Annual Report

Year Ended March 31, 2016

HARIMA CHEMICALS GROUP, INC.

Business Overview

During the current fiscal year, although the US the economy continued steadily, in China and South East Asia, the economy growth remained stagnant. Meanwhile, the domestic economy in Japan showed a gradual recovery due to the improvements in corporate earnings, employment conditions and the recovery in the capital investments.

Regarding the business environment surrounding our Group, Lawter, whose major market is Europe, has endured intense competition resulting in continued severe situation performance. But as the paper chemicals business in the U.S.and China Subsidiaries continued to steadily grow, foreign revenue has increased. Regarding the domestic business, although, the consideration about domestic demand was still serious, revenue was at the same level of the fiscal previous year, due to the price of raw materials decreased and rationalization of production procedures.

As a result of these conditions, the Group's consolidated net sales for the current fiscal year increased by 1,714 million Yen (down 2.1%) year-on-year to 80,978 million Yen. Operating income increased by 1,464 million Yen (up 150.5%) year-on-year to 2,437 million Yen. Ordinary income increased by 2,976 million Yen year-on-year to 3,225 million Yen, with a foreign exchange profit of 658 million Yen. Net income attributable to owners of the parent was 1,223 million Yen (Net loss attributable to owners of the parent was 1,026 million Yen in the previous fiscal year).

Status of Business Segments

(Resin & Tall Oil Products)

With regard to the printing ink industry, within the global and domestic market, the commercial printing business has continued to decrease due to the continuous decrease in the publication of newspapers and magazines. Thus the effect resulted in sales of printing inks resins to continue to decline.

In the paint industry, with the recovery trends of construction paint in reform market, shipping amount slightly increased. Although construction paint resins continued to perform strongly, the total sales of paint resins decreased.

Moreover, In the synthetic rubber industry, both export and domestic shipping amount slightly decreased. But our sales of synthetic rubber emulsifiers for automobile tire slightly increased.

(Paper Chemicals)

In the current fiscal year, despite a decrease in the production of printing papers, domestic paper and cardboard production volume was at the same level as the prior fiscal year. In US, paper and cardboard production volume was lower than the previous fiscal year. Also in China, the rate of increase decreased.

The domestic sales of paper chemical productions was at the same level of the previous fiscal year. In the US, the productions registered in FDA continued to perform strongly; which was similar to the China subsidiary's performance.

(Electronics Materials)

With regard to the performance of the car industry to which this segment is related, the volume of vehicles manufactured overseas was higher than the previous fiscal year. On the other hand, the volume of vehicles manufactured in domestic market was was lower than the previous fiscal year.

The shipping amount of household electronic appliances was lower than the previous fiscal year.

Factors that significantly affected this segment was the decrease in the price of metal bullion. In addition, the main production of this segment is solder paste, which recent research and development initiatives have resulted in the successful promotion of lead-free paste and therefore, , the sales quantity for this product has increased. However aluminium brazing materials used in heat exchangers was increased in sales quantity, the total sales price was decreased.

(Lawter)

In this segment, the main production is adhesives resins. As a result of the economic slowdown, compared to the previous fiscal year, growth in the production of adhesives resins was sluggish in China and Europe. On the other hand, in other areas of North America production has steadily increased as a result, the total sales quantity has increased compared to the previous fiscal year.

Continuing from digitizing, printing inks continued to show slow demand. In the European, North American and Asian markets, which are the main markets of this segment, sales quantity has decreased. Although the price competitiveness continues due to rationalization of production procedures and cost-down, the profit was improved.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	71th Fiscal Year (Fiscal year ended March 2013)	72th Fiscal Year (Fiscal year ended March 2014)	73th Fiscal Year (Fiscal year ended March 2015)	74th Fiscal Year (Fiscal year ended March 2016)
Net sales	64,203	75,175	82,692	80,978
Ordinary income	1,422	2,608	249	3,225
Net income(loss) attributable to owners of the parent	216	280	△1,026	1,223
Net income (loss) per share (Yen)	8.33	10.80	△39.53	47.12
Total assets	61,355	70,471	75,256	70,772
Net assets	29,823	31,466	33,080	31,362

(Notes) 1. According to the September 2013, issued ASBJ Statement No. 21"Accounting Standard for Business Combinations", from current fiscal year change「Net income(loss)」to「Net income(loss) attributable to owners of the parent」.

2. Net income (loss) per share is calculated based on the weighted average number of issued shares during the fiscal year after deducting treasury stocks.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2016

ASSETS	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 5,881	¥ 5,436	$ 52,192
Notes and accounts receivable (Note 15):			
Trade notes	1,748	1,337	15,513
Trade accounts	17,044	18,322	151,260
Associated companies	201	198	1,784
Other	1,118	2,353	9,922
Allowance for doubtful notes and accounts	(80)	(223)	(710)
Inventories (Note 4)	12,198	14,157	108,253
Deferred tax assets (Note 12)	374	492	3,319
Other current assets	451	718	4,003
Total current assets	38,935	42,790	345,536
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land (Note 6)	9,645	10,070	85,596
Buildings and structures (Note 6)	18,111	18,635	160,729
Machinery and equipment	25,172	24,718	223,394
Lease assets (Note 14)	867	963	7,694
Construction in progress	1,470	813	13,046
Other assets	4,284	4,229	38,020
Total	59,549	59,428	528,479
Accumulated depreciation	(36,360)	(35,794)	(322,684)
Net property, plant and equipment	23,189	23,634	205,795
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	5,441	5,764	48,287
Investments in and advances to associated companies	911	880	8,085
Goodwill	87	174	772
Deferred tax assets (Note 12)	267	204	2,370
Other assets	1,949	1,832	17,297
Allowance for doubtful accounts	(7)	(22)	(62)
Total investments and other assets	8,648	8,832	76,749
TOTAL	¥ 70,772	¥ 75,256	$ 628,080

