July, 2016

Annual Report

For the year ended March 31, 2016

SUMITOMO BAKELITE CO., LTD.

Profile

Among the various plastics, phenolic resin has the oldest history. It was developed by Dr. Leo H. Baekeland, an American of Belgian ancestry, in 1907 and he named that synthetic resin "Bakelite". In 1911, Sankyo Company (currently Daiichi Sankyo Co., Ltd.) was assigned the rights to execute the patents in Japan through the good offices of Dr. Jokichi Takamine, a close friend of Dr. Baekeland. Trial production of phenolic resin was started at the Shinagawa Plant of Sankyo Company. That was the origin of the Japan's plastics industry, and the name of our company came from this achievement.

In 1932, the phenolic resin business of Sankyo Co., Ltd. was separated and formed Nippon Bakelite Co., Ltd. In 1955, Nippon Bakelite Co., Ltd. merged with Sumitomo Synthetic Resin Industries, Ltd. to found Sumitomo Bakelite Co., Ltd.

As a pioneer in plastics, with our expertise in and up-to-date facilities for plastics, we have been always developing new technologies for use in various fields in order to contribute to establishing safe and comfortable living.

Financial Highlights

	Millions of yen			Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2013 ended March 31, 2014	FY2015 ended March 31, 2016
Net sales	**¥206,956**	¥209,659	¥206,047	**$1,836,673**
Profit attributable to owners of parent	**3,828**	7,113	6,493	**33,978**
Total assets	**260,122**	285,927	236,825	**2,308,504**
Shareholders' equity	**146,300**	147,381	143,730	**1,298,375**

	Yen			U.S. dollars
Basic earnings per share	**¥16.01**	¥29.53	¥26.96	**$0.14**
Diluted earnings per share	**—**	—	—	**—**
Cash dividends per share	**10.00**	10.00	10.00	**0.08**

Note: U.S. dollar amounts are translated from yen at the rate of ¥112.68 to US$1, the approximate exchange rate as of March 31, 2016.

Contents

In this publication, the name of the companies may be represented in simplified forms by omitting "Company Limited", "Inc." and/or other legal entity identifications. For example, "Sumitomo Bakelite Company Limited" may be represented as "Sumitomo Bakelite Co., Ltd.", "Sumitomo Bakelite", or "the Company".

President's Message

The Company aims to contribute to value creation for various stakeholders of the Company including customers with the basic policy of "Customer Satisfaction (CS) First" in our business activities, by creating advanced function with plastics as a pioneer in plastics and by offering "Joy and Pleasure" in the use of our products.

Operating Environment in Fiscal 2015

With respect to the global economy during fiscal 2015, ended March 31, 2016, the United States continued to show moderate economic expansion, and Europe also maintained a recovery trend, whereas the growth in China and other emerging economies slowed down. The Japanese economy was also stagnant due to the economic recovery lacking vigor mainly caused by sluggish personal consumption continuing since the consumption tax rate was raised.

In terms of the business environment surrounding the Company, the demand for semiconductors decreased due to stagnation in diffusion of multifunctional portable terminals such as smartphones in the emerging economies, which have been the leading source of demand, and significant decrease in sales of personal computers. In the automobiles, new car sales in North America and Europe continued to maintain a favorable trend, whereas the growth in China was limited despite the increase in sales in the latter half of the fiscal year owing to the effect of a reduction in the automobile acquisition tax. The domestic automobile market also faced prolonged decline in demand caused by the increase in the light vehicle tax rate. The number of housing starts in the domestic market remained flat.

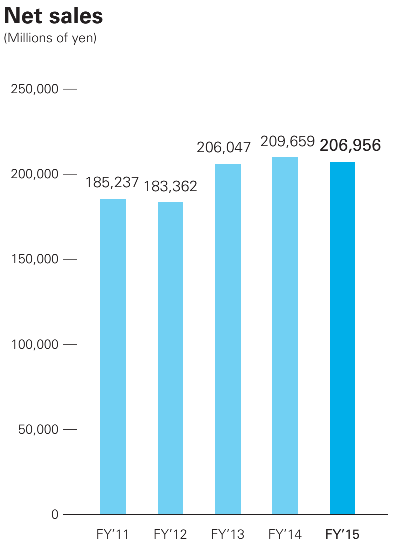
Overview of Fiscal 2015 Results

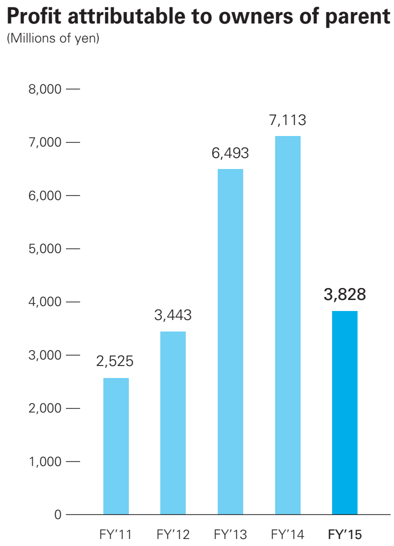
In the operating environment explained above, the Company has combined its total capabilities under the following policies, actively promoted in-house and outside coordination and cooperation and undertaken initiatives for new business environment such as implementing emergency measures to improve business performance including human resources optimization according to business volume as well as reform of its business structure, and initiatives to bring the Company back to the growth path.

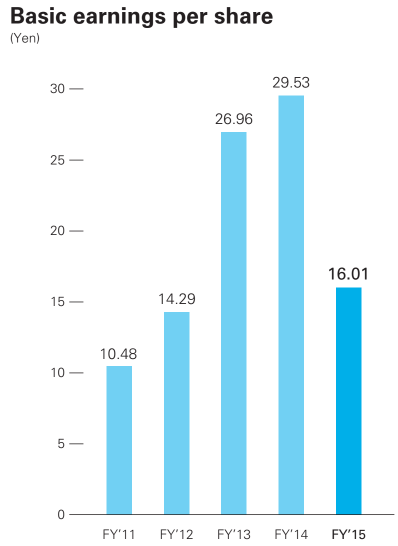
(1) New growth of existing domestic businesses and creation of business model
(2) New business start-up and creation
(3) Increase of scale and profitability of overseas business

As a result, the consolidated net sales for fiscal 2015 decreased by 1.3% from fiscal 2014 to ¥206,956 million mainly due to sales price reductions following declining raw material prices, while there were also positive factors boosting sales figures including the impact of the consolidation of the financial results of Vaupell Holdings, Inc. in the United States and its affiliated companies (hereinafter collectively referred to as "Vaupell") acquired in June of the year before last and the effect of the depreciation of the yen.

On the earnings front, the Company's profit increased on an actual basis owing to the effect of cost reductions achieved through emergency measures to improve business performance, while lower raw material prices and the depreciation of yen also contributed favorably; however, the consolidated operating income and the consolidated ordinary income decreased by 6.1% and 5.9% year on year to ¥10,241 million and ¥10,598 million, respectively, due to the impact of actuarial adjustment in retirement allowances. The profit attributable to owners of parent also decreased by 46.2% year on year to ¥3,828 million due to the posting of extraordinary loss including special retirement expenses to volunteers for early retirement and impairment losses of equipment due to the reorganization of production facilities, despite extraordinary income arising from the restructuring and sale of cross-holding shares.







