends from surplus			**(28,029)**		**(28,029)**							**(28,029)**
Net income			**104,653**		**104,653**							**104,653**
Purchase of treasury shares				**(9,842)**	**(9,842)**							**(9,842)**
Net changes of items other than shareholders' equity						**65,496**	**158**	**50,658**	**(45,548)**	**70,765**	**2,972**	**73,737**
Balance at March 31, 2014	**$ 190,015**	**$ 275,664**	**$ 1,309,744**	**$ (128,683)**	**$ 1,646,740**	**$ 207,997**	**$ (68)**	**$15,454**	**$ (45,548)**	**$ 177,835**	**$ 33,634**	**$ 1,858,208**

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Years ended March 31		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Operating activities			
Income before income taxes and minority interests	**¥ 15,515**	¥ 6,050	**$ 150,757**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	**5,021**	6,741	**48,789**
Impairment loss	**419**	69	**4,072**
Loss on liquidation of business	**168**	4,042	**1,642**
Interest and dividends income	**(1,574)**	(1,417)	**(15,302)**
Interest expenses	**214**	211	**2,085**
Gain on trading securities	**(271)**	(405)	**(2,640)**
Share of loss of entities accounted for using equity method	**36**	16	**359**
Gain on sales of investment securities	**(2,087)**	(952)	**(20,282)**
Loss on valuation of investment securities	**1,162**	243	**11,295**
(Increase) decrease in notes and accounts receivable – trade	**(3,287)**	5,282	**(31,942)**
(Increase) decrease in inventories	**(1,110)**	5,067	**(10,792)**
Decrease in notes and accounts payable – trade	**(365)**	(2,705)	**(3,555)**
Other	**(845)**	(3,272)	**(8,216)**
Subtotal	**12,995**	18,972	**126,270**
Interest and dividends received	**1,606**	1,384	**15,610**
Interest paid	**(218)**	(210)	**(2,121)**
Income taxes paid	**(3,761)**	(5,702)	**(36,548)**
Net cash provided by operating activities	**10,622**	14,443	**103,211**
Investing activities			
Payments into time deposits	**(13,006)**	(17,915)	**(126,376)**
Proceeds from withdrawal of time deposits	**14,221**	16,529	**138,177**
Payments of short-term loans receivable	**(55)**	(14)	**(535)**
Collection of short-term loans receivable	**39**	75	**386**
Purchase of securities	**(1,318)**	(4,768)	**(12,814)**
Proceeds from sales and redemption of securities	**2,660**	7,345	**25,850**
Purchase of property, plant and equipment	**(5,041)**	(6,435)	**(48,982)**
Proceeds from sales of property, plant and equipment	**184**	1,383	**1,794**
Purchase of intangible assets	**(289)**	(709)	**(2,812)**
Purchase of investment securities	**(3,181)**	(6,850)	**(30,909)**
Proceeds from sales and redemption of investment securities	**3,434**	2,719	**33,366**
Purchase of shares in subsidiaries resulting in a change in scope of consolidation	**–**	(54)	**—**
Proceeds from purchase of shares in subsidiaries resulting in a change in scope of consolidation	**315**	–	**3,063**
Proceeds from sales of shares of subsidiaries and associates	**57**	–	**557**
Purchase of shares of subsidiaries and associates	**(42)**	–	**(410)**

Payments of long-term loans receivable	**(157)**	(16)	**(1,533)**
Collection of long-term loans receivable	**0**	11	**6**
Payments for transfer of business *(Note 16)*	**(2,371)**	–	**(23,037)**
Other	**73**	51	**718**
Net cash used in investing activities	**(4,476)**	(8,649)	**(43,490)**
Financing activities			
Net decrease in short-term loans payable	**(742)**	(2,729)	**(7,216)**
Proceeds from long-term loans payable	**3,075**	–	**29,878**
Repayment of long-term loans payable	**(5,080)**	(1,432)	**(49,363)**
Purchase of treasury shares	**(1,012)**	(2)	**(9,842)**
Cash dividends paid	**(2,884)**	(2,885)	**(28,024)**
Cash dividends paid to minority interests	**(25)**	(41)	**(244)**
Net cash used in financing activities	**(6,670)**	(7,092)	**(64,811)**
Effect of exchange rate changes on cash and cash equivalents	**2,604**	2,975	**25,308**
Net increase in cash and cash equivalents	**2,080**	1,676	**20,218**
Cash and cash equivalents at beginning of year	**43,261**	41,585	**420,345**
Cash and cash equivalents at end of year *(Note 16)*	**¥ 45,342**	¥ 43,261	**$ 440,562**

See 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 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, International Financial Reporting Standards (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 regulation 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.

(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, 2014, the numbers of consolidated subsidiaries and associates accounted for using equity method were 54 and 2 (48 and 2 in 2013), respectively.

The changes in the scope of consolidation for the year ended March 31, 2014 are as follows:
Due to new establishment, Scrabble Ventures LLC, CHRISTIE DIGITAL SYSTEMS MEXICO, S. DE R.L. DE C.V., Scrabble Ventures, S. de R.L. de C.V. and United Designers of Architectural Lighting, Inc. were included in the consolidation scope.
Due to acquisition of shares, Protosera Inc. and one another company were included in the consolidation scope.

The changes in scope of equity method for the year ended March 31, 2014 are as follows:
Due to acquisition of shares, Zylight LLC was included in the scope of the equity method.
Due to transfer of all of its shares, USHIOSPAX INC. (currently: ModuleX Inc.) was excluded from the scope of the equity method.

The closing date of a consolidated subsidiary, USHIO (SUZHOU) CO., LTD., and 7 other consolidated subsidiaries (6 in 2013) is December 31. Their financial accounts are consolidated using their financial statements as of the parent's fiscal year-end, which 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 net income includes the Company's equity in the current net income 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 or negative goodwill incurred on or before March 31, 2010 is amortized in equal portions over the period in which it is deemed to be valuable. Negative goodwill incurred on or after April 1, 2010 is credited to income when incurred.

(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 minority interests, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding minority 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.

(g) Depreciation (excluding leased assets)

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries 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.

Property, plant and equipment of the overseas consolidated subsidiaries are depreciated principally by the straight-line method over the estimated useful lives of the respective assets.

The period of this depreciation extends from 10 years to 39 years for buildings and structures and 5 years to 10 years for machinery and equipment, and vehicles. The others are generally depreciated from 2 years to 10 years.

Intangible assets are amortized by the straight-line method.
In addition, software for internal use is applied 5 years amortization as an estimated useful period.

(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 which is expected to be paid.

(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 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.

(n) 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.

(o) 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.

(p) 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:	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.

(q) 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.

(r) Changes in accounting policies

(i) Depreciation method for property, plant and equipment

Previously, the Company and its domestic consolidated subsidiaries had primarily adopted the declining-balance method as the depreciation method for property, plant and equipment (although the straight-line method was adopted for buildings (excluding accompanying facilities attached to buildings) acquired on or after April 1, 1998). However, from the fiscal year ended March 31, 2014, the depreciation method was changed primarily to the straight-line method.

The Group annually reviews the medium-term vision, and it formulated a new medium-term vision covering the period between the fiscal year ended March 31, 2014 and the fiscal year ending March 31, 2016. This medium-term vision was created under the new management strategies to respond to the business environment surrounding markets such as the liquid crystal and semiconductor-related market and the digital cinema projector market to which the Group belongs.