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 8,186	¥ 8,933	$ 72,648
Current portion of long-term debt (Notes 7 and 15)	2,423	1,327	21,503
Notes and accounts payable (Note 15):			
Trade notes	322	387	2,858
Trade accounts	8,474	10,965	75,204
Associated companies	106	116	941
Construction and other	487	336	4,322
Income taxes payable	282	441	2,503
Deferred tax liabilities (Note 12)	-	130	-
Other current liabilities	2,102	2,088	18,655
Total current liabilities	22,382	24,723	198,634
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 15 and 16)	12,914	13,709	114,608
Deferred tax liabilities (Note 12)	1,106	568	9,815
Long-term deposits received (Note 15)	753	803	6,683
Liability for retirement benefits (Note 8)	2,003	2,095	17,776
Asset retirement obligations (Note 9)	48	47	426
Other long-term liabilities	204	231	1,810
Total long-term liabilities	17,028	17,453	151,118
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 14 and 16)			
EQUITY (Note 10):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2016 and 2015	10,013	10,013	88,862
Capital surplus	9,744	9,744	86,475
Retained earnings	9,334	8,475	82,836
Treasury stock - at cost: 131,882 shares in 2016 and 131,642 shares in 2015	(62)	(62)	(550)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,003	1,497	8,902
Foreign currency translation adjustments	(320)	2,035	(2,840)
Defined retirement benefit plans	(477)	(642)	(4,233)
Total	29,235	31,060	259,452
Noncontrolling interests	2,127	2,020	18,876
Total equity	31,362	33,080	278,328
TOTAL	¥ 70,772	¥ 75,256	$ 628,080

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Operations
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES	¥ 80,978	¥ 82,692	$ 718,655
COST OF SALES	64,210	68,047	569,844
Gross profit	16,768	14,645	148,811
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	14,331	13,672	127,183
Operating income	2,437	973	21,628
OTHER INCOME (EXPENSES):			
Interest and dividend income	121	96	1,074
Interest expense	(352)	(349)	(3,124)
Rental income	115	125	1,021
Foreign exchange gain (loss)	658	(610)	5,840
Gain (loss) on sale of property, plant and equipment	49	(31)	435
Loss on impairment of long-lived assets (Note 5)	(235)	(453)	(2,086)
Commission paid	(13)	(103)	(115)
Provision for allowance for doubtful accounts	-	(91)	-
Expense on disposal of property, plant and equipment	(48)	(83)	(426)
Equity in earnings of associated companies	39	45	346
Other – net	161	94	1,428
Other income (expenses) – net	495	(1,360)	4,393
INCOME (LOSS) BEFORE INCOME TAXES	2,932	(387)	26,021
INCOME TAXES (Note 12):			
Current	853	787	7,570
Deferred	570	(309)	5,059
Total income taxes	1,423	478	12,629
NET INCOME (LOSS)	1,509	(865)	13,392
NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(286)	161	(2,538)
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,223	¥ (1,026)	$ 10,854
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 18):			
Net income (loss)	¥47.12	¥(39.53)	$0.42
Cash dividends applicable to the year	14.00	14.00	0.12

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME (LOSS)	¥ 1,509	¥ (865)	$ 13,392
OTHER COMPREHENSIVE (LOSS) INCOME (Note 17):			
Unrealized (loss) gain on available-for-sale securities	(495)	596	(4,393)
Foreign currency translation adjustments	(2,461)	2,200	(21,840)
Defined retirement benefit plans	166	(107)	1,473
Share of other comprehensive income in associated companies	0	0	0
Total other comprehensive (loss) income	(2,790)	2,689	(24,760)
COMPREHENSIVE (LOSS) INCOME (Note 17)	¥ (1,281)	¥ 1,824	$ (11,368)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥(1,462)	¥1,504	$(12,975)
Noncontrolling interests	181	320	1,607

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2016

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2014 (as previously reported)	25,949	¥ 10,013	¥ 9,744	¥ 9,659	¥ (62)	¥ 902	¥ (6)	¥ (536)	¥ 29,714	¥ 1,752	¥ 31,466
Cumulative effect of accounting change (Note 2.j)				205					205		205
BALANCE, APRIL 1, 2014 (as restated)	25,949	10,013	9,744	9,864	(62)	902	(6)	(536)	29,919	1,752	31,671
Net income attributable to owners of the parent				(1,026)					(1,026)		(1,026)
Cash dividends, ¥14.00 per share				(363)					(363)		(363)
Purchase of treasury stock	(0)				(0)				(0)		(0)
Net change in the year						595	2,041	(106)	2,530	268	2,798
BALANCE, APRIL 1, 2015 (as restated)		10,013	9,744	8,475	(62)	1,497	2,035	(642)	31,060	2,020	33,080
Net income attributable to owners of the parent				1,223					1,233		1,233
Cash dividends, ¥14.00 per share				(364)					(364)		(364)
Purchase of treasury stock	(0)				(0)				(0)		(0)
Net change in the year						(494)	(2,355)	165	(2,684)	107	(2,577)
BALANCE, MARCH 31, 2016	25,949	¥ 10,013	¥ 9,744	¥ 9,334	¥ (62)	¥ 1,003	¥ (320)	¥ (477)	¥ 29,235	¥ 2,127	¥ 31,362

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2015 (as restated)	$ 88,862	$ 86,475	$ 75,213	$ (550)	$ 13,285	$ 18,060	$ (5,698)	$ 275,647	$ 17,927	$ 293,574
Net income attributable to owners of the parent			10,854					10,854		10,854
Cash dividends, $0.12 per share			(3,231)					(3,231)		(3,231)
Purchase of treasury stock				(0)				(0)		(0)
Net change in the year					(4,383)	(20,900)	1,465	(23,818)	949	(22,869)
BALANCE, MARCH 31, 2016	$ 88,862	$ 86,475	$ 82,836	$ (550)	$ 8,902	$ (2,840)	$ (4,233)	$ 259,452	$ 18,876	$ 278,328