Losses of the impact of actuarial adjustment in retirement allowances amounted to ¥1,950 million in this fiscal year compared with a profit of ¥375 million in the previous fiscal year. The performance comparison on an actual basis excluding such impact is presented in the table in page 3.

As for dividends, the Company has declared the year-end dividend of ¥5.0 per share (Added to the interim dividend paid, the full fiscal year cash dividend for fiscal 2015 is ¥10.0 per common share).

During the period under review, the Company issued neither new shares nor corporate bonds, nor undertook other extraordinary steps to procure funds. Total capital expenditures for the period under review amounted to ¥9,697 million.

Basic Policies

The Company aims to contribute to value creation for various stakeholders of the Company including customers by creating advanced function with plastics as a pioneer in plastics and by offering "Joy and Pleasure" in the use of our products.

In the Company's Mid-term Business Plan from fiscal 2015 to 2017, the Company, with target consolidated net sales of ¥260.0 billion and consolidated operating income of ¥22.0 billion, defines its management policies as tapping into the real needs in the market through active in-house and outside coordination and cooperation and pursuing sustainable growth with combinations of individual capabilities, organizational capabilities and group competence under the basic policy of "CS First" in its business activities.

The Company establishes and undertakes the following three policies based on the recognition that new growth and development in existing businesses and the success and creation of new businesses are inevitable in order to ensure mid- to long-term improvement of corporate value and sustainable growth in an environment where many products, including the Company's major business lines, have reached their maturity stage and the Company faces shrinkage of domestic sales and profits, as well as the stagnation of overseas businesses.

1. New business start-up and creation

The Company undertakes product development for expansion into new technologies and new markets, develops next generation products ahead of demand, and quickly offers to markets products satisfying customer needs and new products providing solutions in existing technologies or existing markets, in order to position them as competitive products as early as possible.

2. New growth in existing businesses and change of business model

The Company pursues new growth and a change of business model by contributing to value creation for customers through establishing and implementing its "Business to Business" business model, enhancing in-house and outside coordination and cooperation under the CS First policy, and pursuing products and services needed by customers.

3. Increase in scale and profitability of growing areas

The Company aims at business development not only in existing business fields, but also in growing areas, by actively undertaking M&As and business cooperation, in addition to the expansion of coverage and the early realization of synergies in the aerospace interior component business in which the Company entered through the acquisition of Vaupell, and the improvement of profitability concerning the high-performance plastic business and the films/sheets business of Sumitomo Bakelite (Nantong) Co., Ltd. in China.

Comparison of performance (consolidated)

(Unit: billion yen; rounded to the nearest full unit)

	FY2015 ended March, 2016	FY2014 ended March, 2015	Change (%)
Net sales	207.0	209.7	Down 1.3%
Operating income	10.2	10.9	Down 6.1%
[Actual]	[12.2]	[10.5]	[Up 15.8%]
Ordinary income	10.6	11.3	Down 5.9%
[Actual]	[12.5]	[10.9]	[Up 15.3%]
Profit attributable to owners of parent	3.8	7.1	Down 46.2%
[Actual]	[5.2]	[6.9]	[Down 24.5%]

Note: Actual figures are presented in the amount excluding the effect of actuarial adjustments for retirement allowances.

With respect to semiconductor materials, the Company aims to increase its market share in the existing market by optimizing the allocation of management resources/structure in its global network which integrates "production, sales and research." In addition, the Company pursues the early start-up of "LαZ," substrate materials for semiconductor packages, by expanding business coverage including use for memory and highlighting the special features of the product manufactured on new production lines of the Utsunomiya Plant. The Company also intends to develop applications for the smart community market by actively expanding the growing area of automotive use including new development of applications for the one-set encapsulation of ECU (electronic control units).

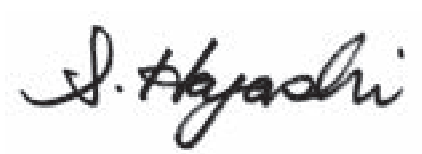
In the area of high-performance plastics, the Company aims to develop the use of plastic and metal composites including the initiative to resinify engines for fuel efficiency improvement and weight reduction of automobiles, in addition to the expansion of aerospace products in cooperation with Vaupell and the improvement of profits from phenol resin products in the Chinese market.

The Company aims to promote globalization and expand business coverage of quality of life products, including global expansion of the steerable microcatheter of the medical devices business, global business development of the S-Bio Business and the early start-up of the films/sheets business for food packaging and industry use of Sumitomo Bakelite (Nantong) Co., Ltd.

Furthermore, in order to ensure that the planning and implementation of business strategies are performed in an efficient and flexible manner under the aforementioned management policies, the Company shares the understanding thereof on a group-wide basis. The Company is also working on the improvement of the corporate governance system in order to strengthen internal controls including the enhancement of risk management and compliance, as well as to fulfill its social responsibility such as initiatives for environmental preservation.

As the leader of the Company, and on behalf of all of the employees, I thank you, and I ask all stakeholders for their continued support and understanding.

June 2016

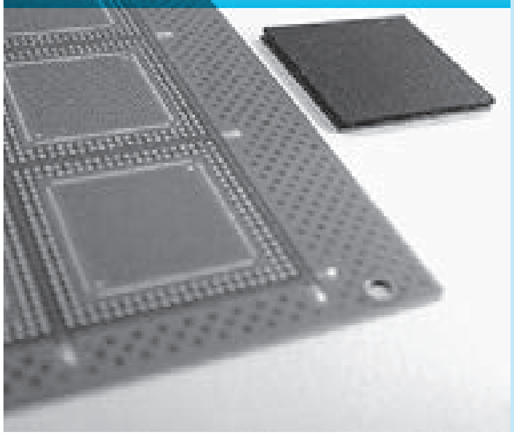


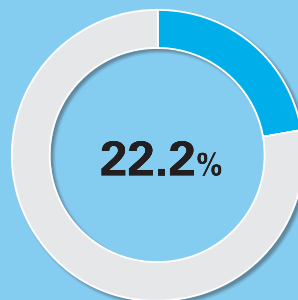
Shigeru Hayashi
President

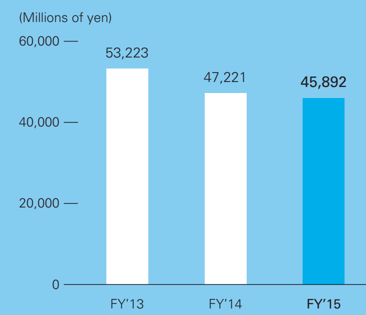
At a Glance

Segment | Segment Sales to Total Sales | Net Sales

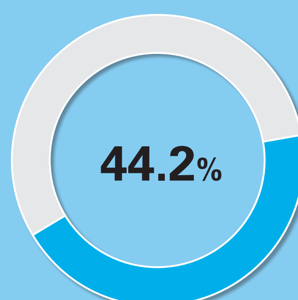
Semiconductor Materials

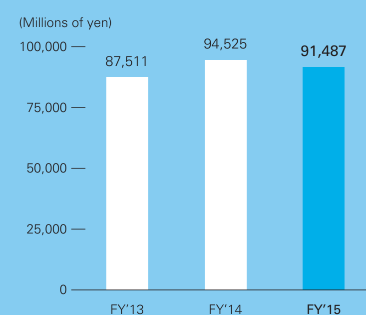




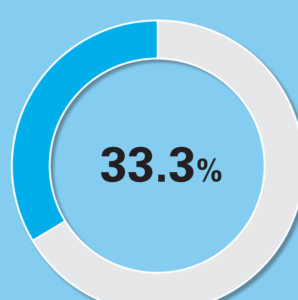


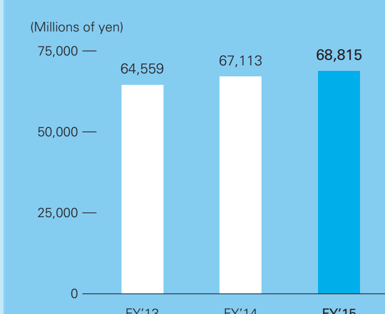
High-Performance Plastics





Quality of Life Products





Note: Net sales of the others segment amounted to ¥760 million in fiscal 2015.

