USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis for presentation

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

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

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

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

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

(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, 2015, the number of consolidated subsidiaries and associates accounted for using the equity method were 54 and 2 (54 and 2 in 2014), respectively.

The changes in the scope of consolidation for the year ended March 31, 2015 are as follows:
Due to new establishment, USHIO OPTO SEMICONDUCTORS, INC. was included in the consolidation scope.
Due to acquisition of shares, Arsenal Media Inc. and Coolux GmbH were included in the consolidation scope.
Due to liquidation, USHIO CANADA INC. and TAIWAN USHIO LIGHTING, INC. were excluded from the consolidation scope.
Due to merger with another consolidated subsidiary, Vista Control Systems, Corp. was excluded from the consolidation scope.

The closing date of a consolidated subsidiary, USHIO (SUZHOU) CO., LTD., and 8 other consolidated subsidiaries (7 in 2014) is December 31, and the closing date of Arsenal Media Inc. is January 31. Their financial accounts are consolidated using their financial statements as of the parent's fiscal year-end, and are prepared solely for consolidation purposes. All significant intercompany balances and transactions have been eliminated in the consolidation.

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

Shares of associates (companies over which the Company exercises significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated 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 is calculated principally by the straight-line method based on the estimated useful lives of the respective assets.

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

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

(h) Leased assets

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

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

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

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

(k) Provision for bonuses

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

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

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

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

(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

Application of the Accounting Standard for Retirement Benefits and related Guidance

The Company applied the main clause of Section 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) and the main clause of Section 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on March 26, 2015) effective from the year ended March 31, 2015. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing expected benefit to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from the method based on bonds with a maturity period approximate to the average remaining working lives of the employees to the method using a single weighted average discount rate reflecting the estimated timing of retirement benefit payments and the amount corresponding thereto.

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 change in calculation methods of retirement benefit obligations and service costs were recognized in retained earnings as of April 1, 2014.

As a result, as of April 1, 2014, net defined benefit liability decreased by ¥1,854 million ($ 15,436 thousand) and retained earnings increased by ¥1,193 million ($ 9,934 thousand). Also, the impact on operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2015 was immaterial.

(s) Accounting standards issued but not yet applied

- 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 Guidances were revised on the treatment of changes in equity of the parent company in subsidiaries in the case of additional acquisition of shares in subsidiaries in which the control continues, treatment of acquisition-related costs, presentation of net income for the period and the change from minority interests to non-controlling interests, and the settlement of tentative accounting treatment.

(2) Date of application

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

(3) Impact of application

The impact of the revision of the Accounting Standard for Business Combinations and others on the consolidated financial statements is currently being evaluated.

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

(1) Overview

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

(2) Date of application

ASU 2014-09 will be applied for fiscal years beginning on or after April 1, 2018.

(3) Impact of application

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

2. U.S. Dollar Amounts

For the readers' convenience, the accompanying consolidated financial statements with respect to the year ended March 31, 2015 have been presented in U.S. dollars by translating all yen amounts at ¥120.17 = U.S. $1.00, the exchange rate prevailing on March 31, 2015. 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 0.28% to 2.54% and from 1.33% to 2.85% per annum at March 31, 2015 and 2014, respectively.

Long-term loans payable at March 31, 2015 and 2014 consisted of the following:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
The Company:			
Loans from banks, due through 2016 at a rate of 0.79%	**¥ 2,325**	¥ 2,325	**$ 19,348**
Consolidated subsidiaries:			
Loans from banks, due through 2017 at rates ranging from 0.85% to 3.40%	**7,467**	4,265	**62,141**
Total long-term loans payable	**9,792**	6,590	**81,489**
Less: Current portion	**(1,361)**	(3,255)	**(11,333)**
	¥ 8,430	¥ 3,334	**$ 70,156**

The assets pledged as collateral for loans payable as of March 31, 2015 were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash and deposits	¥ 100	$ 832
Notes and accounts receivable – trade	140	1,166
	¥ 240	$ 1,999

The related loans payable for which the above assets were pledged as collateral as of March 31, 2015 is summarized as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Short-term loans payable	¥ 441	$ 3,676
Current portion of long-term loans payable	32	275
Long-term loans payable	17	146
	¥ 492	$ 4,097

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2015 are summarized as follows:

Years ending March 31	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2016	¥ 1,361	$ 11,333
2017	2,375	19,766
2018	4,285	35,661
2019	–	–
2020 and thereafter	1,770	14,729
Total	¥ 9,792	$ 81,489