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥ 2,932	¥ (387)	$ 26,021
Adjustments for:			
Income taxes – paid	(953)	(889)	(8,459)
Depreciation and amortization	2,214	2,427	19,649
Loss on impairment of long-lived assets	235	453	2,086
Foreign exchange (gain) loss	(686)	521	(6,088)
(Gain) loss on sales of property, plant and equipment	(49)	31	(435)
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	640	1,237	5,680
Decrease (increase) in inventories	1,871	(2,006)	16,605
Decrease in trade notes and accounts payable	(2,032)	(596)	(18,033)
Other – net	38	(440)	336
Total adjustments	1,278	738	11,341
Net cash provided by operating activities	4,210	351	37,362
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,529)	(1,863)	(22,444)
Proceeds from sales of property, plant and equipment	136	5	1,207
Purchases of intangible assets	(279)	(250)	(2,476)
Purchases of investment securities	(229)	(1,611)	(2,032)
Proceeds from sales of investment securities	100	52	887
Other – net	82	(40)	728
Net cash used in investing activities	(2,719)	(3,707)	(24,130)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	(723)	(4,179)	(6,416)
Proceeds from long-term debt	8,382	9,259	74,388
Repayments of long-term debt	(7,984)	(2,833)	(70,856)
Dividends paid	(363)	(363)	(3,222)
Other – net	(208)	(197)	(1,846)
Net cash (used in) provided by financing activities	(896)	1,687	(7,952)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(150)	475	(1,331)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	445	(1,194)	3,949
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,436	6,630	48,243
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 5,881	¥ 5,436	$ 52,192

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which HARIMA CHEMICALS GROUP, INC. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.68 to $1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation - The consolidated financial statements include the accounts of the Company and all its subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company directly is able to exercise control over operations are fully consolidated.

Investments in associated companies are accounted for by the equity method.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period not exceeding 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** - In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

c. ***Business Combinations*** - In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) *Transactions with noncontrolling interest* - A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of operations. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) *Presentation of the consolidated balance sheet* - In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) *Presentation of the consolidated statement of operations* - In the consolidated statement of operations, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) *Provisional accounting treatments for a business combination* - If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) *Acquisition-related costs* - Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of operations, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of operations. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of operations, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of operations shall be applied to all periods presented in consolidated financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015.

The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

There was not a material impact on the consolidated financial statements from these accounting changes.

d. ***Cash Equivalents -*** Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

e. ***Inventories -*** Inventories are principally stated at the lower of cost, determined by the moving-average cost method, or net selling value.

The inventories of certain consolidated foreign subsidiaries are stated at the lower of cost, determined by the first-in, first-out method, or net selling value.

f. ***Investment Securities -*** Investment securities are classified and accounted for as follows:
Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. ***Property, Plant and Equipment*** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998. Certain domestic subsidiaries and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is from 5 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

h. ***Long-Lived Assets -*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling value at disposition.

i. ***Software -*** Amortization of capitalized software costs is computed using the straight-line method over 5 years, the estimated useful life of the assets.

j. ***Retirement Benefits -*** The Company and certain domestic consolidated subsidiaries have funded defined benefit pension plans, defined contribution pension plan and severance lump-sum payment plan covering substantially all of their employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a declining-balance basis over 14 years within the average remaining service period. Prior service costs are recognized in the period in which they are incurred.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and prior service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and prior service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and prior service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and prior service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period, are treated as reclassification adjustments (see Note 2.t).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, liability for retirement benefits as of April 1, 2014, decreased by ¥321 million, and retained earnings as of April 1, 2014, increased by ¥205 million. The effects of this change on operating income, loss before income taxes and noncontrolling interests and net loss per share for the year ended March 31, 2015, are immaterial.

For small pension plans Japanese GAAP allows an entity to use a simplified method to measure the projected benefit obligations. Under the simplified method, the retirement benefits are recorded as a liability at the amount that would be required if all employees in a plan retired at each balance sheet date. Certain subsidiaries have small pension plans which are accounted for under the simplified method.

Retirement allowances for directors and Audit & Supervisory Board members are recorded as a liability at the amount that would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

k. ***Asset Retirement Obligations*** - In March 2008, the ASBJ issued the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. ***Research and Development Costs -*** Research and development costs are charged to income as incurred.

m. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the amount of obligation under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

n. ***Bonuses to Directors -*** Bonuses to directors are accrued at the end of the year to which such bonuses are attributable.

o. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

p. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

q. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

r. ***Derivative Financial Instruments -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of operations; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

s. ***Per Share Information -*** Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

t. ***Accounting Changes and Error Corrections -*** In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Non-current:			
Equity securities	¥ 5,031	¥ 5,456	$ 44,648
Trust fund investments and other	410	308	3,639
Total	¥ 5,441	¥ 5,764	$ 48,287

The costs and aggregate fair values of investment securities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥1,644	¥1,388	¥(56)	¥2,976
Debt securities	416	-	(6)	410
March 31, 2015				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥1,639	¥2,002	¥(16)	¥3,625
Debt securities	316	-	(8)	308

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$14,590	$12,318	$(497)	$26,411
Debt securities	3,692	-	(53)	3,639

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Nonmarketable available-for-sale:			
Equity securities	¥2,055	¥1,831	$18,237

The information for available-for-sale securities which were sold during the years ended March 31, 2016 and 2015, was as follows:

	Millions of Yen		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ -	¥ -	¥ -
Debt securities	100	-	-
Total	¥ 100	¥ -	¥ -
March 31, 2015			
Available-for-sale:			
Equity securities	¥ 35	¥ 23	¥ -
Debt securities	17	-	-
Total	¥ 52	¥ 23	¥ -