As part of our efforts under the medium-term vision, the Group plans to level and stabilize its production volume in Japan by proceeding with the restructuring of its production system and the production moving off-shore. Consequently, it is expected that property, plant and equipment will be stably operated for a long term, resulting in the change in the depreciation method to the straight-line method.

As a result of this change, compared to the previous method used, operating income and income before income taxes and minority interests for the year ended March 31, 2014 each increased by ¥744 million ($7,233 thousand).

The impact of this change on segment information is shown in the relevant section.

(ii) Application of the Accounting Standard for Retirement Benefits and related Guidance

The “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 26, issued on May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on May 17, 2012) were applied from March 31, 2014; provided, however, that they were applied except for the provisions specified in the main clause of Section 35 of the Accounting Standard for Retirement Benefits and the main clause of Section 67 of the Guidance on Accounting Standard for Retirement Benefits. Under the new accounting policy, the amount of retirement benefit obligations minus plan assets is recorded as net defined benefit liability. The unrecognized actuarial gains and losses and unrecognized past service costs were recognized in net defined benefit liability.

The application of the Accounting Standard for Retirement Benefits and related Guidance by the Company is subject to the tentative treatment provided for in Section 37 of the Accounting Standard for Retirement Benefits. Consequently, the effects of the changes in accounting policies were recognized in remeasurements of defined benefit plans under accumulated other comprehensive income as of March 31, 2014.

As a result, as of March 31, 2014, net defined benefit liability of ¥10,687 million ($103,841 thousand) was recognized. Also, accumulated other comprehensive income decreased by ¥4,687 million ($45,548 thousand).

In line with these, net assets per share decreased by ¥35.97 ($0.35).

(s) Accounting standards issued but not yet effective

- Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on May 17, 2012)

(1) Overview

The revision focused on (a) how actuarial gains and losses and past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined, and (c) enhancement of disclosures.

(2) Date of application

The revised calculation of retirement benefit obligations and current service costs will be applied effective April 1, 2014.

As tentative treatments are specified in the Accounting Standard and related Guidance, the revision will not be retrospectively applied to consolidated financial statements in prior periods.

(3) Effect of application

The impact of the revision is being evaluated at the time of preparation of the consolidated financial statements.

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued on September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, issued on September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, issued on September 13, 2013)
- Accounting Standard for Earnings per Share (ASBJ Statement No. 2, issued on September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued on September 13, 2013)
- Guidance on Accounting Standard for Earnings per Share (ASBJ Guidance No. 4, issued on September 13, 2013)

(1) Overview

These Accounting Standards and related Guidance were revised centered on (a) treatment of changes in equity of parent company in subsidiaries in the case of additional acquisition of shares in subsidiaries in which the control continues, (b) treatment of acquisition-related costs, (c) presentation of net income for the period and the change from minority interests to non-controlling interests, and (d) tentative accounting treatment.

(2) Date of application

These Accounting Standards and related Guidance will be applied effective April 1, 2015. Tentative accounting treatments will be applied to business combinations performed on or after April 1, 2015.

(3) Effect of application

The impact of the revision is being evaluated at the time of preparation of the consolidated financial statements.

2. U.S. Dollar Amounts

For the readers' convenience, the accompanying consolidated financial statements with respect to the year ended March 31, 2014 have been presented in U.S. dollars by translating all yen amounts at ¥102.92 = U.S. $1.00, the exchange rate prevailing on March 31, 2014. 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.

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 1.33% to 2.85% and from 1.95% to 2.80% per annum at March 31, 2014 and 2013, respectively.

Long-term loans payable at March 31, 2014 and 2013 consisted of the following:

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
The Company:			
Loans from banks, due through 2016 at a rate of 0.79%	**¥ 2,325**	¥ 2,840	**$ 22,590**
Consolidated subsidiaries:			
Loans from banks, due through 2017 at rates ranging from 0.85% to 6.79%	**4,265**	4,683	**41,442**
Total long-term loans payable	**6,590**	7,523	**64,033**
Less: Current portion	**(3,255)**	(4,732)	**(31,636)**
	¥ 3,334	¥ 2,791	**$ 32,397**

The assets pledged as collateral for loans payable as of March 31, 2014 were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash and deposits	¥ 186	$ 1,809
Machinery, equipment and other	1	17
	¥ 187	$ 1,826

The related loans payable for which the above assets were pledged as collateral as of March 31, 2014 is summarized as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Short-term loans payable	¥ 400	$ 3,887
Current portion of long-term loans payable	80	779
Long-term loans payable	89	874
	¥ 570	$ 5,540

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2014 are summarized as follows:

Years ending March 31	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2015	¥ 3,255	$ 31,636
2016	746	7,257
2017	2,455	23,857
2018	131	1,282
2019 and thereafter	–	—
Total	¥ 6,590	$ 64,033

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 38.0% for the years ended March 31, 2014 and 2013. 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, 2014 and 2013 are summarized as follows:

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Allowance for doubtful accounts	**¥148**	¥ 173	**$ 1,438**
Provision for bonuses	**746**	698	**7,250**
Provision for product warranties	**423**	392	**4,112**
Retirement benefit expenses	**—**	2,126	**—**
Net defined benefit liability	**5,006**	—	**48,644**
Provision and accrual for directors' retirement benefits	**516**	458	**5,018**
Loss on valuation of inventories	**1,255**	957	**12,201**
Impairment loss	**546**	262	**5,310**
Loss on liquidation of business	**5,191**	5,369	**50,438**
Net losses carried forward	**4,510**	2,897	**43,821**
Deferred revenue	**1,939**	1,307	**18,849**
Other	**3,748**	2,471	**36,423**
Total gross deferred tax assets	**24,032**	17,115	**233,505**
Valuation allowance	**(5,638)**	(3,183)	**(54,782)**
Total deferred tax assets	**18,394**	13,932	**178,723**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(11,733)**	(8,026)	**(114,009)**
Gain on contribution of securities to retirement benefit trust	**(671)**	(671)	**(6,527)**
Depreciation	**(437)**	(393)	**(4,251)**
Retained earnings of subsidiaries and associates	**(76)**	(140)	**(745)**
Other	**(1,049)**	(257)	**(10,197)**
Total deferred tax liabilities	**(13,969)**	(9,489)	**(135,730)**
Net deferred tax assets (liabilities)	**¥ 4,424**	¥ 4,443	**$ 42,994**

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

	2014	2013
Statutory tax rate	**38.0%**	38.0%
Reconciliation:		
Increase (decrease) in valuation allowance for deferred tax assets	**5.3**	(57.0)
Non-taxable income for income tax purposes	**(1.5)**	(3.1)
Non-deductible expenses for income tax purposes	**0.5**	1.1
Tax deductions related to R&D activities	**(3.8)**	(6.8)
Different tax rates applied to overseas subsidiaries	**(11.3)**	4.4
Share of loss of entities accounted for using equity method	**0.1**	0.1
Retained earnings of subsidiaries and associates	**(0.4)**	(0.1)
Special corporate tax for reconstruction	**0.8**	4.7
Other	**2.3**	3.3
Effective tax rates	**30.1%**	(15.3)%

The Act for Partial Revision of the Income Tax Act, etc. (Act No. 10 of 2014) was promulgated on March 31, 2014. With this revision, the special corporation tax for reconstruction, a surtax for reconstruction funding after the Great East Japan Earthquake, will no longer be levied from the fiscal year beginning on or after April 1, 2014. In conjunction with this, for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2014, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 38.0% to 35.6%.
As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities) decreased by ¥120 million ($1,168 thousand), and income taxes - deferred and valuation difference on available-for-sale securities increased by ¥125 million ($1,216 thousand) and ¥4 million ($48 thousand) respectively.

5. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	**¥ 11,301**	¥ 9,740	**$ 109,804**
Provision for bonuses	**842**	948	**8,191**
Retirement benefit expenses	**989**	791	**9,610**
Research and development expenses	**8,924**	9,985	**86,713**
Provision of allowance for doubtful accounts	**170**	34	**1,656**

6. Impairment Loss

For the year ended March 31, 2014, the Group recognized impairment loss on the following asset groups:

Location	Classification by use	Type of assets	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Himeji, Hyogo	Business assets	Buildings and structures, Machinery, equipment and other	**¥ 74**	**$ 721**
Gotemba, Shizuoka	Business assets	Machinery, equipment and other	**48**	**470**
–	Business assets	Intangible assets	**280**	**2,725**
Yokohama, Kanagawa	Idle assets	Construction in progress	**14**	**143**

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.

Recoverable amounts are mainly measured based on the value in use of the relevant assets, and calculated by discounting the respective future cash flows with discount rates between 0.075% and 1.062%.

For the year ended March 31, 2013, the Group recognized impairment loss on the following asset groups:

Location	Classification by use	Type of assets	*(Millions of yen)*
Takasago and Himeji, Hyogo	Idle assets	Machinery, equipment and other	¥23
Aachen, Germany	Business assets	Machinery, equipment and other Intangible assets	1,362

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 that are not expected to be used in the future are written down to zero, and these write-downs are recorded as impairment loss.

The book values of business assets that are not expected to be used in the future due to resolution for dissolution of XTREME technologies GmbH are written down to zero, and such write-downs are recorded as loss on liquidation of business.

7. Loss on Liquidation of Business

For the year ended March 31, 2014, due to the resolution for dissolution of TAIWAN USHIO LIGHTING, INC., the Group recognized provision for expected expenses for business liquidation of the relevant company until the completion thereof as loss on liquidation of business in the amount of ¥168 million ($1,642 thousand), which mainly includes retirement payments to employees of ¥108 million ($1,051 thousand) and loss on valuation of inventories of ¥8 million ($84 thousand).

For the year ended March 31, 2013, as loss on liquidation of business, the Group mainly recorded expected expenses for business liquidation of XTREME technologies GmbH of ¥3,393 million until the completion thereof, which includes impairment loss of ¥1,362 million and loss on valuation of inventories of ¥343 million, based on the related resolution and ¥648 million as liquidation losses in ADTEC Engineering Co., Ltd. due to the closing of a projection exposure equipment business, which includes loss on valuation of inventories of ¥634 million.

8. Leases

Future minimum lease payments under operating leases, which are lease transactions other than finance leases for the year ended March 31, 2014, are summarized as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Due within one year	¥423	$ 4,113
Due after one year	745	7,239
Total	¥1,168	$ 11,352

9. 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.

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.

(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, 2014 and 2013, as well as their differences. Financial instruments whose fair values cannot be reliably determined are not included.

(Millions of yen)

As of March 31, 2014	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	**¥46,146**	**¥46,146**	**¥–**
(2) Notes and accounts receivable – trade	**39,853**		
Allowance for doubtful accounts (*1)	**(691)**		
	39,162	**39,162**	**–**
(3) Securities and investment securities			
Trading securities	**2,111**	**2,111**	**–**
Available-for-sale securities	**63,860**	**63,860**	**–**
(4) Specified money in trust	**2,248**	**2,248**	**–**
Assets, total	**¥153,529**	**¥153,529**	**¥–**
(1) Notes and accounts payable – trade	**¥16,757**	**¥16,757**	**¥–**
(2) Short-term loans payable	**1,669**	**1,669**	**–**
(3) Current portion of long-term loans payable	**3,255**	**3,277**	**21**
(4) Long-term loans payable	**3,334**	**3,345**	**10**
Liabilities, total	**¥25,017**	**¥25,050**	**¥32**
Derivative transactions (*2)			
for which hedge accounting is not applied	**¥(26)**	**¥(26)**	**¥–**
for which hedge accounting is applied	**(10)**	**(10)**	**–**

(*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.

(Millions of yen)

As of March 31, 2013	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	¥42,136	¥42,136	¥–
(2) Notes and accounts receivable – trade	34,565		
Allowance for doubtful accounts (*1)	(717)		
	33,848	33,848	–
(3) Securities and investment securities			
Trading securities	1,724	1,724	–
Available-for-sale securities	54,946	54,946	–
(4) Specified money in trust	1,999	1,999	–
Assets, total	¥134,655	¥134,655	¥–
(1) Notes and accounts payable – trade	¥16,610	¥16,610	¥–
(2) Short-term loans payable	1,904	1,904	–
(3) Current portion of long-term loans payable	4,732	4,751	18
(4) Long-term loans payable	2,791	2,827	36
Liabilities, total	¥26,038	¥26,094	¥55
Derivative transactions (*2)			
for which hedge accounting is not applied	¥12	¥12	¥–
for which hedge accounting is applied	(37)	(37)	–

(*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.

(Thousands of U.S. dollars)

As of March 31, 2014	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	**$ 448,372**	**$ 448,372**	**$ –**
(2) Notes and accounts receivable – trade	**387,232**		
Allowance for doubtful accounts (*1)	**(6,720)**		
	380,512	**380,512**	**–**
(3) Securities and investment securities			
Trading securities	**20,512**	**20,512**	**–**
Available-for-sale securities	**620,489**	**620,489**	**–**
(4) Specified money in trust	**21,850**	**21,850**	**–**
Assets, total	**$ 1,491,735**	**$ 1,491,735**	**$ –**
(1) Notes and accounts payable – trade	**$ 162,823**	**$ 162,823**	**$ –**
(2) Short-term loans payable	**16,218**	**16,218**	**–**
(3) Current portion of long-term loans payable	**31,636**	**31,849**	**213**
(4) Long-term loans payable	**32,397**	**32,504**	**107**
Liabilities, total	**$ 243,073**	**$ 243,393**	**$ 320**
Derivative transactions (*2)			
for which hedge accounting is not applied	**$ (255)**	**$ (255)**	**$ –**
for which hedge accounting is applied	**(106)**	**(106)**	**–**

(*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.