Overview

Sales of epoxy resin molding compounds for encapsulation of semiconductor devices and liquid resins for semiconductor devices decreased due to sluggish demand for the use for smart phones and other multifunctional portable terminals caused by a slowdown in emerging markets, etc., as well as weak demand for use in personal computers and electric appliances, while sales were boosted by sales expansion of materials for mold underfill and other strategic products, as well as by increase in net sales at overseas subsidiaries caused by the depreciation of the yen. Sales of "LαZ," substrate materials for semiconductor packages declined due to weak sales for conventional use of existing models for smart phone application processors, whereas the product for memory use has successfully led to the results. The Company will also focus on business areas where sales volume can be expected, such as memory, in addition to the expansion of use for application processors for high-performance devices to be introduced to the market going forward.

Sales of phenolic molding compounds, phenolic resins for industrial use, aerospace interior components and molded products decreased mainly because of stagnant demand in Japan and sales price reductions reflecting lower raw material prices despite the growth in automotive use in North America and Europe, as well as the effect of consolidating the aerospace interior components business of Vaupell which was acquired in the year before last. Sales of copper-clad laminates declined due to slower consumer products market, while the use for automotive and LED light remained stable.

Sales of medical device products increased owing to good results from nutrition management products and products related to endoscope for digestive organs in addition to the effect of the consolidation of the medical device business of Vaupell which was acquired in the year before last. Furthermore, the Company signed an exclusive worldwide distribution agreement excluding Japan regarding "Steerable Microcatheter," endovascular treatment device, with Merit Medical Systems, Inc. in the U.S. in October 2015 and has launched the sales worldwide including Europe. Sales of the product have also been started in Japan in April 2016. The Company targets further expansion of the sales thereof as its promising strategic product. Sales of vinyl resin sheets and multilayer sheets increased owing to the growth of industry-use films for smart phones, etc. Sales of "P-Plus," freshness preserving film, dramatically increased as the product was newly adopted to pre-cut vegetables and farm-fresh vegetables. The adoption of P-Plus for new usage including anti-condensation films to sweet potatoes for export has been promoted. The Company focuses on further expansion of the use and the sales channels of P-Plus. Sales of plate products including polycarbonate resin plates and vinyl chloride resin plates decreased due to decline of demand for construction material use, while high value-added products including polarizing plate for sunglasses and electrical insulation film continued to show a positive trend. Sales of waterproof system products fell due to decline in general construction and reform use, while the demand for new housing showed some recovery. The Company withdrew from high-pressure melamine decorative laminates and non-flammable melamine decorative laminates businesses of the Decola products. Going forward, the Company targets new business development by specializing in high-performance/high value-added areas including interiors of railway vehicle and "Decola Innovair," the Industry's thinnest non-flammable melamine sheets.

Corporate Governance

Basic Policies

<Principles concerning corporate governance>
The Company aims to contribute to value creation for various stakeholders of the Company including customers by creating advanced function with plastics as a pioneer in plastics and by offering "Joy and Pleasure" in the use of our products. Accordingly, it is important for the Company to be trusted and needed by society and therefore the Company undertakes the establishment of the business management system which is highly adapted to society and the environment including thorough compliance as well as the system in which responses to risks surrounding business management are efficiently and effectively implemented.
<Basic policies concerning corporate governance>

- The Company substantially secures shareholders' rights and makes efforts to establish an appropriate environment for the exercise of rights at the General Meeting of Shareholders.
- The Company aims at sustainable growth through business activities that respect stakeholders surrounding the Company, enhance the value thereof and contribute to society.
- The Company appropriately discloses information in accordance with laws and regulations, makes efforts to disclose information useful to stakeholders including shareholders and thereby secure the transparency of business management.
- The Board of Directors recognizes its fiduciary duties to shareholders, performs supervision concerning the effectiveness of internal control and the validity of business decisions, etc., in good faith and fulfills its duties based on its roles to urge proactive business execution by management.
- Corporate Auditors and the Board of Corporate Auditors recognize their fiduciary duties to shareholders, audit legality and validity concerning the execution of duties by Directors and perform their roles proactively including the provision of opinions that contribute to ensuring the effectiveness of the Board of Directors.
- The Company undertakes constructive dialogue with shareholders proactively to deeply understand each other and promotes initiatives that will contribute to sustainable growth and the mid- to long-term enhancement of the corporate value of the Company.

Corporate Governance Structure

The Company has adopted a corporate auditor system. Based on this system, the Company has appointed nine directors, including two outside directors, and four corporate auditors, including two outside corporate auditors. Also, the Company has introduced an executive officer system. Appointed by the Board of Directors, executive officers promote the Company's business operations under the direction of the president, in accordance with the management policy determined by the Board of Directors.

At its monthly meetings, the Board of Directors makes decisions on important matters regarding the management of the Company group, the Company's monthly performance is reported, and individual directors report the status of the execution of their duties. At these meetings, the chairman is in charge of facilitating sufficient deliberation, while corporate auditors report on certain matters and offer opinions and advice as necessary. In addition, the Company's directors, executive officers and corporate auditors together convene an Executive Officers' Meeting once a month. At this meeting, important management policies and decisions made by the Board of Directors, along with the Company's performance, are reported to the attendees, while individual executive officers report the status of the execution of their business operations. Also, through this meeting, attendees review important management matters and share important information regarding the Company's status.

The executive officer system enables a clear separation between the decision-making function of the Board of Directors and the executing function of executive officers. Such functional division clarifies the responsibility of each party, enabling the Board of Directors to better focus on the supervision of business execution and allowing executive officers to promote swift business execution. Corporate auditors audit the execution of duties by directors to ensure that the Board of Directors is functioning effectively.

Auditing Systems

Internal Audits

Positioned directly under the president, the Internal Audit Department performs audits on the Company's business execution as well as internal control over financial reporting pursuant to the Financial Instruments and Exchange Law of Japan. These audits are conducted in accordance with audit plans. The Internal Audit Department reports the results of these audits to the president while monitoring the status of the implementation of corrective measures.

Audits by Corporate Auditors

Corporate auditors perform audits primarily through: (1) regular meetings with representative directors; (2) interviews with directors and employees; (3) attendance at important meetings; (4) review of important documents; and (5) visits to business sites and subsidiaries. At meetings of the Board of Corporate Auditors, corporate auditors report the results of these audits and make decisions relating to their audits. The Board of Corporate Auditors consists of two standing corporate auditors and two outside corporate auditors.