	Thousands of U.S. Dollars		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ -	$ -	$ -
Debt securities	887	-	-
Total	$ 887	$ -	$ -

4. INVENTORIES

Inventories as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Finished products	¥ 5,803	¥ 6,590	$ 51,500
Work in process	302	332	2,680
Raw materials and supplies	6,093	7,235	54,073
Total	¥ 12,198	¥ 14,157	$ 108,253

5. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥235 million ($2,086 thousand) and ¥453 million for the years ended March 31, 2016 and 2015, respectively. The Group recognized a decline in value of manufacturing facilities in Japan for the year ended March 31, 2015. Also, the Group recognized a decline in value of golf course and hotel facilities for the years ended March 31, 2016 and 2015. The impairment loss was recognized since the recoverable value of the assets was lower than the carrying amounts of the assets. The recoverable value of the assets was measured at the fair value considering the third-party appraisal report for the facility.

6. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20 "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23 "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Group owns certain rental properties such as office buildings and land. The net of rental income and operating expenses for those rental properties for the years ended March 31, 2016 and 2015, were ¥108 million ($958 thousand) and ¥107 million, respectively.

In addition, the carrying amounts, changes in such balance and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2015	Increase/ Decrease	March 31, 2016	March 31, 2016
¥2,776	¥(258)	¥2,518	¥3,294

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2014	Increase/ Decrease	March 31, 2015	March 31, 2015
¥3,113	¥337	¥2,776	¥3,584

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2015	Increase/ Decrease	March 31, 2016	March 31, 2016
$24,636	$(2,290)	$22,346	$29,233

Notes:

1) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.

2) Increase during the fiscal year ended March 31, 2016, primarily represents the capital expenditure for current investment properties of ¥29 million ($257 thousand), and decrease primarily represents depreciation of ¥38 million ($337 thousand), and impairment loss of ¥235 million ($2,086 thousand), selling of ¥14 million ($124 thousand). Increase during the fiscal year ended March 31, 2015, primarily represents the capital expenditure for current investment properties of ¥72 million, and decrease primarily represents the change in the purpose of possession of the properties to the Group's own use by ¥20 million, depreciation of ¥46 million, and impairment loss of ¥343 million.

3) Fair value of properties is measured by the Group in accordance with its Real-Estate Appraisal Standard.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of March 31, 2016 and 2015, consisted of an outstanding balance of line of credit, notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans as of March 31, 2016 and 2015, were 1.4% and 1.9%, respectively. As of March 31, 2016 and 2015, the total committed line of credit were ¥5,000 million ($44,373 thousand) and ¥5,000 million, and unused balance were ¥3,000 million ($26,624 thousand) and ¥1,600 million, respectively.

Long-term debt as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unsecured loans from banks and other financial institutions, due serially to 2020 with interest rates ranging from 0.4% to 2.1% (2016) and from 0.6% to 4.0% (2015)	¥ 14,084	¥ 13,682	$ 124,991
Obligations under finance leases	1,253	1,354	11,120
Total	15,337	15,036	136,111
Less current portion	(2,423)	(1,327)	(21,503)
Long-term debt, less current portion	¥ 12,914	¥ 13,709	$ 114,608

Annual maturities of long-term debt as of March 31, 2016, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 2,423	$ 21,503
2018	721	6,399
2019	9,766	86,670
2020	1,148	10,188
2021	391	3,470
2022 and thereafter	888	7,881
Total	¥ 15,337	$ 136,111

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

As is customary in Japan, collateral must be provided if requested by the lending banks, and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks concerned. The Company has never received any such request.

Certain bank loans and the commitment line of credit are subject to the financial covenants which are tied with the total equity and continuous operating income without extraordinary items for the most recent year as indicators and require the Group to keep the indicators above certain level. Based on the financial results for the years ended March 31, 2016 and 2015, the covenants were not applied since the Group met the requirements.

8. RETIREMENT AND PENSION PLANS

The Company and some domestic subsidiaries have a defined contribution plan and a defined benefit plan including a defined corporate pension plan and retirement lump sum plan. Some overseas consolidated subsidiaries have defined contribution plans and defined benefit plans. Some domestic consolidated subsidiaries apply the simplified method to calculate liabilities for retirement benefits and retirement benefit costs.

In addition, the Company and some domestic subsidiaries participate in multi-employer pension plan. Since the pension asset attributable to the Company and some domestic subsidiaries cannot be rationally determined based on their contributions, the plan is accounted for as a defined contribution plan.

Also the Group has a severance payment plan for directors.

The liability for retirement benefits as of March 31, 2016 and 2015, for directors was ¥399 million ($3,541 thousand) and ¥390 million, respectively, and included in liability for retirement benefits in the consolidated balance sheet. The retirement benefits for directors are paid subject to the approval of the shareholders in accordance with the Companies Act of Japan (the "Companies Act").

<1> Defined Benefit Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 4,205	¥ 3,477	$ 37,318
Cumulative effect of accounting change	-	(321)	-
Balance at beginning of year (as restated)	4,205	3,156	37,318
Service cost	335	258	2,973
Interest cost	55	52	488
Actuarial (gains) losses	(88)	453	(781)
Benefits paid	(155)	(78)	(1,376)
Prior service benefit	-	(159)	-
Balance of value transfers	-	461	-
Foreign currency translation differences	(192)	63	(1,704)
Others	(56)	(2)	(496)
Balance at end of year	¥ 4,104	¥ 4,204	$ 36,422

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 2,614	¥ 1,920	$ 23,198
Expected return on plan assets	33	22	293
Actuarial (gains) losses	(42)	40	(373)
Contributions from the employer	281	254	2,494
Benefits paid	(155)	(78)	(1,376)
Balance of value transfers	-	401	-
Foreign currency translation differences	(116)	56	(1,029)
Others	4	(1)	36
Balance at end of year	¥2,619	¥ 2,614	$ 23,243