Derivative transactions

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

As of March 31, 2014 and 2013, the consolidated balance sheet includes the following financial instruments whose fair values cannot be reliably determined:

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted shares and investments in business partnerships with limited liability	**¥1,597**	¥2,797	**$ 15,521**

(3) Redemption schedule

The redemption schedule for securities with maturity dates classified as available-for-sale securities as of March 31, 2014 and 2013 is summarized as follows:

	As of March 31, 2014					
	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**	**Due after five years and up to ten years**
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Notes and accounts receivable – trade	**¥38,083**	**¥1,569**	**¥200**	**$ 370,034**	**$ 15,251**	**$ 1,947**
Bonds:						
Corporate bonds	**2,278**	**9,352**	**–**	**22,135**	**90,868**	**—**
Total	**¥40,362**	**¥10,921**	**¥200**	**$ 392,169**	**$ 106,120**	**$ 1,947**

	As of March 31, 2013		
	Due within one year	Due after one year and up to five years	Due after five years and up to ten years
	(Millions of yen)		
Notes and accounts receivable – trade	¥34,565	–	–
Bonds:			
Corporate bonds	2,352	8,747	–
Total	¥36,917	¥8,747	¥–

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

10. Securities and Investment Securities

(1) Trading securities

Trading securities as of March 31, 2014 and 2013 are summarized as follows:

As of March 31, 2014			
Carrying value	**Gain**	**Carrying value**	**Gain**
(Millions of yen)		*(Thousands of U.S. dollars)*	
¥2,111	**¥101**	**$ 20,512**	**$ 985**

As of March 31, 2013	
Carrying value	Gain
(Millions of yen)	
¥1,724	¥385

(2) Marketable available-for-sale securities

Marketable available-for-sale securities as of March 31, 2014 and 2013 are summarized as follows:

	As of March 31, 2014					
	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	**¥42,474**	**¥9,833**	**¥32,640**	**$ 412,694**	**$ 95,548**	**$ 317,146**
(2) Bonds:						
Corporate bonds	**7,769**	**7,526**	**243**	**75,493**	**73,127**	**2,366**
(3) Other	**649**	**502**	**146**	**6,312**	**4,884**	**1,428**
Subtotal	**50,893**	**17,862**	**33,031**	**494,499**	**173,559**	**320,940**
Securities whose carrying value does not exceed their acquisition costs:						
(1) Shares	**537**	**567**	**(29)**	**5,224**	**5,515**	**(291)**
(2) Bonds:						
Corporate bonds	**4,105**	**4,150**	**(44)**	**39,894**	**40,325**	**(431)**
(3) Other	**8,323**	**8,323**	**(0)**	**80,872**	**80,875**	**(3)**
Subtotal	**12,966**	**13,041**	**(74)**	**125,990**	**126,715**	**(725)**
Total	**¥63,860**	**¥30,904**	**¥32,956**	**$ 620,489**	**$ 300,274**	**$ 320,216**

	As of March 31, 2013		
	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition costs:			
(1) Shares	¥31,503	¥9,112	¥22,390
(2) Bonds:			
Corporate bonds	8,678	8,279	398
(3) Other	363	209	153
Subtotal	40,545	17,602	22,943
Securities whose carrying value does not exceed their acquisition costs:			
(1) Shares	1,553	1,840	(286)
(2) Bonds:			
Corporate bonds	2,594	2,610	(15)
(3) Other	10,253	10,253	(0)
Subtotal	14,401	14,704	(302)
Total	¥54,946	¥32,306	¥22,640

(3) Available-for-sale securities sold

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

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales of securities			
(1) Shares	**¥3,407**	¥2,678	**$ 33,105**
(2) Other	**7,377**	3,000	**71,686**
Aggregate gains on sales			
Shares	**2,087**	952	**20,282**
Aggregate losses on sales			
Shares	**–**	–	**—**

(4) Impairment loss recognized on securities

Impairment loss amounted to ¥1,162 million ($11,295 thousand) and ¥243 million are recognized on shares classified as available-for-sale securities for the year ended March 31, 2014 and for the year ended March 31, 2013 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.

11. Derivative Transactions

The notional amounts and the estimated fair value of the derivative positions outstanding at March 31, 2014 and 2013 are summarized below.

(1) Derivative transactions for which hedge accounting is not applied
Currency-related transactions:

	As of March 31, 2014			
	Notional amounts	**Maturing after one year**	**Estimated fair value**	**Unrealized gain (loss)**
	(Millions of yen)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
USD	**¥1,339**	**¥ –**	**¥ 2**	**¥ 2**
Euro	**2,688**	**–**	**(8)**	**(8)**
AUD	**366**	**–**	**(11)**	**(11)**
Buy:				
USD	**40**	**–**	**0**	**0**
JPY	**1,308**	**–**	**(9)**	**(9)**
Total	**¥5,743**	**¥ –**	**¥ (26)**	**¥ (26)**

	As of March 31, 2014			
	Notional amounts	**Maturing after one year**	**Estimated fair value**	**Unrealized gain (loss)**
	(Thousands of U.S. dollars)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
USD	**$ 13,018**	**$ –**	**$ 24**	**$ 24**
Euro	**26,124**	**–**	**(81)**	**(81)**
AUD	**3,558**	–	**(108)**	**(108)**
Buy:				
USD	**395**	**–**	**4**	**4**
JPY	**12,710**	**–**	**(94)**	**(94)**
Total	**$ 55,807**	**$ –**	**$ (255)**	**$ (255)**

	As of March 31, 2013			
	Notional amounts	Maturing after one year	Estimated fair value	Unrealized gain (loss)
	(Millions of yen)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
USD	¥1,254	¥ –	¥(108)	¥(108)
Euro	3,089	–	101	101
Buy:				
USD	285	–	52	52
Euro	240	–	1	1
JPY	1,398	–	(33)	(33)
Total	¥6,268	¥ –	¥ 12	¥ 12

(2) Derivative transactions for which hedge accounting is applied
Currency-related transactions:

	As of March 31, 2014						
	Hedged item	**Notional amounts**	**Maturing after one year**	**Estimated fair value**	**Notional amounts**	**Maturing after one year**	**Estimated fair value**
		(Millions of yen)			*(Thousands of U.S. dollars)*		
Derivative transactions for which deferral accounting is applied:							
Forward foreign exchange contracts:							
Sell:							
AUD	**Investment securities**	**¥ 297**	**¥ –**	**¥ (10)**	**$ 2,890**	**$ –**	**$ (106)**
Total		**¥ 297**	**¥ –**	**¥ (10)**	**$ 2,890**	**$ –**	**$ (106)**

	As of March 31, 2013			
	Hedged item	Notional amounts	Maturing after one year	Estimated fair value
		(Millions of yen)		
Derivative transactions for which deferral accounting is applied:				
Forward foreign exchange contracts:				
Sell:				
AUD	Investment securities	¥922	¥272	¥(37)
Total		¥922	¥272	¥(37)

12. Retirement Benefit Plans

For the year ended March 31, 2014

(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 is 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 plan 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 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

	2014	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Retirement benefit obligation at beginning of period	**¥ 29,648**	**$ 288,069**
Current service costs	**1,361**	**13,231**
Interest costs	**592**	**5,760**
Actuarial gains and losses arising during period	**(356)**	**(3,461)**
Retirement benefits paid	**(520)**	**(5,059)**
Contribution to employees	**238**	**2,314**
Other	**(193)**	**(1,882)**
Effect of exchange rate changes	**45**	**444**
Retirement benefit obligation at end of period	**¥ 30,815**	**$ 299,416**

b. Reconciliation between plan assets at beginning of period and end of period

	2014	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Plan assets at beginning of period	**¥ 18,416**	**$ 178,945**
Expected return on plan assets	**572**	**5,563**
Actuarial gains and losses arising during period	**522**	**5,080**
Contributions from employer	**1,731**	**16,825**
Retirement benefits paid	**(495)**	**(4,819)**
Effect of exchange rate changes	**49**	**476**
Plan assets at end of period	**¥ 20,796**	**$ 202,069**

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

	2014	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Net defined benefit liability at beginning of period	**¥ 227**	**$ 2,213**
Retirement benefit expenses	**416**	**4,047**
Retirement benefits paid	**(7)**	**(76)**
Other	**13**	**129**
Effect of exchange rate changes	**18**	**183**
Net defined benefit liability at end of period	**¥ 668**	**$ 6,495**