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 35.6% for the years ended March 31, 2015 (fiscal year ended March 31, 2014: 38.0%). 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, 2015 and 2014 are summarized as follows:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 347**	¥ 148	**$ 2,896**
Provision for bonuses	**709**	746	**5,903**
Provision for product warranties	**142**	423	**1,189**
Retirement benefit expenses	**–**	–	**–**
Net defined benefit liability	**4,215**	5,006	**35,082**
Provision and accrual for directors' retirement benefits	**423**	516	**3,522**
Loss on valuation of inventories	**1,378**	1,255	**11,473**
Impairment loss	**547**	546	**4,556**
Loss on liquidation of business	**5,191**	5,191	**43,198**
Net losses carried forward	**4,564**	4,510	**37,986**
Deferred revenue	**2,297**	1,939	**19,119**
Other	**3,855**	3,748	**32,087**
Total gross deferred tax assets	**23,674**	24,032	**197,011**
Valuation allowance	**(5,790)**	(5,638)	**(48,182)**
Total deferred tax assets	**17,884**	18,394	**148,829**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(14,111)**	(11,733)	**(117,432)**
Gain on contribution of securities to retirement benefit trust	**(609)**	(671)	**(5,072)**
Depreciation	**(415)**	(437)	**(3,462)**
Retained earnings of subsidiaries and associates	**(75)**	(76)	**(627)**
Other	**(1,456)**	(1,049)	**(12,120)**
Total deferred tax liabilities	**(16,669)**	(13,969)	**(138,713)**
Net deferred tax assets (liabilities)	**¥ 1,215**	¥ 4,424	**$ 10,115**

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, 2015 and 2014 is summarized as follows:

	2015	2014
Statutory tax rate	**35.6%**	38.0%
Reconciliation:		
Increase (decrease) in valuation allowance for deferred tax assets	**(0.7)**	5.3
Non-taxable income for income tax purposes	**(1.2)**	(1.5)
Non-deductible expenses for income tax purposes	**1.1**	0.5
Tax deductions related to R&D activities	**(5.2)**	(3.8)
Different tax rates applied to overseas subsidiaries	**(8.1)**	(11.3)
Share of loss of entities accounted for using equity method	**0.0**	0.1
Retained earnings of subsidiaries and associates	**(0.0)**	(0.4)
Special corporate tax for reconstruction	**−**	0.8
Decrease of deferred tax assets at fiscal yearend by the change of tax rate	**4.2**	−
Other	**0.0**	2.3
Effective tax rates	**25.8%**	30.1%

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 9 of 2015) was promulgated on March 31, 2015. With this revision, corporate tax rates will be reduced starting from the fiscal year beginning on or after April 1, 2015. In conjunction with this, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from the previous rate of 35.6% to 33.1% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2015, and to 32.3% for temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2016.

As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities) decreased by ¥793 million ($6,606 thousand) and income taxes – deferred and valuation difference on available-for-sale securities increased by ¥650 million ($5,410 thousand) and ¥1,444 million ($12,017 thousand), respectively.

5. Loss on Valuation of Inventories

The ending inventory balance is the amount after write-down of book value due to decline in profitability, and the loss on valuation of inventories included in cost of sales for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loss on valuation of inventories	**¥ 112**	¥ 232	**$ 939**

6. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	**¥ 13,705**	¥ 11,301	**$ 114,055**
Provision for bonuses	**1,097**	842	**9,133**
Retirement benefit expenses	**842**	989	**7,010**
Research and development expenses	**10,880**	8,924	**90,543**
Provision of allowance for doubtful accounts	**603**	170	**5,021**

7. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	**¥ 10,880**	¥ 8,924	**$ 90,543**

8. Impairment Loss

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

Location	Classification by use	Type of assets	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Gotemba, Shizuoka Aoba-ku, Yokohama, Kanagawa and others	Business assets	Machinery, equipment and other	**¥797**	**$ 6,636**
Aoba-ku, Yokohama, Kanagawa and others	Business assets	Buildings and structures, Machinery, equipment and other and intangible assets	**358**	**2,982**
Gotemba, Shizuoka	Business assets	Buildings and structures, Machinery, equipment and other	**118**	**982**
Himeji, Hyogo	Business assets	Buildings and structures, Machinery, equipment and other	**107**	**894**

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.

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)*
Himeji, Hyogo	Business assets	Buildings and structures, Machinery, equipment and other	¥ 74
Gotemba, Shizuoka	Business assets	Machinery, equipment and other	48
–	Business assets	Intangible assets	280
Yokohama, Kanagawa	Idle assets	Construction in progress	14

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%.

9. 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, which mainly includes retirement payments to employees of ¥108 million and loss on valuation of inventories of ¥8 million.