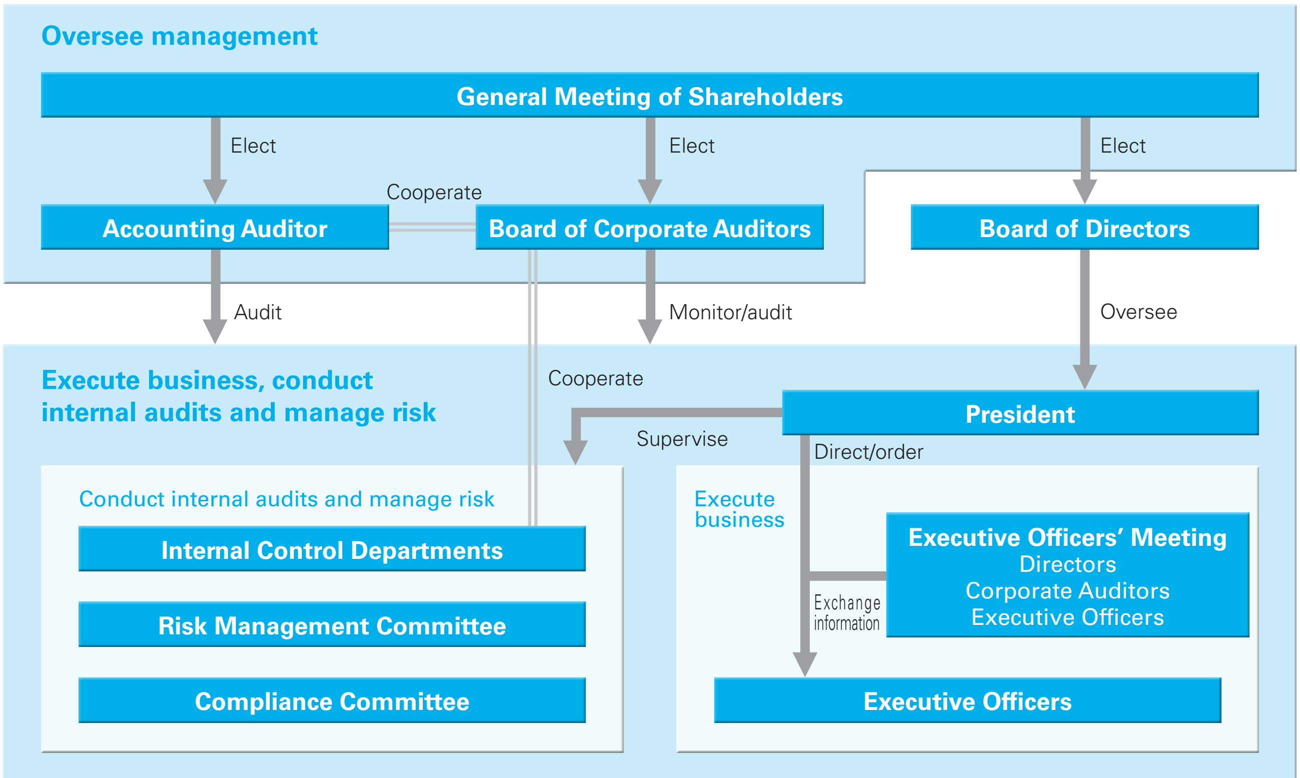
Accounting Audits

Corporate auditors collaborate with the auditing firm, who conducts accounting audits for the Company. More specifically, corporate auditors and the accounting auditor mutually exchange information with regard to the formulation of annual audit plans and the settlement of accounts. Furthermore, corporate auditors attend audit review meetings and thereby maintain a close relationship with the accounting auditor. In this way, the Company is striving to improve the quality of accounting audits and ensure efficiency in carrying out such audits.

Coordination of Audits

Corporate auditors attend meetings to review the results of internal and accounting audits while regularly holding meetings with related parties. These meetings also help the Company to strengthen collaborative relationships with corporate auditors, the accounting auditor and the Internal Audit Department. Cooperation among these parties is helping the Company enhance the efficiency and effectiveness of its audits.

Corporate Governance Structure



Board of Directors, Corporate Auditors and Executive Officers

(As of June 22, 2016)

Directors and Corporate Auditors

President
Shigeru Hayashi*

Directors
Tsuneo Terasawa*
Shigeki Muto
Noboru Yamawaki
Kazuhiko Fujiwara
Masayuki Inagaki
Sumitoshi Asakuma

Outside Directors
Hiroyuki Abe
Kazuo Matsuda
Ikuzo Ogawa

Standing Corporate Auditors
Tamotsu Yahata
Takao Akasaka

Outside Corporate Auditors
Junji Tomita
Yoshiko Koizumi

Note:*=Representative Director

Executive Officers

President
Shigeru Hayashi

Executive Vice Presidents
Tsuneo Terasawa
Shigeki Muto

Senior Managing Executive Officers
Noboru Yamawaki
Kazuhiko Fujiwara

Managing Executive Officers
Masayuki Inagaki
Sumitoshi Asakuma
Henny Van Dijk
Takashi Nakamura

Executive Officers
Goichiro Kuwaki
Takashi Kobayashi
Atsushi Suzuki
Seiji Suzuki
Koji Choki
Masaya Fumita
Yoshikazu Takezaki
Keisuke Kurachi

Major Topics

Smart Community Market as a New Business Domain

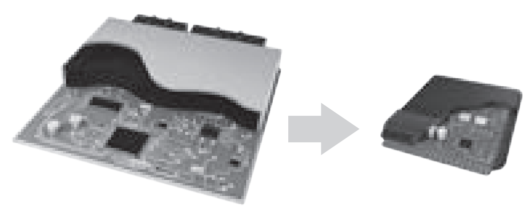
The Company established "Smart Community Marketing & Developing Division" ("SCM") as of January 1, 2016 by integrating corporate functions and marketing department of High Performance Plastics Business into former Smart Community Marketing & Developing Department. The trend of making it smarter is rapidly advancing in both software and hardware in response to explosion of population size in emerging economies, declining birth rate and aging population in urban areas and worldwide Information Big Bang. SCM's mission is to promote cross-sectional sales of our products to global leading enterprises which started to flock into the rapidly-growing smart community market and to understand and tap customer demand for plastics.

The "Smart Community" means the next-generation community which realizes integrated management and optimized control using IT of any infrastructure including electricity, water, traffic/logistics, healthcare and information. Such social infrastructure/smart community is the promising growth market as the market size is expected to reach ¥200 trillion by 2020.

As one of the initiatives of SCM, encapsulation materials exclusively developed for electrical components including ECU (electronic control units) for automotive use, sensors and power products, as well as for the use for motors of hybrid cars have already been put into practical use. This is the result of expanding the area of encapsulation materials from semiconductor into the automotive area.

The Company aims to contribute to the realization of the smart community society by expanding the application of those technologies into the area of social infrastructure business and undertaking activities to bring the encapsulation materials business into a growth path.