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

	2014	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Retirement benefit obligation for funded plans	**¥ 30,815**	**$ 299,416**
Plan assets	**(20,796)**	**(202,069)**
	10,018	**97,346**
Retirement benefit obligation for unfunded plans	**668**	**6,495**
Net balance of liability and asset recognized on the consolidated balance sheet	**10,687**	**103,841**
Net defined benefit liability	**10,687**	**103,841**
Net balance of liability and asset recognized on the consolidated balance sheet	**¥ 10,687**	**$ 103,841**

e. Retirement benefit expenses and their breakdown

	2014	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Current service costs	**¥ 1,361**	**$ 13,231**
Interest costs	**592**	**5,760**
Expected return on plan assets	**(572)**	**(5,563)**
Amortization of actuarial gains and losses	**922**	**8,966**
Amortization of past service costs	**(38)**	**(370)**
Retirement benefit expenses applying simplified method	**416**	**4,047**
Retirement benefits expenses under defined benefit plans	**¥ 2,683**	**$ 26,070**

f. Remeasurements of defined benefit plans

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

	2014	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Unrecognized past service costs	**¥ (220)**	**$ (2,140)**
Unrecognized actuarial gains and losses	**7,503**	**72,910**
Total	**¥ 7,283**	**$ 70,770**

g. Plan assets

(i) Breakdown of plan assets

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

	2014
Bonds	**40%**
Securities	**23**
Cash and deposits	**10**
Other	**27**
Total	**100%**

Note: Total plan assets include retirement benefit trusts of 12% that are set up for a corporate pension plan.

(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.

h. Actuarial assumptions

	2014
Actuarial assumptions at end of period:	
Discount rate	**2.0%**
Long-term expected rate of return:	**3.5%**

(3) Defined contribution plan

The required contribution to the defined contribution plan amounts to ¥ 707 million ($6,872thousand).

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

	2014 (As of March 31, 2013)	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Plan assets	**¥ 222,956**	**$ 2,166,310**
Benefit obligations under pension funding calculation	**206,135**	**2,002,868**
Difference	**¥ 16,821**	**$ 163,442**

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

	(For the year ended March 31, 2014)
Ratio of Group's contributions	**0.22%**

c. Supplemental information

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

	(As of March 31, 2013)	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Deficit carried forward	**¥ (10,082)**	**$ (97,962)**
Deficit for the year	**26,903**	**261,405**

For the year ended March 31, 2013

(1) Overview of Retirement Benefit Plan adopted by the Company

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, such as Welfare Pension Fund plans and lump-sum payment plans, covering substantially all employees who are entitled, upon retirement, to annuity or lump-sum payments, the amounts of which are determined with reference to their basic rates of pay and length of service and the conditions under which the termination occurs. The Company has established an employees' retirement benefit trust.

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 the Accounting Standard for Retirement Benefits.

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

	2013 (As of March 31, 2012)
Plan assets	¥186,189
Benefit obligations under pension funding calculation	186,648
Difference	¥ (458)

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

	2013 (For the year ended March 31, 2012)
Ratio of Group's contributions	0.25%

c. Supplemental information

The main factors for the difference in (1) above are as follows:

	2013 (As of March 31, 2012)
	(Millions of yen)
Addition due to appraisal of assets	¥9,623
Voluntary reserve	3,329
Deficit for the year	(13,412)

(2)Retirement benefit obligations and its components

The following table presents the funded and accrued status of the plans and the amounts recognized in the accompanying consolidated balance sheet at March 31, 2013 for the Company's and its consolidated subsidiaries' defined benefit pension plans:

	2013
	(Millions of yen)
(1) Retirement benefit obligations	¥ (29,875)
(2) Plan assets at fair value (including the trust fund for retirement benefits)	18,416
(3) Unfunded net retirement benefit obligations (1) + (2)	(11,458)
(4) Unrecognized actuarial gains or losses	9,291
(5) Unrecognized prior service costs	(258)
(6) Net liability for retirement benefits (3) + (4) + (5)	(2,425)
(7) Prepaid pension expenses	15
(8) Accrued retirement benefits (6) – (7)	(2,441)
(9) Retirement benefit for directors, corporate auditors, and others	(253)
(10) Total (8) + (9)	¥ (2,694)

Notes:

1. The substitutional portion of the Welfare Pension Fund is included in the amounts presented in the above table.

2. Certain consolidated subsidiaries have applied a simplified method for computing their retirement benefit obligations.

(3) Components of the retirement benefit expenses

	2013
	(Millions of yen)
(1) Service costs (*1 and *2)	¥1,248
(2) Interest costs	538
(3) Expected return on plan assets	(572)
(4) Amortization of actuarial gains or losses	889
(5) Amortization of prior service costs	(26)
Total retirement benefit expenses (*3)	¥2,077

Notes:

*1 The employees' portion of the contributions to the Welfare Pension Fund is excluded.

*2 The retirement benefit expenses of the consolidated subsidiaries applying the simplified method are included in "(1) Service costs."

*3 Besides the amount stated, several consolidated subsidiaries have recognized a total of ¥523 million as retirement expenses for defined contribution pension plans for the year ended March 31, 2013.

(4) Assumptions used in accounting for the above plans

	2013
Discount rate	2.0%
Expected rate of return on plan assets	4.0%
Method of attributing expected benefit to periods	Straight-line basis
Amortization period of prior service costs	15 years (straight-line method)
Amortization period of actuarial gains or losses	15 years (straight-line method)

13. Other Comprehensive Income

Reclassification adjustments and income tax effect allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ 11,474**	¥ 3,812	**$ 111,494**
Reclassification adjustments	**(956)**	(692)	**(9,289)**
Amount before income tax effect	**10,518**	3,119	**102,205**
Income tax effect	**(3,778)**	(1,078)	**(36,715)**
Valuation difference on available-for-sale securities	**6,740**	2,040	**65,490**
Deferred gains (losses) on hedges:			
Amount arising during the year	**83**	(37)	**810**
Reclassification adjustments	**(56)**	–	**(551)**
Amount before income tax effect	**26**	(37)	**259**
Income tax effect	**(10)**	14	**(101)**
Deferred gains (losses) on hedges	**16**	(23)	**158**
Foreign currency translation adjustment:			
Amount arising during the year	**5,270**	8,507	**51,207**
Amount before income tax effect	**5,270**	8,507	**51,207**
Income tax effect	**144**	155	**1,404**
Foreign currency translation adjustment	**5,414**	8,662	**52,611**
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	**6**	10	**59**
Reclassification adjustments	–	–	—
Share of other comprehensive income of entities accounted for using equity method	**6**	10	**59**
Total other comprehensive income	**¥ 12,177**	¥ 10,689	**$ 118,319**

14. Net Assets

(1) Information regarding changes in net assets for the years ended March 31, 2014 and 2013 is as follows:

a. Shares issued and outstanding / Treasury shares

For the year ended March 31, 2014

Types of shares	Number of shares as of April 1, 2013	Increase	Decrease	Number of shares as of March 31, 2014
		(Shares)		
Shares issued:				
Common shares………………………	139,628,721	-	-	139,628,721
Treasury shares:				
Common shares (Note)…………..	8,501,642	806,111	-	9,307,753

Note: Details of increase are as follows:	*(Shares)*
Increase due to market purchase of shares	801,100
Increase due to purchase of shares of less than standard unit	5,011