10. Leases

Future minimum lease payments under operating leases, which are lease transactions other than finance leases for the year ended March 31, 2015, are summarized as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Due within one year	**¥ 755**	$ 6,287
Due after one year	**864**	7,192
Total	**¥ 1,619**	$ 13,479

11. Financial Instruments

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

a. Basic policy on treating financial instruments

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

b. The nature and risk of financial instruments

Notes and accounts receivable – trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies are also exposed to foreign exchange risk which is hedged by using forward foreign exchange contracts.
Securities and investment securities consist mainly of equity securities issued by companies with a business relationship and marketable equity or bond securities held for the purpose of short-term investment of floating money and reserved funds. Specified money in trust is also held for the purpose of investment of reserved funds. These investments are exposed to market risk. A part of securities, investment securities, and specified money in trust are denominated in foreign currency, and they are exposed to foreign exchange risk; however, such risk is hedged by using forward foreign exchange contracts.
Notes and accounts payable – trade, which are operating payables, are mostly due within one year. Some of them are denominated in foreign currencies and exposed to foreign exchange risk; however, such risk is hedged by using forward foreign exchange contracts.
Short-term and long-term loans payable which are made to obtain working capital are mostly due within three years after the end of the current fiscal year.
As for derivative transactions, forward foreign exchange contracts are entered into for the purpose of hedging foreign exchange risk deriving from operating receivables and payables denominated in foreign currencies and securities denominated in foreign currencies.

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, 2015 and 2014, as well as their differences. Financial instruments whose fair values cannot be reliably determined are not included.

(Millions of yen)

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

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

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

(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.

(Thousands of U.S. dollars)

As of March 31, 2015	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	**$ 505,666**	**$ 505,666**	**$ –**
(2) Notes and accounts receivable – trade	**331,169**	**331,169**	**–**
Allowance for doubtful accounts (*1)	**(10,357)**	**(10,357)**	**–**
	320,812	**320,812**	**–**
(3) Securities and investment securities			
Trading securities	**15,757**	**15,757**	**–**
Available-for-sale securities	**602,721**	**602,721**	**–**
(4) Specified money in trust	**19,366**	**19,366**	**–**
Assets, total	**$ 1,464,321**	**$ 1,464,321**	**$ –**
(1) Notes and accounts payable – trade	**$ 148,015**	**$ 148,015**	**$ –**
(2) Short-term loans payable	**35,551**	**35,551**	**–**
(3) Current portion of long-term loans payable	**11,333**	**11,341**	**8**
(4) Long-term loans payable	**70,156**	**70,411**	**255**
Liabilities, total	**$ 265,054**	**$ 265,317**	**$ 263**
Derivative transactions (*2)			
for which hedge accounting is not applied	**$ (61)**	**$ (61)**	**$ –**
for which hedge accounting is applied	**9**	**9**	**–**

(*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, 2015 and 2014, the consolidated balance sheet includes the following financial instruments whose fair values cannot be reliably determined:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted shares and investments in business partnerships with limited liability	**¥2,397**	¥1,597	**$ 19,949**

(3) Redemption schedule

The redemption schedule for securities with maturity dates classified as available-for-sale securities as of March 31, 2015 and 2014 is summarized as follows:

	As of March 31, 2015					
	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	**¥38,175**	**¥1,541**	**¥79**	**$ 317,680**	**$ 12,825**	**$ 665**
Bonds:						
Corporate bonds	**5,163**	**7,257**	**–**	**42,969**	**60,391**	**–**
Total	**¥43,339**	**¥8,798**	**¥79**	**$ 360,649**	**$ 73,215**	**$ 665**

	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
	(Millions of yen)		
Notes and accounts receivable – trade	¥38,083	¥1,569	¥200
Bonds:			
Corporate bonds	2,278	9,352	–
Total	¥40,362	¥10,921	¥200

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

12. Securities and Investment Securities

(1) Trading securities

Trading securities as of March 31, 2015 and 2014 are summarized as follows:

As of March 31, 2015			
Carrying value	**Gain**	**Carrying value**	**Gain**
(Millions of yen)		*(Thousands of U.S. dollars)*	
¥1,893	**¥347**	**$ 15,757**	**$ 2,889**

As of March 31, 2014	
Carrying value	Gain
(Millions of yen)	
¥2,111	¥101

(2) Marketable available-for-sale securities

Marketable available-for-sale securities as of March 31, 2015 and 2014 are summarized as follows:

	As of March 31, 2015					
	Carrying value	**Acquisition cost**	**Unrealized gain (loss)**	**Carrying value**	**Acquisition cost**	**Unrealized gain (loss)**
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their acquisition costs:						
(1) Shares	**¥52,350**	**¥8,857**	**¥43,492**	**$ 435,638**	**$ 73,311**	**$ 361,927**
(2) Bonds:						
Corporate bonds	**7,203**	**7,049**	**153**	**59,945**	**58,664**	**1,281**
(3) Other	**1,857**	**1,591**	**265**	**15,458**	**13,245**	**2,213**
Subtotal	**61,411**	**17,499**	**43,912**	**511,041**	**145,619**	**365,422**
Securities whose carrying value does not exceed their acquisition costs:						
(1) Shares	**1,264**	**1,291**	**(27)**	**10,523**	**10,749**	**(225)**
(2) Bonds:						
Corporate bonds	**4,343**	**4,419**	**(76)**	**36,143**	**36,780**	**(636)**
(3) Other	**5,409**	**5,417**	**(8)**	**45,013**	**45,082**	**(69)**
Subtotal	**11,017**	**11,129**	**(111)**	**91,680**	**92,611**	**(931)**
Total	**¥72,428**	**¥28,628**	**¥43,800**	**$ 602,721**	**$ 238,230**	**$ 364,491**