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 113	¥ 112	$ 1,003
Periodic benefit costs	27	11	240
Benefits paid	(20)	(16)	(177)
Foreign currency translation differences	(1)	8	(10)
Balance at end of year	¥ 119	¥ 115	$ 1,056

(4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 4,104	¥ 4,204	$ 36,422
Plan assets	(2,619)	(2,614)	(23,243)
Total	1,485	1,590	13,179
Unfunded defined benefit obligation	119	115	1,056
Net liability arising from defined benefit obligation	¥ 1,604	¥ 1,705	$ 14,235

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 1,604	¥ 1,705	$ 14,235
Net liability arising from defined benefit obligation	¥ 1,604	¥ 1,705	$ 14,235

(5) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 335	¥ 258	$ 2,973
Interest cost	55	52	488
Expected return on plan assets	(33)	(22)	(293)
Recognized prior service benefit	93	0	825
Recognized actuarial (gains) losses	(10)	89	(89)
Periodic benefit cost in simplified method	27	11	240
Other	(86)	-	(763)
Net periodic benefit costs	¥ 381	¥ 388	$ 3,381

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service benefit (cost)	¥ (98)	¥ 159	$ (870)
Actuarial gain (losses)	201	(325)	1,784
Others	64	(3)	568
Total	¥ 167	¥ (169)	$ 1,482

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost (benefit)	¥ 21	¥ (158)	$ 187
Unrecognized actuarial losses	716	1,063	6,354
Total	¥ 737	¥ 905	$ 6,541

(8) Plan assets as of March 31, 2016 and 2015

a. Components of plan assets

Plan assets consisted of the following:

	2016	2015
Debt securities in Japan	8.4%	8.6%
Equity securities in Japan	6.1	7.2
Debt securities in other countries	2.6	2.9
Equity securities in other countries	5.8	6.3
Cash and time deposits	0.8	0.5
Insurance asset (general account)	73.7	71.9
Others	2.6	2.6
Total	100.0%	100.0%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended March 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 0.0%	Mainly 0.0%

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2016 and 2015, were ¥123 million ($1,092 thousand) and ¥196 million, respectively.

The amount of contributions required for the multi-employer pension funds, accounted for as a defined contribution plan, for the years ended March 31, 2016 and 2015, were ¥158 million ($1,402 thousand) and ¥153 million, respectively.

(1) Funding condition of multi-employer pension funds as of March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Amount of fair value of plan assets	¥ 334,668	¥ 292,417	$ 2,970,075
Amount of benefit obligations for pension financing calculations	381,438	366,867	3,385,144
Net balance	¥ (46,770)	¥ (74,450)	$ (415,069)

(2) The Group's ratio in the multi-employer pension funds based on the contributions as of March 31, 2015 and 2014, were 1.2% and 1.2%, respectively.

(3) Supplementary explanation

The above information is obtained from the latest available information. Data for the years ended March 31, 2016 and 2015 is based on the information as of March 31, 2015 and 2014, respectively.

The primary factors for the net balance in (1) above are ¥ - million ($ - thousand) and ¥23,869 million appropriation of retained earnings, ¥2,634 million ($23,376 thousand) and ¥ - million of General reserve in pension fund, and ¥49,404 million ($438,445 thousand) and ¥50,581 million past service liabilities in calculating the projected benefit obligation for the years ended March 31, 2015 and 2014, respectively. The amount of principle and interest of past service liabilities in this plan are amortized equally over 16 years.

The ratio in (2) above does not agree to the actual contribution ratio of the Group.

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥47	¥47	$417
Reconciliation associated with passage of time	1	0	9
Balance at end of year	48	47	426

10. EQUITY

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 25, 2015. The Company meets all the above criteria, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal years.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2016 and 2015, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Employees' salaries and bonuses	¥3,571	¥3,279	$31,692
Net periodic retirement benefit	329	346	2,920
Transport	3,374	3,089	29,943
Depreciation	347	385	3,080
Rental	241	248	2,139
Research and development	2,371	2,036	21,042
Amortization of goodwill	87	87	772

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33.0% and 35.6% for the years ended March 31, 2016 and 2015, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Tax loss carryforwards	¥ 2,944	¥ 3,043	$ 26,127
Impairment loss on long-lived assets	1,265	1,363	11,226
Loss on revaluation of investment securities	64	10	568
Retirement benefits to directors and Audit & Supervisory Board members	122	126	1,083
Property, plant and equipment	97	97	861
Unrealized loss on available-for-sale securities	-	8	-
Others	1,095	715	9,718
Less valuation allowance	(3,970)	(3,718)	(35,233)
Total	¥ 1,617	¥ 1,644	$ 14,350
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (56)	¥ (65)	$ (497)
Unrealized gain on available-for-sale securities	(312)	(470)	(2,769)
Undistributed earnings of foreign subsidiaries	(200)	(168)	(1,775)
Depreciation of foreign subsidiaries	(247)	(351)	(2,192)
Negative goodwill of foreign subsidiaries	(188)	(203)	(1,668)
Others	(1,079)	(389)	(9,575)
Total	¥ (2,082)	¥ (1,646)	$ (18,476)
Net deferred tax liabilities	¥ (465)	¥ (2)	$ (4,126)

Due to loss before income taxes, a reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2015, is not presented.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2016, is as follows:

Normal effective statutory tax rate	33.0%
Expenses not deductible for income tax purposes	0.3
Inhabitant tax on per capita basis	1.0
Difference of income tax rates applicable to income in certain foreign countries	(3.1)
Increase in valuation allowance	17.0
Tax credit	(1.8)
Adjustment on deferred tax assets and liabilities at the end of period due to change in tax rates	0.7
Undistributed earnings of foreign subsidiaries	1.1
Other – net	0.3
Actual effective tax rate	48.5%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.8% and for the fiscal year beginning on or after April 1, 2017, to approximately 30.9% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.6%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥7 million ($62 thousand) and increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥17 million ($151 thousand), and defined retirement benefit plan by ¥4 million ($35 thousand), in the consolidated balance sheet as of March 31, 2016, and to increase income taxes - deferred by ¥19 million ($169 thousand) in the consolidated statement of income for the year then ended.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,371 million ($21,042 thousand) and ¥2,036 million for the years ended March 31, 2016 and 2015, respectively.