For the year ended March 31, 2013

Types of shares	Number of shares as of April 1, 2012	Increase	Decrease	Number of shares as of March 31, 2013
		(Shares)		
Shares issued:				
Common shares………………………	139,628,721	-	-	139,628,721
Treasury shares:				
Common shares (Note)…………..	8,499,147	2,495	-	8,501,642

Note: Details of increase are as follows	*(Shares)*
Increase due to purchase of shares of less than standard unit	2,495

b. Dividends

1) Dividends paid

For the year ended March 31, 2014

Resolution	**Type of shares**	**Total dividends**	**Total dividends**	**Dividends per share**	**Dividends per share**	**Cut-off date**	**Effective date**
		(Millions of yen)	*(Thousands of U.S. dollars)*	*(Yen)*	*(U.S. dollars)*		
Annual general meeting of the shareholders on June 27, 2013	Common shares	¥2,884	$ 28,029	¥22	$ 0.21	March 31, 2013	June 28, 2013

For the year ended March 31, 2013

Resolution	Type of shares	Total dividends	Dividends per share	Cut-off date	Effective date
		(Millions of yen)	*(Yen)*		
Annual general meeting of the shareholders on June 28, 2012	Common shares	¥2,884	¥22	March 31, 2012	June 29, 2012

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

Resolution	**Type of shares**	**Total dividends**	**Total dividends**	**Source of dividends**	**Dividends per share**	**Dividends per share**	**Cut-off date**	**Effective date**
		(Millions of yen)	*(Thousands of U.S. dollars)*		*(Yen)*	*(U.S. dollars)*		
Annual general meeting of the shareholders on June 26, 2014	Common shares	¥3,388	$ 32,922	Retained earnings	¥26	$0.25	March 31, 2014	June 27, 2014

15. Amounts per Share

The amounts per share of basic net income 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.

	2014	2013	**2014**
	(Yen)		*(U.S. dollars)*
Basic net income	**¥ 82.19**	¥ 54.57	**$ 0.80**
Net assets	**1,440.94**	1,324.13	**14.00**

Per share amounts assuming full dilution have not been presented because no potential dilutive shares were outstanding as of March 31, 2014 or 2013.

16. Supplementary Cash Flow Information

(1) The following table presents a reconciliation of cash and deposits with cash and cash equivalents as of March 31, 2014 and 2013.

	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	**¥46,146**	¥42,136	**$ 448,372**
Time deposits with a maturity of more than three months	**(9,127)**	(9,688)	**(88,682)**
Money management funds and others included in securities	**8,323**	10,813	**80,872**
Cash and cash equivalents	**¥45,342**	¥43,261	**$ 440,562**

(2) The following table presents main breakdowns of main increased assets by the transfer of business for the year ended March 31, 2014.

Transfer of business of fully-automatic digital exposure system from FUJIFILM Corporation as of January 1, 2014.

	(Millions of yen)	*(Thousands of US dollars)*
Current assets	¥1,373	$13,346
Non-current assets	297	2,895
Goodwill	1,148	11,156
Consideration for transfer of business	2,819	27,397
Other (Long term accounts payable)	(448)	(4,360)
Cash and cash equivalents	—	—
Net: Payments for transfer of business	¥2,371	$23,037

17. 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.

(Change of Depreciation Method for Property, Plant and Equipment)
Previously, the Company and its domestic consolidated subsidiaries had primarily adopted the declining-balance method as the depreciation method for property, plant and equipment (although the straight-line method was adopted for buildings and structures (excluding facilities attached to buildings) acquired on or after April 1, 1998). However, from the fiscal year ended March 31, 2014, the depreciation method was changed primarily to the straight-line method.
Accompanying this change, segment income for the light sources business, equipment business, and other businesses for the year ended March 31, 2014 increased by ¥497 million ($4,831 thousand), ¥234 million ($2,274 thousand), and ¥13 million ($128 thousand), respectively.

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

	Year ended March 31, 2014						
	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		
				(Millions of yen)			
Net sales							
Sales to external customers	¥63,586	¥91,191	¥154,778	¥3,021	¥157,800	¥ -	¥157,800
Intersegment sales or transfers	605	51	656	26	683	(683)	-
Total	¥64,192	¥91,243	¥155,435	¥3,048	¥158,483	¥(683)	¥157,800
Segment income	¥9,389	¥2,537	¥11,927	¥77	¥12,004	¥105	¥12,110
Segment assets	89,966	100,530	190,497	36,081	226,579	28,759	255,338
Other items:							
Depreciation	1,867	3,121	4,988	32	5,021	-	5,021
Amortization of goodwill	80	227	307	-	307	-	307
Investment in associates under equity method	38	37	75	-	75	-	75
Increase in property, plant and equipment and intangible assets	2,066	5,549	7,616	270	7,886	-	7,886

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 ¥105 million, include elimination of intersegment transactions totaling ¥143 million. Eliminations or unallocated amounts of segment assets, amounting to ¥28,759 million, include elimination of intersegment receivables and payables totaling ¥(18,455) million and unallocated corporate assets totaling ¥47,234 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.

	Reportable segment						
	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total	Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	(Millions of yen)						
Net sales							
Sales to external customers	¥54,332	¥85,859	¥140,192	¥3,269	¥143,461	¥–	¥143,461
Intersegment sales or transfers	319	67	387	29	417	(417)	–
Total	¥54,652	¥85,927	¥140,579	¥3,299	¥143,879	¥(417)	¥143,461
Segment income	¥6,197	¥1,158	¥7,356	¥109	¥7,465	¥116	¥7,582
Segment assets	76,515	93,693	170,208	30,993	201,202	27,455	228,657
Other items:							
Depreciation	2,509	4,197	6,707	34	6,741	–	6,741
Amortization of goodwill	24	176	200	0	201	–	201
Investment in associates under equity method	–	125	125	–	125	–	125
Increase in property, plant and equipment and intangible assets	3,140	4,455	7,595	180	7,776	–	7,776

Year ended March 31, 2013

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 ¥116 million, include elimination of intersegment transactions totaling ¥120 million. Eliminations or unallocated amounts of segment assets, amounting to ¥27,455 million, include elimination of intersegment receivables and payables totaling ¥(15,441) million and unallocated corporate assets totaling ¥42,933 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.

	Year ended March 31, 2014						
	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	**$617,829**	**$886,047**	**$1,503,877**	**$29,358**	**$1,533,234**	**$－**	**$1,533,234**
Intersegment sales or transfers	**5,883**	**497**	**6,381**	**260**	**6,640**	**(6,640)**	**－**
Total	**$623,713**	**$886,545**	**$1,510,258**	**$29,617**	**$1,539,875**	**$(6,640)**	**$1,533,234**
Segment income	**$91,230**	**$24,658**	**$115,889**	**$754**	**$ 116,642**	**$1,024**	**$ 117,667**
Segment assets	**874,144**	**976,784**	**1,850,928**	**350,581**	**2,201,509**	**279,435**	**2,480,944**
Other items:							
Depreciation	**18,141**	**30,333**	**48,474**	**315**	**48,789**	**－**	**48,789**
Amortization of goodwill	**779**	**2,211**	**2,990**	**－**	**2,990**	**－**	**2,990**
Investment in associates under equity method	**372**	**364**	**736**	**－**	**736**	**－**	**736**
Increase in property, plant and equipment and intangible assets	**20,079**	**53,925**	**74,004**	**2,625**	**76,629**	**－**	**76,629**

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 $1,024 thousand, include elimination of intersegment transactions totaling $1,394 thousand. Eliminations or unallocated amounts of segment assets, amounting to $279,435 thousand, include elimination of intersegment receivables and payables totaling $(179,318) thousand and unallocated corporate assets totaling $458,940 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.