	As of March 31, 2014		
	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition costs:			
(1) Shares	¥42,474	¥9,833	¥32,640
(2) Bonds:			
Corporate bonds	7,769	7,526	243
(3) Other	649	502	146
Subtotal	50,893	17,862	33,031
Securities whose carrying value does not exceed their acquisition costs:			
(1) Shares	537	567	(29)
(2) Bonds:			
Corporate bonds	4,105	4,150	(44)
(3) Other	8,323	8,323	(0)
Subtotal	12,966	13,041	(74)
Total	¥63,860	¥30,904	¥32,956

(3) Available-for-sale securities sold

Available-for-sale securities sold during the years ended March 31, 2015 and 2014 are summarized as follows:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales of securities			
(1) Shares	**¥4,840**	¥3,407	**$ 40,282**
(2) Other	**7,303**	7,377	**60,776**
Aggregate gains on sales			
Shares	**3,296**	2,087	**27,432**
Aggregate losses on sales			
Shares	**–**	–	**–**

(4) Impairment loss recognized on securities

Impairment losses amounted to ¥86 million ($723 thousand) and ¥1,162 million and are recognized in shares classified as available-for-sale securities for the years ended March 31, 2015 and 2014, 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.

13. Derivative Transactions

The notional amounts and the estimated fair value of the derivative positions outstanding at March 31, 2015 and 2014 are summarized below.

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

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

	As of March 31, 2015			
	Notional amounts	**Maturing after one year**	**Estimated fair value**	**Unrealized gain (loss)**
	(Thousands of U.S. dollars)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Buy:				
USD	**$1,621**	**$ –**	**$1,635**	**$14**
JPY	**9,684**	**–**	**9,609**	**(75)**
Total	**$11,306**	**$ –**	**$11,245**	**$(61)**

	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)

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

	As of March 31, 2015						
	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:							
Buy:							
USD	**Investment securities**	**¥ 8**	**¥ –**	**¥ 1**	**$ 9**	**$ –**	**$ 1**
Total		**¥ 8**	**¥ –**	**¥ 1**	**$ 74**	**$ –**	**$ 9**

	As of March 31, 2014			
	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	¥297	¥ –	¥(10)
Total		¥297	¥ –	¥(10)

14. Retirement Benefit Plans

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

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

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

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

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

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

(2) Defined benefit plan

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

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at beginning of period	**¥ 30,815**	¥ 29,648	**$ 256,435**
Cumulative effects of changes in accounting policies	**(1,854)**	–	**(15,436)**
Restated balance at beginning of period	**28,960**	29,648	**241,000**
Current service costs	**1,258**	1,361	**10,476**
Interest costs	**544**	592	**4,528**
Actuarial gains and losses arising during period	**2,199**	(356)	**18,303**
Retirement benefits paid	**(483)**	(520)	**(4,020)**
Contribution to employees	**247**	238	**2,056**
Other	**101**	(193)	**843**
Effect of exchange rate changes	**66**	45	**557**
Retirement benefit obligation at end of period	**¥ 32,895**	¥ 30,815	**$ 273,742**

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

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at beginning of period	**¥ 20,796**	¥ 18,416	**$ 173,063**
Expected return on plan assets	**551**	572	**4,592**
Actuarial gains and losses arising during period	**838**	522	**6,979**
Contributions from employer	**2,373**	1,731	**19,755**
Retirement benefits paid	**(389)**	(495)	**(3,241)**
Effect of exchange rate changes	**24**	49	**204**
Plan assets at end of period	**¥ 24,196**	¥ 20,796	**$ 201,351**

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

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net defined benefit liability at beginning of period	**¥ 668**	¥ 227	**$ 5,563**
Retirement benefit expenses	**53**	416	**444**
Retirement benefits paid	**(229)**	(7)	**(1,906)**
Other	**(36)**	13	**(301)**
Effect of exchange rate changes	**(3)**	18	**(30)**
Net defined benefit liability at end of period	**¥ 452**	¥ 668	**$ 3,769**