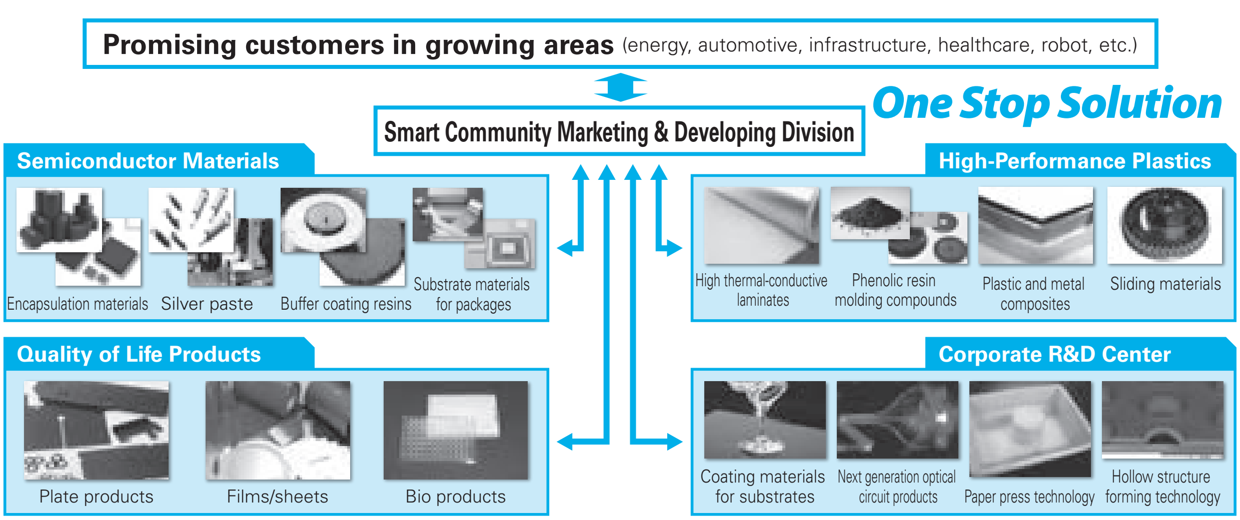
■Reduction in the size and weight of automotive components as a result of one-set encapsulation (Conceptual image)



Conventional product　　One-set encapsulated products

■One Stop Solution Strategy

Strategies promoted by SCM include One Stop Solution. It is the strategy to introduce the Company's products to customers all together and consider customers' needs in a cross-sectional manner by promoting exit from conventional vertically-divided organizations. Accordingly, SCM assigns local staff in Europe and the United States, as well as in Japan to closely support globally-active customers, recognizing diversity is also one of its strengths.



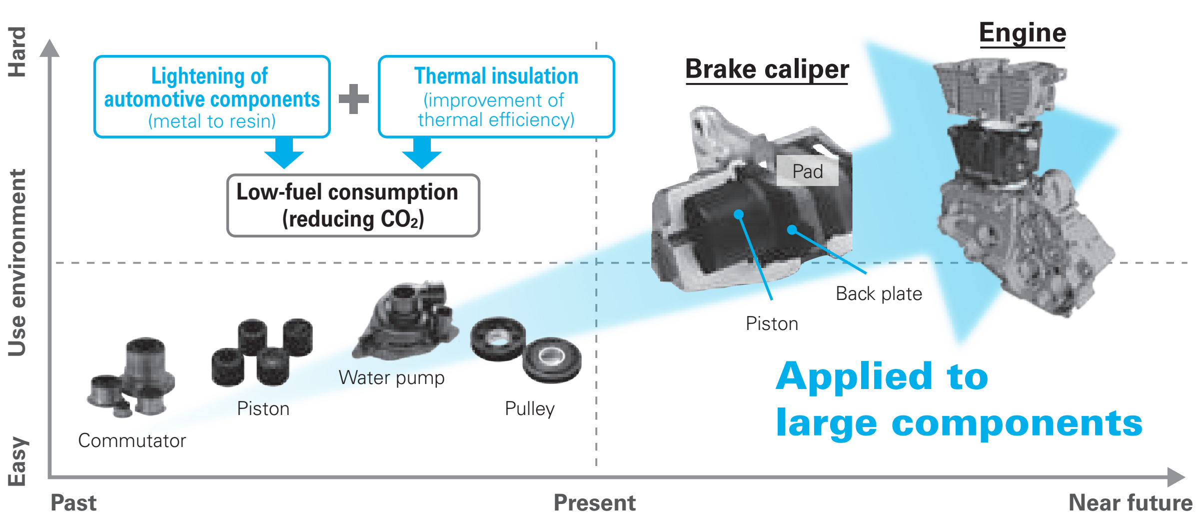
Initiatives to resinify large automotive components (integral molding technologies for plastic and metal composites, etc.)

It is an urgent task for the automotive industry to optimize engine efficiency and reduce weight of vehicle body boldly as the automotive industry is now facing intense pressure of drastically reducing CO_2 emissions in an environment where such results are increasingly being demanded globally.
While Sumitomo Bakelite High Performance Plastic (SBHPP) in the Group has utilized phenolic molding compounds as an alternative to metal for automotive components and thereby contributed to weight and cost reductions thereof, SBHPP aims to reduce weight of heavy metal components, which had been difficult to be resinified so far, by further enhancing thermoset polymer composite technologies.

One of such initiatives is resinification of engine bodies. SBHPP produced a cylinder housing of single-cylinder engine for motorcycle using phenolic polymer composite and performed demonstration experiments of durability and expected merits in cooperation with Fraunhofer-Gesellschaft in Germany. As a result, engine performance equivalent to an aluminum-made housing and improvement in sound insulation and thermal insulation were confirmed in addition to weight reduction. It is also estimated that weight reduction can be achieved at mass production cost.

Another such initiative is resinification of brake caliper. A disc brake caliper is a car component which brakes and halts a disc integrated with an axle by holding it with a pair of pads. Phenolic resins having excellent heat resistance have long been applied to friction materials of pads, and so have phenolic resin molding compounds having excellent heat resistance and compressive strength to pistons which press pads to a disc. SBHPP currently develops integral composite molding together with friction materials by replacing metal-made back plate of pads with long fiber reinforced thermoset plastic molding compounds. SBHPP aims to offer weight reduction of a whole caliper through resinification of bodies and cylinder parts with integral molding technologies for plastic and metal composites.

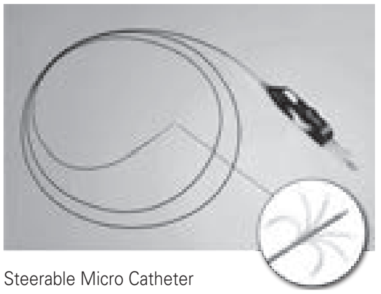
SBHPP aims to further contribute to car fuel efficiency by offering to customers new functions utilizing integral molding technologies for plastic and metal composites.



Initiatives of Medical Device Business

Medical Device Business aims to expand business volume and secure profits through enhanced lineup of products in growing areas and active global business expansion.

With respect to "Steerable Microcatheter," endovascular treatment device, the Company signed an exclusive worldwide distribution agreement excluding Japan with Merit Medical Systems, Inc. in the U.S. in October 2015 and is promoting global business development utilizing the distribution network of Merit Medical Systems, Inc. This product is the first in the world which enables a user to bend the head of the catheter by hand operations as endovascular treatment device (microcatheter used for transcatheter arterial embolization therapy as one of the therapies for liver cancer (therapy to annihilate cancer cells by injecting anticancer agent into a blood vessel and emblazing it), and therapy for peripheral arterial disease). Sales of the product have been launched in Japan as well this April in the brand name of "Leonis Mova." The Company makes efforts to increase sales of the product by selling it in package with peripheral devices, as well as by expanding the lineup of the product for other therapy areas through enhancing selection of the product.