(4) Other segment information

Year ended March 31, 2014

	Reportable segment						
	Light sources business	**Equipment business**	**Total**	**Other businesses**	**Total**	**Eliminations or unallocated amounts**	**Amounts on consolidated financial statements**
				(Millions of yen)			
Impairment loss	**¥ 280**	**¥ 49**	**¥ 330**	**¥ 88**	**¥ 419**	**¥ –**	**¥ 419**
Goodwill:							
Amortized for the year	**80**	**227**	**307**	–	**307**	–	**307**
Balance	**370**	**1,712**	**2,082**	–	**2,082**	–	**2,082**

Year ended March 31, 2013

	Reportable segment						
	Light sources business	Equipment business	Total	Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
				(Millions of yen)			
Impairment loss	¥ 68	¥ 1,363	¥ 1,432	¥ –	¥ 1,432	¥ –	¥ 1,432
Goodwill:							
Amortized for the year	24	176	200	0	201	–	201
Balance	79	603	683	–	683	–	683

Note 1. Of impairment loss of the light sources business, ¥1,362 million is included in loss on liquidation of business on the consolidated statement of income.

Year ended March 31, 2014

	Reportable segment						
	Light sources business	**Equipment business**	**Total**	**Other businesses**	**Total**	**Eliminations or unallocated amounts**	**Amounts on consolidated financial statements**
				(Thousands of U.S. dollars)			
Impairment loss	**$ 2,730**	**$ 477**	**$ 3,207**	**$ 864**	**$ 4,072**	**$ –**	**$ 4,072**
Goodwill:							
Amortized for the year	**779**	**2,211**	**2,990**	–	**2,990**	–	**2,990**
Balance	**3,597**	**16,640**	**20,238**	–	**20,238**	–	**20,238**

(5) Related information

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

Year ended March 31, 2014

(Millions of yen/ Thousands of U.S. dollars)

	Japan	North America		Europe	Asia		Other	Total
		U.S.A.	Other		China	Other	areas	
Net sales	**¥ 33,885**	**¥ 35,978**	**¥ 3,191**	**¥ 24,614**	**¥ 30,963**	**¥ 25,345**	**¥ 3,820**	**¥ 157,800**
	$329,245	**$349,580**	**$31,008**	**$239,162**	**$300,853**	**$246,268**	**$37,118**	**$1,533,234**

Year ended March 31, 2013

(Millions of yen/ Thousands of U.S. dollars)

	Japan	North America		Europe	Asia		Other	Total
		U.S.A.	Other		China	Other	areas	
Net sales	¥35,657	¥32,899	¥2,951	¥20,161	¥23,726	¥26,796	¥1,269	¥143,461

Year ended March 31, 2014

(Millions of yen/ Thousands of U.S. dollars)

	Japan	North America		Europe	Asia	Other areas	Total
		U.S.A.	Canada				
Property, plant and equipment	**¥ 24,347**	**¥ 6,444**	**¥ 4,034**	**¥ 764**	**¥ 3,511**	**¥ 23**	**¥ 39,126**
	$236,569	**$62,615**	**$39,200**	**$7,433**	**$34,123**	**$227**	**$380,166**

Year ended March 31, 2013

(Millions of yen/ Thousands of U.S. dollars)

	Japan	North America		Europe	Asia	Other areas	Total
		U.S.A.	Canada				
Property, plant and equipment	¥23,421	¥4,893	¥4,462	¥755	¥3,221	¥23	¥36,776

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.

18. Business Combination

(1) Outline of business combination

a. Name of transferor company and description of acquired businesses

Name: FUJIFILM Corporation

Business:
1. Design, sales and maintenance of fully-automatic digital exposure systems
2. Development and manufacture of direct imaging engines of fully-automatic digital exposure systems

b. Major reasons of business combination

With the business transfer regarding design, sales and maintenance of fully-automatic digital exposure systems for printed-wiring boards from FUJIFILM Corporation, ADTEC Engineering Co., Ltd., hereinafter “ADTEC Engineering”, a subsidiary of the Company, will engage in the sales and manufacture of fully-automatic digital exposure systems for Japanese customers and the development and manufacture of direct imaging engines in addition to the sales of fully-automatic digital exposure systems for overseas customers in which it has previously engaged. This business transfer will enable ADTEC Engineering to improve its profitability and respond promptly to customer needs. For this reason, this business transfer was decided as it would enhance the corporate value of ADTEC Engineering.

c. Effective date of business combination

January 1, 2014

d. Legal form of business combination

Acquisition of business by ADTEC Engineering, a subsidiary of the Company

e. Name of company subsequent to business combination

ADTEC Engineering Co., Ltd.

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

From January 1, 2014 to March 31, 2014

(3) Acquisition costs of the acquired company and their breakdown

		(Millions of yen)	*(Thousands of U.S. dollars)*
Consideration for acquisition	¥	2,740	$ 26,627
Expenditures directly related to acquisition: Advisory cost, etc.		79	770
Acquisition cost	¥	2,819	$ 27,397

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

Amount of goodwill incurred:	¥1,148 million ($11,156 thousand)
Cause:	Excess earning power in the future
Amortization method and period:	Straight-line method over 5 years

(5) Amount of assets acquired on the date of business combination and their breakdown

		(Millions of yen)	*(Thousands of U.S. dollars)*
Current assets	¥	1,373	$ 13,346
Non-current assets		297	2,895
Total assets	¥	1,671	$ 16,242

(6) Description of contingent consideration provided in the business combination agreement and the accounting policy in the current and subsequent fiscal years

a. Description of contingent consideration
The contingent consideration is paid as additional payments upon the achievement of milestones specified in the relevant business transfer agreement.

b. Accounting policy in the current and subsequent fiscal years
Changes incurred by the contingent consideration are recognized as adjustments of goodwill that has been already recorded.

(7) Impact of the business combination on the consolidated statements of income for the current consolidated 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 since the information is difficult to obtain regarding revenue and income of the acquired businesses appropriately calculated for the period from the beginning of the fiscal year through the date of business combination due to the partial transfer of the businesses.

19. Related Party Information

For the years ended March 31, 2014 and 2013, there are no relevant items on related party transactions and notes relating to significant associates.

20. Subsequent Events

Agreement of share exchange

The Company decided, with the resolution of the meeting of the Board of Directors held on May 9, 2014, to implement a share exchange (the “Share Exchange”) in which the Company shall be a wholly-owning parent company and ADTEC Engineering Co., Ltd. (“ADTEC Engineering”), a consolidated subsidiary of the Company, shall be a wholly-owned subsidiary. Accordingly, the Company concluded a relevant share exchange agreement (the “Share Exchange Agreement”) on the same day.

a. Outline of party involved in the Share Exchange

Name:	ADTEC Engineering Co., Ltd.
Location of head office:	5-1, Toranomon 3-chome, Minato-ku, Tokyo
Principal business:	Manufacturing and sales of automatic exposure systems and automatic peelers for printed circuit boards
Capital stock:	¥1,661 million ($16,139 thousand)
Number of shares issued :	Common shares: 8,030,000 shares

b. Purpose of the Share Exchange

As an original, innovative “light creator,” the Company aims to drive business expansion by constantly anticipating customer needs in the global markets for optical solutions and by developing and providing high-value-added products and services that precisely meet customer needs. The Company actively promotes strategic investment, which is needed to develop new products, pioneer new applications and create new businesses, while strengthening existing businesses, with the view to maximizing consolidated earnings and driving expansion in the optical business to achieve long-term growth. The Company, therefore, aims to create businesses at an early stage by actively utilizing alliances with outside institutions and M&A, etc., with the basic policy of providing innovative services by combining the optical technology, which has been cultivated by the Company, with advanced technologies in other fields.