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

	As of March 31, 2015	As of March 31, 2014	**As of March 31, 2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation for funded plans	**¥ 32,895**	¥ 30,815	**$ 273,742**
Plan assets	**(24,196)**	(20,796)	**(201,351)**
	8,699	10,018	**72,391**
Retirement benefit obligation for unfunded plans	**452**	668	**3,769**
Net balance of liability and asset recognized on the consolidated balance sheet	**9,152**	10,687	**76,161**
Net defined benefit liability	**9,152**	10,687	**76,161**
Net balance of liability and asset recognized on the consolidated balance sheet	**¥ 9,152**	¥ 10,687	**$ 76,161**

e. Retirement benefit expenses and their breakdown

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current service costs	**¥ 1,259**	¥ 1,361	**$ 10,477**
Interest costs	**544**	592	**4,528**
Expected return on plan assets	**(551)**	(572)	**(4,590)**
Amortization of actuarial gains and losses	**873**	922	**7,269**
Amortization of past service costs	**15**	(38)	**131**
Retirement benefit expenses applying simplified method	**53**	416	**447**
Retirement benefits expenses under defined benefit plans	**¥ 2,193**	¥ 2,683	**$ 18,253**

f. Remeasurements of defined benefit plans

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

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Past service costs	**¥ 38**	¥ –	**$ 317**
Actuarial gains and losses	**489**	–	**4,075**
Total	**¥ 527**	¥ –	**$ 4,392**

g. Accumulated remeasurements of defined benefit plans

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

	As of March 31, 2015	As of March 31, 2014	**As of March 31, 2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized past service costs	**¥ (182)**	¥ (220)	**$ (1,516)**
Unrecognized actuarial gains and losses	**7,993**	7,503	**66,519**
Total	**¥ 7,811**	¥ 7,283	**$ 65,004**

h. Plan assets

(i) Breakdown of plan assets

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

	As of March 31, 2015	As of March 31, 2014
Bonds	**38%**	40%
Securities	**30**	23
Cash and deposits	**11**	10
Other	**21**	27
Total	**100%**	100%

Note: Total plan assets include retirement benefit trusts of 11% and 12% that are set up for a corporate pension plan as of March 31, 2015 and 2014, respectively.

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

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

i. Actuarial assumptions (weighted-average)

	2015	2014
Actuarial assumptions at end of period:		
Discount rate	**1.4~1.9%**	2.0%
Long-term expected rate of return:	**3.0%**	3.5%

(3) Defined contribution plan

The required contribution to the defined contribution plan amounts to ¥526 million ($4,384 thousand) and ¥707 million for the years ended March 31, 2015 and 2014, respectively.

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

a. Funded status of the plan

	2015 (As of March 31, 2014)	2014 (As of March 31, 2013)	**2015 (As of March 31, 2014)**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets	**¥ 252,293**	¥ 222,956	**$ 2,099,475**
Total of actuarial benefit obligations under pension funding calculation and minimum reserve (Note)	**227,330**	206,135	**1,891,744**
Difference	**¥ 24,963**	¥ 16,821	**$ 207,731**

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

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

	2015	2014
Ratio of Group's contributions	**0.25%**	0.22%

c. Supplemental information

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

	2015 (As of March 31, 2014)	2014 (As of March 31, 2013)	**2015 (As of March 31, 2014)**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deficit carried forward	**¥ –**	¥ (10,082)	**$ –**
General reserve	**19,332**	–	**160,879**
Deficit for the year	**5,630**	26,903	**46,852**

15. Other Comprehensive Income

Reclassification adjustments and income tax effect allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ 14,219**	¥ 11,474	**$ 118,332**
Reclassification adjustments	**(3,323)**	(956)	**(27,658)**
Amount before income tax effect	**10,896**	10,518	**90,675**
Income tax effect	**(2,410)**	(3,778)	**20,062**
Valuation difference on available-for-sale securities	**8,485**	6,740	**70,613**
Deferred gains (losses) on hedges:			
Amount arising during the year	**1**	83	**9**
Reclassification adjustments	**10**	(56)	**91**
Amount before income tax effect	**12**	26	**100**
Income tax effect	**(4)**	(10)	**(36)**
Deferred gains (losses) on hedges	**7**	16	**65**
Foreign currency translation adjustment:			
Amount arising during the year	**11,036**	5,270	**91,841**
Amount before income tax effect	**11,036**	5,270	**91,841**
Income tax effect	**(15)**	144	**(130)**
Foreign currency translation adjustment	**11,020**	5,414	**91,711**
Remeasurements of defined benefit plans:			
Amount arising during the year	**(527)**	–	**(4,392)**
Amount before income tax effect	**(527)**	–	**(4,392)**
Income tax effect	**(69)**	–	**(580)**
Remeasurements of defined benefit plans	**(597)**	–	**(4,972)**

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	**2**	6	**23**
Reclassification adjustments	**–**	–	–
Share of other comprehensive income of entities accounted for using equity method	**2**	6	**23**
Total other comprehensive income	**¥ 18,919**	¥ 12,177	**$ 157,440**