Steerable Micro Catheter
Able to move the head of the catheter by hand operations

Aiming at introduction of new products from Vaupell in the U.S which the Company acquired in the year before last, the Company intends to increase revenues through synergistic effects from such measures as selling in Japan of products Vaupell manufactures based on a contract with a third-party medical device manufacturer and manufacturing of such contract-based products of Vaupell for Asian markets at Sumitomo Bakelite (Dongguan) Co., Ltd. in China.

Furthermore, Sumitomo Bakelite (Dongguan) Co., Ltd., which had been positioned as the manufacturing site of products for the Japanese market so far, will start the sales for the Chinese market going forward and, being positioned as the exporting base for Asia and Europe, establish the structure as the global manufacturing and sales site.

The Company's initiatives to preserve biodiversity (initiatives to create a biotope at Shizuoka Plant)

The Company participated in the "Japan Business Federation's (Keidanren) Declaration of Biodiversity as a Promotion Partner" in 2010 and has undertaken initiatives in accordance with the Declaration.

The Company defines as its basic principle that the reduction of environmental burden caused by the Company's business contributes to preservation of biodiversity and undertakes environmental preservation measures on a company-wide basis such as reduction of CO_2 emission, waste reduction and appropriate control of chemical substances.


Biotope of Shizuoka Plant

Moreover, the Company has promoted the creation of a biotope around a regulating pond of Shizuoka Plant as an initiative based on the Declaration, with the aim that the biotope be utilized as the place for our employees to touch upon the importance of biodiversity and be more conscious of environment, as the place to contribute to preservation of biodiversity of the local community and as the place of environmental education.

The Company first asked Professor Yamada of Tokoha University to give us instructions on the research on animals and plants in 2011, promoted the development based on the five-year plan from 2012 to 2016, and now mostly completed it. Local and overseas visitors feel peace of mind in the nature within the area of the plant and highly evaluate our policies of environmentally-friendly business management.

The Company aims to improve the completeness of the biotope further and contribute to the preservation of biodiversity in the local community by opening it to the local community.

Five-Year Financial Summary

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries

	FY2015 ended March 31, 2016 (Millions of yen)	FY2014 ended March 31, 2015 (Millions of yen)	FY2013 ended March 31, 2014 (Millions of yen)	FY2012 ended March 31, 2013 (Millions of yen)	FY2011 ended March 31, 2012 (Millions of yen)	FY2015 ended March 31, 2016 (Thousands of U.S. dollars)
For the year:						
Net sales	¥ 206,956	¥ 209,659	¥ 206,047	¥ 183,362	¥ 185,237	$ 1,836,673
Operating income	10,241	10,904	10,702	7,956	4,726	90,886
Income before income taxes and non-controlling interests	7,410	11,344	10,540	6,532	3,689	65,763
Profit attributable to owners of parent	3,828	7,113	6,493	3,443	2,525	33,978
Capital expenditures	9,697	11,812	13,263	17,588	14,566	86,060
Depreciation and amortization	10,843	9,256	10,969	10,393	10,466	96,234
Research and development expenses	10,448	10,253	11,881	12,325	13,048	92,731
Cash flows:						
Cash flows from operating activities	19,233	15,672	17,852	16,644	6,731	170,695
Cash flows from investing activities	(6,962)	(36,353)	(15,220)	(13,088)	(13,340)	(61,792)
Cash flows from financing activities	(15,530)	23,467	2,722	(642)	(3,942)	(137,831)
At year-end:						
Total assets	260,122	285,927	236,825	213,826	201,315	2,308,504
Net assets	158,908	170,949	150,344	131,311	119,023	1,410,266
Interest-bearing liabilities	50,898	61,066	35,063	29,553	27,433	451,704
Per-share data:			Yen			U.S. dollars
Basic earnings	¥ 16.01	¥ 29.53	¥ 26.96	¥ 14.29	¥ 10.48	$ 0.14
Net assets	668.44	702.53	618.28	539.81	489.78	5.93
Cash dividends	10.00	10.00	10.00	10.00	12.50	0.08
Financial indicators:			%			
ROE	2.3	4.5	4.7	2.8	2.1	
ROA	3.9	4.3	5.1	4.1	2.9	
Ratio of operating income to net sales	4.9	5.2	5.2	4.3	2.6	
Equity ratio	60.5	59.2	62.9	60.8	58.6	
Ratio of interest-bearing liabilities to total assets	19.6	21.4	14.8	13.8	13.6	
Debt-to-equity ratio	32.4	36.1	23.5	22.7	23.2	

Notes:
1. The U.S. dollar amounts are translated from yen, for the convenience of the readers, at the rate of ¥112.68 = US$1 on March 31, 2016.
2. Capital expenditures = Increase in property, plant and equipment and intangible assets
3. Net assets per share is based on net assets less non-controlling interests
4. ROE = Profit attributable to owners of parent / Average net assets less non-controlling interests
5. ROA = Ordinary income / Average total assets
6. Equity ratio = Net assets less non-controlling interests / Total assets
7. Debt-to-equity ratio = Interest-bearing liabilities / Net assets less non-controlling interests
8. In FY2014, the closing date of 2 consolidated subsidiaries in Asia has been changed from December 31 to March 31.
   Accordingly, for those subsidiaries that have changed their closing dates, the financial results for 15 months are consolidated for the year.
9. In FY2013, the closing date of 17 consolidated subsidiaries in Asia and North America has been changed to March 31.
   Accordingly, for those subsidiaries that have changed their closing dates, the financial results for 15 months are consolidated for the year.
10. From FY2014, the performances of Vaupell Holdings, Inc. and 4 of its affiliates have been included in the consolidated statements.
11. The Company and certain subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and other related standards from the fiscal year ended March 31, 2016. Accordingly, "Net income," previously presented, has changed to "Profit attributable to owners of parent."

Consolidated Balance Sheets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
as of March 31, 2016 and 2015

ASSETS	Millions of yen FY2015 as of March 31, 2016	Millions of yen FY2014 as of March 31, 2015	Thousands of U.S. dollars (Note 1) FY2015 as of March 31, 2016
Current assets:			
Cash and deposits (Note 15)	¥ 44,868	¥ 49,966	$ 398,197
Trade notes and accounts receivable (Note 15)	41,783	44,766	370,819
Inventories (Note 4)	29,089	31,084	258,164
Deferred tax assets (Note 8)	2,469	2,570	21,917
Others	5,357	3,905	47,545
Provision for doubtful accounts	(55)	(62)	(492)
Total current assets	123,514	132,231	1,096,151
Non-current assets:			
Property, plant and equipment (Note 12)**:**			
Land	9,623	9,504	85,402
Buildings and structures	79,033	77,526	701,401
Machinery and equipment	145,780	141,783	1,293,758
Construction in progress	3,534	13,407	31,364
Others	16,004	15,126	142,036
Total property, plant and equipment	253,976	257,349	2,253,963
Less accumulated depreciation	(166,651)	(164,650)	(1,478,977)
Net property, plant and equipment	87,325	92,698	774,986
Intangible assets:			
Goodwill	24,318	28,060	215,815
Others	2,128	2,429	18,887
Total intangible assets	26,446	30,489	234,702
Investments and other assets:			
Investment securities (Notes 5 and 15):			
Unconsolidated subsidiaries and affiliates	2,489	2,744	22,094
Others	15,890	22,267	141,020
Long-term loans receivable (Note 15):			
Unconsolidated subsidiaries and affiliates	2,795	2,940	24,811
Others	2,064	2,226	18,318
Net defined benefit asset (Note 7)	249	851	2,210
Deferred tax assets (Note 8)	486	443	4,320
Others	2,378	2,674	21,105
Provision for doubtful accounts (Note 15)	(3,517)	(3,639)	(31,216)
Total investments and other assets	22,836	30,508	202,664
Total assets	¥ 260,122	¥ 285,927	$ 2,308,504