14. LEASES

The Group leases certain buildings and structures, machinery and equipment and other assets.

Total lease expenses included for the years ended March 31, 2016 and 2015, were ¥312 million ($2,769 thousand) and ¥216 million, respectively.

The minimum payments commitments under noncancelable operating leases as of March 31, 2016, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 5	$ 45
Due after one year	37	328
Total	¥ 42	$ 373

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly bank loans based on its capital financing plan. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Payment terms of payables, such as trade notes and trade accounts, are primarily less than one year. Payment in foreign currencies is exposed to the market risk of fluctuation in foreign currency exchange rates. Investment securities are exposed to the risk of market price fluctuations. Short-term bank loans and long-term debt are related to ongoing operations and working capital. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps. Long-term deposits received are mainly related to deposits for membership of a golf course and are exposed to liquidity risk.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

The counterparties to the Group's derivative contracts are limited to major international financial institutions to reduce credit risk.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2015.

Market risk management (foreign exchange risk and interest rate risk)

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loans payable.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Derivative transactions entered into by the Group have been made in accordance with internal policies that regulate the authorization and credit limit amount.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets at the level of one month's sales volume, along with adequate financial planning by the corporate treasury department.

(4) Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

Fair Value of Financial Instruments

Carrying amounts, fair values and the differences between carrying amounts and fair values as of March 31, 2016 and 2015, are as follows. The accounts for which fair value is deemed to be extremely difficult to calculate are not included in the following:

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 5,881	¥ 5,881	¥ -
Notes and accounts receivable	20,111	20,111	-
Investment securities	3,386	3,386	-
Total	¥ 29,378	¥ 29,378	¥ -
Notes and accounts payable	¥ 9,389	¥ 9,389	¥ -
Short-term bank loans	8,186	8,186	-
Current portion of long-term debt	2,423	2,423	-
Long-term debt	12,914	12,918	(4)
Long-term deposits received	753	672	81
Total	¥ 33,665	¥ 33,588	¥ 77

March 31, 2015	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 5,436	¥ 5,436	¥ -
Notes and accounts receivable	22,210	22,210	-
Investment securities	3,933	3,933	-
Total	¥ 31,579	¥ 31,579	¥ -
Notes and accounts payable	¥ 11,804	¥ 11,804	¥ -
Short-term bank loans	8,933	8,933	-
Current portion of long-term debt	1,327	1,327	-
Long-term debt	13,709	13,704	5
Long-term deposits received	803	652	151
Total	¥ 36,576	¥ 36,420	¥ 156

March 31, 2016	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 52,192	$ 52,192	$ -
Notes and accounts receivable	178,479	178,479	-
Investment securities	30,050	30,050	-
Total	$ 260,721	$ 260,721	$ -
Notes and accounts payable	$ 83,325	$ 83,325	$ -
Short-term bank loans	72,648	72,648	-
Current portion of long-term debt	21,503	21,503	-
Long-term debt	114,608	114,643	(35)
Long-term deposits received	6,683	5,964	719
Total	$ 298,767	$ 298,083	$ 684

Cash and Cash Equivalents and Notes and Accounts Receivable

The carrying values of cash and cash equivalents and notes and accounts receivable approximate fair value because of their short maturities.

Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The fair value information for investment securities by classification is included in Note 3.

Notes and Accounts Payable, Short-Term Bank Loans and Current Portion of Long-Term Debt

The carrying values of notes and accounts payable, short-term bank loans and current portion of long-term debt approximate fair value because of their short maturities.

Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2016.

Long-Term Deposits Received

The fair values of long-term deposits received are determined by discounting the future cash flows estimable from the past refund experience and by the estimated interest rate reflecting assumed refund period and credit risk.

Derivatives

The fair value information for derivatives is included in Note 16.

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 5,881	¥ -	¥ -	¥ -
Notes and accounts receivable	20,111	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	200	-	200
Total	¥ 25,992	¥ 200	¥ -	¥ 200

	Millions of Yen			
March 31, 2015	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 5,436	¥ -	¥ -	¥ -
Notes and accounts receivable	22,210	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	-	295
Total	¥ 27,646	¥ -	¥ -	¥ 295

	Thousands of U.S. Dollars			
March 31, 2016	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 52,192	$ -	$ -	$ -
Notes and accounts receivable	178,479	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	1,775	-	1,775
Total	$ 230,671	$ 1,775	$ -	$ 1,775

16. DERIVATIVES

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of the hedged liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2016

Not applicable

	Millions of Yen			
March 31, 2015	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	¥400	¥ -	¥ -

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of the hedged items (short-term bank loans).