16. Net Assets

(1) Information regarding changes in net assets for the years ended March 31, 2015 and 2014 is as follows:

a. Shares issued and outstanding/Treasury shares

For the year ended March 31, 2015

Types of shares	Number of shares as of April 1, 2014	Increase	Decrease	Number of shares as of March 31, 2015
		(Shares)		
Shares issued:				
Common shares………………………	139,628,721	-	-	139,628,721
Treasury shares:				
Common shares (Note)…………...	9,307,753	345,447	580,985	9,072,215

Note: Details of increase and decrease are as follows:	*(Shares)*
Increase due to requests to purchase shares in accordance with Article 797, Paragraph 1 of the Companies Act	270,000
Increase due to market purchase of shares	70,300
Increase due to purchase of shares of less than standard unit	5,147
Decrease due to share exchange	580,985

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

b. Dividends

1) Dividends paid

For the year ended March 31, 2015

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 26, 2014	Common shares	¥3,388	$ 28,196	¥26	$ 0.22	March 31, 2014	June 27, 2014

For the year ended March 31, 2014

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 27, 2013	Common shares	¥2,884	¥22	March 31, 2013	June 28, 2013

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

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, 2015	Common shares	¥3,139	$ 26,125	Retained earnings	¥24	$ 0.20	March 31, 2015	June 29, 2015

17. 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.

	2015	2014	**2015**
	(Yen)		*(U.S. dollars)*
Basic net income	**¥ 86.40**	¥ 82.19	**$ 0.72**
Net assets	**1,653.88**	1,440.94	**13.76**

Per share amounts assuming full dilution have not been presented because no potential dilutive shares were outstanding as of March 31, 2015 or 2014.

18. Supplementary Cash Flow Information

(1) The following table presents a reconciliation of cash and deposits with cash and cash equivalents as of March 31, 2015 and 2014.

	2015	2014	**2015**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	**¥ 60,765**	¥46,146	**$ 505,666**
Time deposits with a maturity of more than three months	**(10,187)**	(9,127)	**(84,778)**
Money management funds and others included in securities	**6,411**	8,323	**53,351**
Cash and cash equivalents	**¥ 56,989**	¥45,342	**$ 474,239**

(2) The following tables present the main breakdowns of increased assets by the transfer of business for the years ended March 31, 2015 and 2014.

Transfer of business related to the development, manufacturing, and sales of semiconductor lasers and LEDs from Oclaro Japan, Inc. (as of October 27, 2014)

	(Millions of yen)	*(Thousands of US dollars)*
Current assets	¥ 975	$ 8,120
Non-current assets	847	7,053
Goodwill	1,014	8,440
Current liabilities	(916)	(7,627)
Long-term liabilities	(180)	(1,499)
Consideration for transfer of business	1,740	14,487
Other (Advisory fees)	(250)	(2,080)
Cash and cash equivalents	—	—
Net: Payments for transfer of business	¥ 1,490	$ 12,407

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

	(Millions of yen)
Current assets	¥ 1,373
Non-current assets	297
Goodwill	1,148
Consideration for transfer of business	2,819
Other (Long term accounts payable)	(448)
Cash and cash equivalents	—
Net: Payments for transfer of business	¥ 2,371

19. Segment Information

(1) Summary of reportable segments

The Company defines a reportable segment as a component of the Company for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to assess its business performance and make decisions about resources to be allocated to the segment.
The Company has a division system based on product type and similarity in sales market, etc., and each division develops and implements comprehensive domestic and overseas strategies for its development, manufacturing and sales of products and service, and engages in its business activities globally.
Thus, reportable segments of the Company are divided into two categories based on product type and sales market.
“Light sources business” conducts manufacturing and sales of halogen lamps and discharge lamps, etc.
“Equipment business” conducts manufacturing and sales of visual image equipment and optical equipment, etc.

(2) The basis of measurement of net sales, income or loss, assets, liabilities, and other

items by the reportable segment is generally consistent with the significant accounting policies of the Group. Segment income presents the operating income of the segment. Intersegment sales and transfers are recognized based on the market price.

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

	Year ended March 31, 2015						
	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	**¥71,948**	**¥84,033**	**¥155,982**	**¥3,383**	**¥159,365**	**¥ -**	**¥159,365**
Intersegment sales or transfers	**1,065**	**155**	**1,221**	**28**	**1,249**	**(1,249)**	**-**
Total	**¥73,014**	**¥84,188**	**¥157,203**	**¥3,411**	**¥160,614**	**¥(1,249)**	**¥159,365**
Segment income (loss)	**¥10,074**	**¥(36)**	**¥10,037**	**¥175**	**¥10,212**	**¥144**	**¥10,357**
Segment assets	**103,671**	**107,526**	**211,198**	**46,132**	**257,330**	**37,211**	**294,542**
Other items:							
Depreciation	**2,074**	**3,808**	**5,883**	**35**	**5,919**	**-**	**5,919**
Amortization of goodwill	**277**	**403**	**680**	**-**	**680**	**-**	**680**
Investment in associates under equity method	**34**	**2**	**36**	**-**	**36**	**-**	**36**
Increase in property, plant and equipment and intangible assets	**3,560**	**6,753**	**10,314**	**584**	**10,898**	**-**	**10,898**

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

2. Eliminations or unallocated amounts of segment income, amounting to ¥144 million, include elimination of intersegment transactions totaling ¥157 million. Eliminations or unallocated amounts of segment assets, amounting to ¥37,211 million, include elimination of intersegment receivables and payables totaling ¥(19,260) million and unallocated corporate assets totaling ¥55,893 million that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.