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	Thousands of U.S. dollars (Note 1) FY2015 as of March 31, 2016
Current liabilities:			
Short-term debt (Notes 6 and 15)	¥ 13,399	¥ 22,679	$ 118,913
Long-term debt due within one year (Notes 6 and 15)	480	3,300	4,259
Trade notes and accounts payable (Note 15)	26,115	29,721	231,771
Accrued expenses	4,449	8,131	39,491
Income taxes payable	2,870	1,283	25,474
Provision for bonuses	2,730	2,895	24,228
Provision for cost of business restructuring	1,088	–	9,656
Others	4,934	2,693	43,791
Total current liabilities	56,068	70,703	497,586
Non-current liabilities:			
Long-term debt (Notes 6 and 15)	37,018	35,086	328,530
Deferred tax liabilities (Note 8)	2,994	4,702	26,571
Net defined benefit liability (Note 7)	4,333	3,643	38,459
Provision for environmental measures	82	82	727
Others	716	759	6,362
Total long-term liabilities	45,145	44,273	400,651
Net assets (Note 9):			
Shareholders' equity:			
Common stock:			
Authorized: 800,000,000 shares			
Issued : 262,952,394 shares in FY2015 and FY2014	37,143	37,143	329,633
Capital surplus	35,358	35,358	313,794
Retained earnings	88,548	86,829	785,837
Treasury stock, at cost			
27,600,108 shares in FY2015 and			
22,085,400 shares in FY2014	(14,748)	(11,949)	(130,889)
Total shareholders' equity	146,300	147,381	1,298,375
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	5,206	8,643	46,205
Foreign currency translation adjustments	6,551	14,270	58,142
Remeasurements of defined benefit plans (Note 7)	(739)	(1,080)	(6,563)
Total accumulated other comprehensive income	11,018	21,833	97,785
Non-controlling interests	1,589	1,734	14,105
Total net assets	158,908	170,949	1,410,266
Total liabilities and net assets	¥ 260,122	¥ 285,927	$ 2,308,504

Consolidated Statements of Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Net sales (Note 18)	¥206,956	¥209,659	$ 1,836,673
Cost of sales	146,084	150,301	1,296,456
Selling, general and administrative expenses	50,630	48,452	449,329
Operating income (Note 18)	10,241	10,904	90,886
Other income (expense):			
Interest and dividend income	671	652	5,960
Interest expense	(301)	(303)	(2,671)
Equity in earnings of affiliates	247	232	2,197
Foreign exchange gains, net	138	17	1,227
Taxes and dues	(226)	–	(2,007)
Gain (Loss) on sale or disposal of property, plant and equipment	(211)	864	(1,877)
Gain on sale of investment securities (Note 5)	1,232	–	10,934
Insurance income	1,788	279	15,868
Loss on devaluation of investment securities	–	(4)	–
Cost of business restructuring (Note 10)	(3,991)	(326)	(35,427)
Loss on disaster (Note 11)	(235)	(495)	(2,087)
Impairment loss (Note 12)	(1,765)	(21)	(15,667)
Others, net	(177)	(454)	(1,572)
	(2,830)	440	(25,122)
Income before income taxes and non-controlling interests	7,410	11,344	65,763
Income taxes (Note 8):			
Current	3,120	2,903	27,693
Deferred	284	1,210	2,525
	3,405	4,113	30,219
Profit	4,005	7,231	35,544
Profit attributable to non-controlling interests	176	118	1,566
Profit attributable to owners of parent	¥ 3,828	¥ 7,113	$ 33,978

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock (Note 17):			
Basic earnings per share	¥ 16.01	¥ 29.53	$ 0.14
Diluted earnings per share	–	–	–
Cash dividends applicable to the year	¥ 10.00	¥ 10.00	$ 0.08

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Profit	¥ 4,005	¥ 7,231	$ 35,544
Other comprehensive income (Note 13):			
Valuation difference on available-for-sale securities	(3,440)	2,325	(30,532)
Foreign currency translation adjustments	(7,825)	14,945	(69,449)
Remeasurements of defined benefit plans (Note 7)	341	(471)	3,027
Share of other comprehensive income of associates accounted for using equity method	(33)	35	(297)
Total other comprehensive income	(10,958)	16,835	(97,251)
Comprehensive income	¥ (6,953)	¥ 24,067	$ (61,706)
Comprehensive income attributable to:			
Owners of parent	¥ (6,990)	¥ 23,741	$ (62,035)
Non-controlling interests	37	325	328

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

		Millions of yen								
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2014	262,952	¥ 37,143	¥ 35,358	¥ 83,169	¥ (11,940)	¥ 6,317	¥ (501)	¥ (611)	¥ 1,408	¥ 150,344
Cumulative effects of changes in accounting policies	–	–	–	(1,076)	–	–	–	–	–	(1,076)
Restated balance	262,952	37,143	35,358	82,093	(11,940)	6,317	(501)	(611)	1,408	149,268
Profit attributable to owners of parent	–	–	–	7,113	–	–	–	–	–	7,113
Valuation difference arising during the year	–	–	–	–	–	2,325	–	–	–	2,325
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	14,772	–	–	14,772
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	(469)	–	(469)
Purchase of treasury stock	–	–	–	–	(9)	–	–	–	–	(9)
Cash dividends paid (¥10 per share)	–	–	–	(2,408)	–	–	–	–	–	(2,408)
Disposal of treasury stock	–	–	–	(0)	0	–	–	–	–	0
Change of scope of consolidation	–	–	–	32	–	–	–	–	–	32
Increase (decrease) in non-controlling interests	–	–	–	–	–	–	–	–	325	325
Balance at April 1, 2015	262,952	¥ 37,143	¥ 35,358	¥ 86,829	¥ (11,949)	¥ 8,643	¥ 14,270	¥ (1,080)	¥ 1,734	¥ 170,949
Cumulative effects of changes in accounting policies	–	–	–	–	–	–	–	–	–	–
Restated balance	262,952	37,143	35,358	86,829	(11,949)	8,643	14,270	(1,080)	1,734	170,949
Profit attributable to owners of parent	–	–	–	3,828	–	–	–	–	–	3,828
Valuation difference arising during the year	–	–	–	–	–	(3,436)	–	–	–	(3,436)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(7,719)	–	–	(7,719)
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	340	–	340
Purchase of treasury stock	–	–	–	–	(2,799)	–	–	–	–	(2,799)
Cash dividends paid (¥10 per share)	–	–	–	(2,408)	–	–	–	–	–	(2,408)
Disposal of treasury stock	–	–	0	–	0	–	–	–	–	0
Change of scope of consolidation	–	–	–	298	–	–	–	–	–	298
Increase (decrease) in non-controlling interests	–	–	–	–	–	–	–	–	(145)	(145)
Balance at March 31, 2016	262,952	¥ 37,143	¥ 35,358	¥ 88,548	¥ (14,748)	¥ 5,206	¥ 6,551	¥ (739)	¥ 1,589	¥ 158,908