Furthermore, since its incorporation in 1983, ADTEC Engineering has commercialized various kinds of equipment required for the manufacturing process of PCBs (printed-circuit boards), semiconductor packages, FPDs (flat panel displays) such as PDPs (plasma display panels) and LCD (liquid crystal displays), and other products by leveraging its compound technology, which combines various elemental technologies such as electricity, software, image processing, optics and other elements, with its ultra-precision machining technology and FA (factory automation) equipment development technology as core technologies. Especially in recent years, ADTEC Engineering has also been operating its business aiming to be a company that proposes solutions to the problems that occur in the exposure process of manufacturers of printed-circuit boards and other products.

The Company and ADTEC Engineering are operating in electronics-related equipment markets, which are subject to rapid change and have experienced repeated cycles of innovation due to rapid technological breakthroughs. In this market, the Group is aiming to establish a structure enabling it to offer solutions combined with process development to its customers by leveraging a unique combination of the advanced optical technology of the Company and the ultra-precision machining technology and FA equipment development technology of ADTEC Engineering.

As a part of the measures to tackle the issue of changing markets, the Company has made use of the ultra-precision machining technology and FA equipment development technology of ADTEC Engineering in the manufacturing of the Company's products by engaging ADTEC Engineering to manufacture the Company's industrial optical equipment. The Company has also made an effort to optimize resources to manufacture the equipment of the entirety of the Group. In addition, the Company has gradually cooperated with ADTEC Engineering on the financial side by lending cash to ADTEC Engineering on an as-needed basis.

As a part of the measures to tackle the issue of rapidly advancing technology, ADTEC Engineering acquired the fully-automatic digital exposure systems business from FUJIFILM Corporation and has internally built a system enabling ADTEC Engineering to design, manufacture, sell and perform maintenance on fully-automatic digital exposure systems for printed-circuit boards.

In implementing these measures, the Company and ADTEC Engineering, through mutual understanding and interchange fostered and developed after overcoming the differing histories that each company has experienced, concluded that it is desirable for both companies to be fully integrated in respect of capital structure and to introduce a system enabling both companies to allocate resources more flexibly in order to be more resistant to the changing markets. Moreover, both companies concluded that both companies need to cooperate more thoroughly in business operations and promote not only sharing of market or competition trends but also comprehensive business developments such as appropriate allocation of flexible development resources and mutual exploitation of each company's sales channels and production bases in order to tackle the issue of rapidly advancing technology in the industry and make proposals for solutions combined with more valuable processes. Based on such conclusion, both companies started to discuss, around December 2013, the Share Exchange in which the Company will be a wholly-owning parent company and ADTEC Engineering will be a wholly owned subsidiary. After several rounds of discussions and negotiations, the Company and ADTEC Engineering decided on May 9, 2014 that both companies will implement the Share Exchange in order to further realize synergies and enhance the corporate value of ADTEC Engineering and the entirety of the Group.

c. Method of the Share Exchange and details of allotment of shares in the Share Exchange

(i) Method of the Share Exchange

In the Share Exchange, the Company shall be a wholly-owning parent company, and ADTEC Engineering shall be a wholly-owned subsidiary.

The Share Exchange is scheduled to be implemented, effective as of August 1, 2014, (i) by the Company, using a simplified share exchange (*kan-i kabushiki kokan*) procedure pursuant to Article 796, Paragraph 3 of the Companies Act, without obtaining approval at a general meeting of shareholders and (ii) by ADTEC Engineering, subject to the approval of the Share Exchange Agreement by its shareholders at an ordinary general meeting scheduled to be held on June 27, 2014.

(ii) Schedule of the Share Exchange

Date of resolution of the meeting of the board of directors (both companies)	May 9, 2014 □
Date of execution (both companies)	May 9, 2014 □
Date of the ordinary general meeting of shareholders (ADTEC Engineering) □	June 27, 2014 (scheduled) □
Last trading date (ADTEC Engineering)	July 28, 2014 (scheduled)
Date of delisting (ADTEC Engineering)	July 29, 2014 (scheduled)
Effective date	August 1, 2014 (scheduled)

(iii) Details of allotment of shares in the Share Exchange

Company name	the Company (Wholly-owning parent company in Share Exchange)	ADTEC Engineering (Wholly-owned subsidiary in Share Exchange)
Details of allotment of shares in the Share Exchange	1	0.23
Number of shares to be delivered in the Share Exchange	Shares of common shares of the Company: 834,003 shares (scheduled)□	

Notes1. Share allotment ratio

0.23 shares of common shares of the Company shall be allotted and delivered for each share of common shares of ADTEC Engineering; provided, however, no shares shall be allotted for the shares of common shares of ADTEC Engineering held by the Company (3,709,686 shares of common shares as of March 31, 2014) in the Share Exchange.

2. Number of shares to be delivered in the Share Exchange

Upon the Share Exchange, the Company shall allot and deliver 834,003 shares (scheduled) of common shares of the Company to the shareholders of ADTEC Engineering (excluding the Company) immediately preceding the time at which the Company acquires all of the issued shares of ADTEC Engineering (excluding the shares of common shares of ADTEC Engineering held by the Company) (the "Base Time"). For delivery of shares, the Company intends to use its common shares held in treasury, and, therefore, does not intend to issue any new shares.

In addition, in accordance with a resolution of the meeting of the Board of Directors of ADTEC Engineering to be held no later than the day immediately preceding the effective date of the Share Exchange, ADTEC Engineering will cancel, immediately preceding the Base Time, all of its treasury shares (including the shares to be acquired in response to the dissenting shareholders' share purchase demand made in connection with the Share Exchange in accordance with Article 785, Paragraph 1 of the Companies Act). The number of shares to be allotted and delivered through the Share Exchange may be subject to change in the future due to reasons such as the acquisition and the cancellation of treasury shares by ADTEC Engineering.

(iv) Calculation basis of the share exchange ratio in the Share Exchange

In order to ensure the fairness and the appropriateness of the share exchange ratio in the Share Exchange, both companies, individually and separately, decided to request third-party valuation institutions independent of both companies to calculate the share exchange ratio. As the third-party valuation institution, the Company appointed Daiwa Securities Co. Ltd. and ADTEC Engineering appointed Deloitte Touche Tohmatsu LLC.

Considering the calculation results of the share exchange ratio and the advice submitted by their respective third-party valuation institutions, both companies continuously and carefully negotiated and consulted with each other while each company considered the financial condition, performance trend, share price trend and other factors of both companies. As a result, both companies concluded that the share exchange ratio set out in c. (iii) above is appropriate and would serve the interests of their respective shareholders. Accordingly, both companies determined the share exchange ratio in the Share Exchange at the meeting of the Board of Directors held on May 9, 2014, and concluded the Share Exchange Agreement between the two companies on the same day.

d. Outline of Accounting Treatment

The Share Exchange shall be treated as a transaction under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013).

The impact of the Share Exchange on the operating results of both the Company and ADTEC Engineering is expected to be immaterial, since ADTEC Engineering is already a consolidated subsidiary of the Company.

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