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

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

	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.

	Year ended March 31, 2015						
	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	**$ 598,726**	**$ 699,286**	**$ 1,298,012**	**$ 28,152**	**$ 1,326,165**	**$ –**	**$ 1,326,165**
Intersegment sales or transfers	**8,869**	**1,295**	**10,164**	**236**	**10,400**	**(10,400)**	**–**
Total	**$ 607,595**	**$ 700,581**	**$ 1,308,176**	**$ 28,388**	**$ 1,336,565**	**$ (10,400)**	**$ 1,326,165**
Segment income (loss)	**$ 83,835**	**$ (307)**	**$ 83,528**	**$ 1,459**	**$ 84,988**	**$ 1,203**	**$ 86,191**
Segment assets	**862,706**	**894,788**	**1,757,494**	**383,894**	**2,141,388**	**309,657**	**2,451,045**
Other items:							
Depreciation	**17,266**	**31,696**	**48,962**	**299**	**49,261**	**–**	**49,261**
Amortization of goodwill	**2,311**	**3,354**	**5,665**	**–**	**5,665**	**–**	**5,665**
Investment in associates under equity method	**286**	**20**	**306**	**–**	**306**	**–**	**306**
Increase in property, plant and equipment and intangible assets	**29,632**	**56,199**	**85,831**	**4,862**	**90,693**	**–**	**90,693**

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 $1,396 thousand, include elimination of intersegment transactions totaling $1,308 thousand. Eliminations or unallocated amounts of segment assets, amounting to $309,657 thousand, include elimination of intersegment receivables and payables totaling $160,280 thousand and unallocated corporate assets totaling $465,123 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, 2015						
	Reportable segment					**Eliminations or unallocated amounts**	**Amounts on consolidated financial statements**
	Light sources business	**Equipment business**	**Total**	**Other businesses**	**Total**		
	(Millions of yen)						
Impairment loss	**¥ 118**	**¥ 1,256**	**¥ 1,375**	**¥ 146**	**¥ 1,521**	**¥ –**	**¥ 1,521**
Goodwill:							
Amortized for the year	**277**	**403**	**680**	**–**	**680**	**–**	**680**
Balance	**1,244**	**2,232**	**3,477**	**–**	**3,477**	**–**	**3,477**

	Year ended March 31, 2014						
	Reportable segment					Eliminations or unallocated amounts	Amounts on consolidated financial statements
	Light sources business	Equipment business	Total	Other businesses	Total		
	(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, 2015						
	Reportable segment					**Eliminations or unallocated amounts**	**Amounts on consolidated financial statements**
	Light sources business	**Equipment business**	**Total**	**Other businesses**	**Total**		
	(Thousands of U.S. dollars)						
Impairment loss	**$ 990**	**$ 10,452**	**$ 11,442**	**$ 1,221**	**$ 12,663**	**$ –**	**$ 12,663**
Goodwill:							
Amortized for the year	**2,311**	**3,354**	**5,665**	**–**	**5,665**	**–**	**5,665**
Balance	**10,353**	**18,581**	**28,934**	**–**	**28,934**	**–**	**28,934**

A share exchange transaction so that the Company shall be a wholly owning parent company and ADTEC Engineering Co., Ltd. shall be a wholly owned subsidiary was executed in the Equipment business segment. As a result, a gain on bargain purchase amounting to ¥277 million ($2,306 thousand) was recorded in the consolidated statement of income for the year ended March 31, 2015.

(5) Related information

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

Year ended March 31, 2015

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

	Japan	**North America**		**Europe**	**Asia**		**Other**	**Total**
		U.S.A.	**Other**		**China**	**Other**	**areas**	
Net sales	**¥ 30,144**	**¥ 44,433**	**¥3,555**	**¥ 21,207**	**¥ 29,998**	**¥ 27,394**	**¥ 2,631**	**¥ 159,365**
	$ 250,847	**$ 369,755**	**$ 29,585**	**$ 176,481**	**$ 249,635**	**$ 227,963**	**$ 21,899**	**$ 1,326,165**

Year ended March 31, 2014

(Millions of yen)

	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

Year ended March 31, 2015

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

	Japan	**North America**		**Europe**	**Asia**	**Other areas**	**Total**
		U.S.A.	**Canada**				
Property, plant and equipment	**¥ 23,562**	**¥7,457**	**¥ 4,264**	**¥ 669**	**¥ 4,024**	**¥ 35**	**¥ 40,014**
	$ 196,072	**$ 62,057**	**$ 35,487**	**$ 5,575**	**$ 33,491**	**$ 296**	**$ 332,978**

Year ended March 31, 2014

(Millions of yen)

	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

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.