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized (loss) gain on available-for-sale securities:			
Gains arising during the year	¥ (652)	¥ 763	$ (5,786)
Reclassification adjustments to profit or loss	-	0	-
Amount before income tax effect	(652)	763	(5,786)
Income tax effect	157	(167)	1,393
Total	¥ (495)	¥ 596	$ (4,393)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (2,461)	¥ 2,206	$ (21,840)
Reclassification adjustments to profit or loss	-	(6)	-
Amount before income tax effect	(2,461)	2,200	(21,840)
Income tax effect	-	-	-
Total	¥ (2,461)	¥ 2,200	$ (21,840)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 172	¥ (257)	$ 1,526
Reclassification adjustments to profit or loss	(5)	88	(44)
Amount before income tax effect	167	(169)	1,482
Income tax effect	(1)	62	(9)
Total	¥ 166	¥ (107)	$ 1,473
Share of other comprehensive income in associated companies - Gains arising during the year	¥ (0)	¥ 0	$ (0)
Total	¥ (0)	¥ 0	$ (0)
Total other comprehensive (loss) income	¥ (2,790)	¥ 2,689	$ (24,760)

18. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2016:				
Basic EPS				
Net income available to common shareholders	¥1,223	25,949	¥47.12	$0.42
For the year ended March 31, 2015:				
Basic EPS				
Net income available to common shareholders	¥ (1,026)	25,949	¥ (39.53)	

Diluted net income per share is not disclosed because there are no outstanding potentially dilutive securities.

19. RELATED PARTY DISCLOSURES

(1) The transactions between the Company and related parties

Transactions between the Company and related parties for the years ended March 31, 2016 and 2015, were as follows:

Fiscal year ended March 31, 2016

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.56	Payment of insurance	¥22	$195
						Other current assets, end of year	13	115

Note: Hasegawa Kosan Co., Ltd. is wholly owned by Yoshihiro Hasegawa, who is the representative director of the Company, and his close relatives. Insurance premium is determined considering an arm's-length transaction.

Fiscal year ended March 31, 2015

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the Company and their relatives	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.56	Payment of insurance	¥ 23
						Other current assets, end of year	13
						Other assets, end of year	13

Note: Hasegawa Kosan Co., Ltd. is wholly owned by Yoshihiro Hasegawa, who is the representative director of the Company, and his close relatives. Insurance premium is determined considering an arm's-length transaction.

(2) The transactions between the Group and related parties

Transactions between the Group and related parties for the years ended March 31, 2016 and 2015 were as follows:

Fiscal year ended March 31, 2016

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5	$ 44
						Minimum rental commitments	42	373
						Sales	12	106
						Other current assets, end of year	0	0

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payment is determined based on fair value (used to calculate property taxes).
Sales transactions are carried out on an arm's-length basis similar to third party transactions.

Fiscal year ended March 31, 2015

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5
						Minimum rental commitments	47
						Other current assets, end of year	0

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payment is determined based on fair value (used to calculate property taxes).

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's Board of Directors' meeting held on May 20, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7 ($0.06) per share	¥182	$1,615

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

"Resin & Tall Oil Products" manufactures and sells paint resin, resins for print inks, tall oil products and synthetic rubber emulsifiers. "Paper Chemicals" manufactures and sells paper-strengthening agents, sizing agents and surface-coating agents. "Electronics Materials" manufactures and sells electronics materials. "Lawter" manufactures and sells resins for print inks and adhesives.

(2) Methods of Measurement for the Amounts of Sales, Profit, Assets, Liabilities and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit and Other Items is as follows.

	Millions of Yen								
	2016								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 20,092	¥ 18,131	¥ 5,008	¥ 36,123	¥ 79,354	¥ 1,641	¥ 80,995	¥ (17)	¥ 80,978
Intersegment sales or transfers	508	384	-	222	1,114	137	1,251	(1,251)	-
Total	¥ 20,600	¥ 18,515	¥ 5,008	¥ 36,345	¥ 80,468	¥ 1,778	¥ 82,246	¥ (1,268)	¥ 80,978
Segment profit (loss)	¥1,156	¥1,761	¥421	¥(303)	¥3,035	¥ 93	¥3,128	¥(691)	¥2,437
Other:									
Depreciation	626	549	138	671	1,984	143	2,127	-	2,127
Net result of interest income and interest expense	(39)	(11)	(7)	(77)	(134)	(14)	(148)	(155)	(303)

Notes: "Other" comprises business segments not attributable to a reportable segment and includes mainly real estate management, etc.
Reconciliations of segment profit (loss) include reconciliation loss of inventories of ¥7 million ($62 thousand) and company-wide expenses of ¥755 million ($6,700 thousand), which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used for the determination of the allocation of management resources or the assessment of performance of the Company.

	Millions of Yen								
	2015								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 22,077	¥ 17,150	¥ 5,279	¥ 36,731	¥ 81,237	¥ 1,525	¥ 82,762	¥ (70)	¥ 82,692
Intersegment sales or transfers	193	586	-	208	987	165	1,152	(1,152)	-
Total	¥ 22,270	¥ 17,736	¥ 5,279	¥ 36,939	¥ 82,224	¥ 1,690	¥ 83,914	¥ (1,222)	¥ 82,692
Segment profit (loss)	¥1,167	¥1,285	¥442	¥(1,202)	¥1,692	¥117	¥1,809	¥(836)	¥ 973
Other:									
Depreciation	604	497	147	925	2,173	167	2,340	-	2,340
Net result of interest income and interest expense	(54)	-	(8)	(29)	(91)	(17)	(108)	(206)	(314)

Notes: "Other" comprises business segments not attributable to a reportable segment and includes mainly real estate management, etc.
Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥19 million and company-wide expenses of ¥906 million, which are not attributable to any reportable segment.
Assets are not allocated to reportable segments as they are not used for the determination of the allocation of management resources or the assessment of performance of the Company.