20. Business Combination

<u>Transaction under common control</u>

(1) Outline of business combination

a. Name of party involved in the business combination and description of its businesses

Name:	ADTEC Engineering Co., Ltd. (“ADTEC Engineering”)
Business:	Manufacturing and sales of automatic exposure systems and automatic peelers for printed circuit boards

b. Effective date of business combination

August 1, 2014

c. Legal form of business combination

A share exchange transaction (the “Share Exchange”) so that the Company shall be a wholly owning parent company and ADTEC Engineering, a consolidated subsidiary of the Company, shall be a wholly owned subsidiary

d. Name of company subsequent to business combination

No change

e. Other matters regarding the outline of the transaction

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 Factory Automation (“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, the Company and ADTEC Engineering executed the Share Exchange on August 1, 2014, so that the Company should be a wholly owning parent company and ADTEC Engineering should be a wholly owned subsidiary in order to further realize synergies and enhance the corporate value of ADTEC Engineering and the entirety of the Group.

(2) Outline of accounting treatment

The Share Exchange was treated as a transaction under common control based on “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on December 26, 2008).

(3) Acquisition costs of the additional shares of the subsidiary and their breakdown

		(Millions of yen)	*(Thousands of U.S. dollars)*
Consideration for acquisition	Common shares of the Company	¥ 1,229	$10,232
Expenditures directly related to acquisition:	Advisory fees, etc.	52	440
Acquisition cost		¥ 1,282	$10,672

(4) Matters related to the additional acquisition of subsidiary shares

a. Share allotment ratio by types of shares

0.23 shares of common shares of the Company were allotted and delivered for each share of common shares of ADTEC Engineering.

b. Calculation basis of the share exchange ratio

In order to ensure the fairness and the appropriateness of the share exchange ratio in the Share Exchange, the Company appointed Daiwa Securities Co. Ltd. and ADTEC Engineering appointed Deloitte Touche Tohmatsu LLC. Considering the calculation results of the share exchange ratio submitted by their respective third-party valuation institutions, both companies continuously and carefully negotiated and consulted with each other. As a result, both companies determined the share exchange ratio as set out in (4) *a.* above.

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

The Company allotted and delivered 833,985 shares of common shares of the Company. For delivery of shares, the Company used its common shares held in treasury, and, therefore, did not issue any new shares.

(5) Amount and cause of gain on bargain purchase

Amount of gain on bargain purchase:	¥277 million ($2,306 thousand)
Cause:	Difference between the acquisition costs and an increased amount of the Company’s interest in the party involved in the business combination

<u>Acquisition of business</u>

(1) Outline of business combination

a. Name of transferor company and description of acquired businesses

Name:	Oclaro Japan, Inc.
Business:	LED, red, violet and part of the infrared laser diode business

b. Major reasons of business combination

The Group acquired the business related to the development, manufacture, and sales of semiconductor lasers and LEDs in order to further expand its solid-state light sources business.

c. Effective date of business combination

October 27, 2014

d. Legal form of business combination

Acquisition of the business by USHIO OPTO SEMICONDUCTORS, INC., a subsidiary of the Company

e. Name of company subsequent to business combination

USHIO OPTO SEMICONDUCTORS, INC.

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

From October 27, 2014 to March 31, 2015

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

		(Millions of yen)	*(Thousands of U.S. dollars)*
Consideration for acquisition	Cash and deposits	¥ 1,692	$14,087
Expenditures directly related to acquisition:	Advisory fees, etc.	48	400
Acquisition cost		¥ 1,740	$14,487

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

Amount of goodwill incurred:	¥1,014 million ($8,440 thousand)
Cause:	Excess earning power in the future as expected by strengthening of solid-state light sources business
Amortization method and period:	Straight-line method over 5 years

21. Related Party Information

Related-party transactions for the year ended March 31, 2015 were as follows:

Classification:	Director
Name:	Jiro Ushio
Location:	—
Capital stock *(Millions of yen)*:	—
Principal business:	Representative director of the Company
Ratio of voting rights:	2.48% directly held
Relation to the related party:	Acquisition of land
Nature of transaction:	Acquisition of land
Amount of transaction *(Millions of yen)*:	¥42
Amount of transaction *(Thousands of U.S. dollars)*:	$352
Account:	—
Balance at the end of year *(Millions of yen)*:	—

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

22. Subsequent Events

There are no significant subsequent events.

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