	Thousands of U.S. Dollars								
	2016								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 178,310	$ 160,907	$ 44,444	$ 320,581	$ 704,242	$ 14,564	$ 718,806	$ (151)	$ 718,655
Intersegment sales or transfers	4,509	3,408	-	1,970	9,887	1,215	11,102	(11,102)	-
Total	$ 182,819	$ 164,315	$ 44,444	$ 322,551	$ 714,129	$ 15,779	$ 729,908	$ (11,253)	$718,655
Segment profit (loss)	$10,259	$15,628	$3,736	$(2,689)	$26,934	$ 826	$27,760	$(6,132)	$21,628
Other:									
Depreciation	5,556	4,872	1,225	5,955	17,608	1,269	18,877	-	18,877
Net result of interest income and interest expense	(346)	(98)	(62)	(683)	(1,189)	(124)	(1,313)	(1,376)	(2,689)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2016 and 2015, were as follows:

(1) Net sales

Millions of Yen					
2016					
Japan	South and North America	Asia	Europe	Other	Total
¥32,043	¥18,889	¥10,914	¥15,388	¥3,744	¥80,978

Millions of Yen					
2015					
Japan	South and North America	Asia	Europe	Other	Total
¥33,649	¥17,216	¥11,311	¥16,903	¥3,613	¥82,692

Thousands of U.S. Dollars					
2016					
Japan	South and North America	Asia	Europe	Other	Total
$284,372	$167,634	$96,858	$136,564	$33,227	$718,655

Note: Sales are classified by country or region based on a customer's location.

(2) Net property, plant and equipment

Millions of Yen					
2016					
Japan	South and North America	Asia	Europe	Other	Total
¥13,622	¥3,910	¥2,213	¥2,322	¥1,122	¥23,189

Millions of Yen					
2015					
Japan	South and North America	Asia	Europe	Other	Total
¥14,025	¥3,260	¥2,184	¥2,864	¥1,301	¥23,634

Thousands of U.S. Dollars					
2016					
Japan	South and North America	Asia	Europe	Other	Total
$120,891	$34,700	$19,640	$20,607	$9,957	$205,795

2. Information by principal customers

Information is not provided because there are no customers who account for more than 10% of total consolidated net sales.

[Loss on impairment of long-lived assets by reportable segment]

Loss on impairment of long-lived assets by reportable segment for the years ended March 31, 2016 and 2015, was as follows:

	Millions of Yen							
	2016							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥ -	¥ -	¥ -	¥ -	¥ -	¥235	¥ -	¥235

	Millions of Yen							
	2015							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥109	¥ -	¥ -	¥ -	¥109	¥344	¥ -	¥453

	Thousands of U.S. Dollars							
	2016							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	$ -	$ -	$ -	$ -	$ -	$2,086	$ -	$2,086

[Amortization of goodwill and amount of goodwill by reportable segment]

The amortization of goodwill and amount of goodwill by reportable segment for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen							
	2016							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥ -	¥ -	¥ -	¥86	¥86	¥1	¥ -	¥87
Amount of goodwill	-	-	-	86	86	1	-	87

	Millions of Yen							
	2015							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥ -	¥ -	¥ -	¥ 86	¥ 86	¥1	¥ -	¥ 87
Amount of goodwill	-	-	-	172	172	2	-	174

	Thousands of U.S. Dollars							
	2016							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	$ -	$ -	$ -	$763	$763	$9	$ -	$772
Amount of goodwill	-	-	-	763	763	9	-	772

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of HARIMA CHEMICALS GROUP, INC.:

We have audited the accompanying consolidated balance sheet of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2016, and the related consolidated statement of operations, comprehensive income, changes in equity, 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, 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. In making those risk assessments, the auditor considers internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion; such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2016

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview (as of March 31, 2016)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Osaka Head Office	4-4-7 Imabashi, Chuo-ku, Osaka
Tokyo Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Laboratories	Central Research Laboratory, Tsukuba Research Laboratory
Plants	Kakogawa Plant, Tokyo Plant, Fuji Plant, Ibaraki Plant, Hokkaido Plant, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Nagoya Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	80 (Consolidated: 1,464)
Number of Group Companies	36
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	http://www.harima.co.jp/en/index.html

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Harima Kasei Polymer Co., Ltd.	10,000 thousand yen	100	Manufacture and sale of resins for printing inks, etc.
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
Harima do Brasil Industria Quimica Ltda.	20,338 thousand Brasil real	99.75	Manufacture and sale of rosin and its derivatives
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Control of U.S. operations
Hangzhou Hanghua Harima Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	85	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	85	Manufacture and sale of electronic materials
Nanning Harima Chemicals Co., Ltd.	48,234 thousand Chinese yuan	95	Manufacture and sale of rosin and its derivatives
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	100	Manufacture and sale of rosin and its derivatives
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group’s operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Support of Chinese business

Directors and Corporate Auditors (as of March 31, 2016)

President	Yoshihiro Hasegawa
Executive Director	Masanao Kono
Executive Director	Teruo Kaneshiro
Executive Director	Masashi Inaba
Executive Director	Ichiro Taninaka
Managing Director	Fumiaki Tsuchida
Audit＆Supervisory Committee Member	Jyoichiro Tanaka
Audit＆Supervisory Committee Member *	Tatsuya Michigami
Audit＆Supervisory Committee Member *	Hidenori Hiramatsu

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2016)

(1) Total number of shares authorised to be issued 59,500,000

(2) Total number of shares outstanding 26,080,396
(including 131,882 shares of treasury stocks)

(3) Number of shareholders 2,925

(4) Major shareholders

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	4,558	17.56
Yoshihiro Hasegawa	1,738	6.70
Harima Chemicals Mutual Prosperity Association	1,108	4.27
Sumitomo Mitsui Banking Corporation	1,094	4.21
Shorai Foundation for Science and Technology	805	3.10
Hyogo Prefectual Credit Federation of Agricultural Cooperatives	728	2.80
THE MINATO BANK, LTD	692	2.66
Shorai, Ltd.	687	2.64
Keihansin Kougyou Corporation	672	2.58
Bank of Tokyo-Mitsubishi UFJ	476	1.83

(Notes) 1. In “Number of shares held,” figures less than one thousand are rounded down.

2. Ratio of number of shares held against total number of shares outstanding is determined based on the total number of shares outstanding minus the number of treasury stocks (131,882 shares), which amounts to 25,948,514 shares. The numbers shown are rounded down to two decimal places.