		Thousands of U.S. dollars (Note 1)								
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	262,952	$ 329,633	$ 313,794	$ 770,588	$ (106,048)	$ 76,704	$ 126,650	$ (9,588)	$ 15,392	$ 1,517,126
Cumulative effects of changes in accounting policies	–	–	–	–	–	–	–	–	–	–
Restated balance	262,952	329,633	313,794	770,588	(106,048)	76,704	126,650	(9,588)	15,392	1,517,126
Profit attributable to owners of parent	–	–	–	33,978	–	–	–	–	–	33,978
Valuation difference arising during the year	–	–	–	–	–	(30,499)	–	–	–	(30,499)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	(68,507)	–	–	(68,507)
Remeasurements of defined benefit plans	–	–	–	–	–	–	–	3,025	–	3,025
Purchase of treasury stock	–	–	–	–	(24,841)	–	–	–	–	(24,841)
Cash dividends paid ($0.08 per share)	–	–	–	(21,375)	–	–	–	–	–	(21,375)
Disposal of treasury stock	–	–	0	–	0	–	–	–	–	0
Change of scope of consolidation	–	–	–	2,646	–	–	–	–	–	2,646
Increase (decrease) in non-controlling interests	–	–	–	–	–	–	–	–	(1,286)	(1,286)
Balance at March 31, 2016	262,952	$ 329,633	$ 313,794	$ 785,837	$ (130,889)	$ 46,205	$ 58,142	$ (6,563)	$ 14,105	$ 1,410,266

See accompanying notes.

Consolidated Statements of Cash Flows

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 7,410	¥ 11,344	$ 65,763
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	10,843	9,256	96,234
Impairment loss	1,765	21	15,667
Amortization of goodwill	1,651	1,291	14,655
Increase (decrease) in net defined benefit asset and liability	1,812	(1,404)	16,082
(Gain) loss on sale or disposal of property, plant and equipment	211	(864)	1,877
Interest and dividend income	(671)	(652)	(5,960)
Interest expense	301	303	2,671
(Gain) loss on sales of investment securities	(1,232)	–	(10,934)
(Gain) loss on devaluation of investment securities	–	4	–
(Increase) decrease in notes and accounts receivable	2,112	1,352	18,751
(Increase) decrease in inventories	894	(8)	7,937
(Increase) decrease in other current assets	(265)	(680)	(2,354)
Increase (decrease) in notes and accounts payable	(3,239)	(2,346)	(28,749)
Increase (decrease) in other current liabilities	206	637	1,831
Others, net	61	(483)	546
Subtotal	21,862	17,774	194,019
Interest and dividends received	694	671	6,159
Interest paid	(305)	(303)	(2,713)
Income taxes paid	(3,016)	(2,470)	(26,770)
Net cash provided by operating activities	19,233	15,672	170,695
Cash flows from investing activities:			
Purchases of property, plant and equipment	(9,437)	(9,810)	(83,751)
Proceeds from sale of property, plant and equipment	112	1,869	997
Purchases of investment securities	(26)	(16)	(232)
Proceeds from sales of investment securities	2,485	–	22,058
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 14)	–	(27,991)	–
Others, net	(97)	(405)	(864)
Net cash used in investing activities	(6,962)	(36,353)	(61,792)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(9,222)	232	(81,844)
Proceeds from long-term debt	2,412	27,087	21,411
Repayment of long-term debt	(3,300)	(1,400)	(29,286)
Cash dividends paid	(2,408)	(2,408)	(21,375)
Purchase of treasury stock	(2,799)	(9)	(24,841)
Cash dividends paid to non-controlling interests	(182)	–	(1,615)
Others, net	(31)	(34)	(279)
Net cash provided by (used in) financing activities	(15,530)	23,467	(137,831)
Effect of exchange rate changes on cash and cash equivalents	(2,090)	5,063	(18,555)
Net increase (decrease) in cash and cash equivalents	(5,350)	7,849	(47,484)
Cash and cash equivalents at beginning of year	49,966	41,341	443,439
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	252	775	2,242
Cash and cash equivalents at end of year	¥ 44,868	¥ 49,966	$ 398,197

See accompanying notes.

Notes to Consolidated Financial Statements

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

Sumitomo Bakelite Company Limited (the "Company") is a Japanese corporation and is one of the affiliates of Sumitomo Chemical Co., Ltd., which directly owns 22.43% (as of March 31, 2016) of the Company's shares. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (collectively the "Companies") 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 and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the audited consolidated financial statements of the Companies, which were prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in 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 FY2014 consolidated financial statements to conform to the classifications used in FY2015.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2016, which was ¥112.68 to US$1. For translation of millions of Japanese yen to thousands of U.S. dollars, amounts of less than one thousand dollar have been omitted for the year ended March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and 39 significant subsidiaries as of March 31, 2016 and 2015. All significant intercompany balances and transactions have been eliminated in consolidation.

From the year ended March 31, 2016, Seibu Jushi Co., Ltd. and Tsutsunaka Kosan Co., Ltd., both of which used to be an unconsolidated subsidiary in previous fiscal years, were newly included in the scope of consolidation due to its increasing materiality.

From the year ended March 31, 2016, Basec Hong Kong Limited was excluded from the scope of consolidation due to the merger with Sumitomo Bakelite Hong Kong Co., Ltd., which is a consolidated subsidiary of the Company.

From the year ended March 31, 2016, Sumicarrier Singapore Pte. Ltd. was excluded from the scope of consolidation due to the completion of liquidation.

Among the consolidated subsidiaries, the following companies have different fiscal year-end (December 31) from the consolidated fiscal year-end (March 31):

Sumitomo Bakelite (Suzhou) Co., Ltd., Sumitomo Bakelite (Shanghai) Co., Ltd., Sumitomo Bakelite (Nantong) Co., Ltd., Sumitomo Bakelite (Dongguan) Co., Ltd., Sumitomo Bakelite Hong Kong Co., Ltd. and Sumitomo Bakelite Macau Co., Ltd.

In preparing consolidated financial statements, these subsidiaries have been consolidated based on provisional settlement of accounts as of the consolidated fiscal year-end (March 31).

Certain subsidiaries are excluded from the scope of consolidation because the effect of their net sales, net income or losses, total assets and retained earnings on the accompanying consolidated financial statements is immaterial.

Investments in significant affiliates (2 affiliates in 2016 and 2015, generally 20% – 50% owned) which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

The investments in unconsolidated subsidiaries and certain affiliates are not accounted for by the equity method, and are stated at cost because the effect of their net income or losses and retained earnings on the accompanying consolidated financial statements is immaterial.

In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are evaluated using the fair value at the time the Company acquired control over the respective subsidiaries.

Goodwill is amortized on the straight-line method within 20 years with the exception of minor amounts which are charged to income in the year of acquisition.

Securities

Available-for-sale securities with available fair values are stated at fair value. Unrealized gains or unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets via the consolidated statements of comprehensive income. Cost of securities sold is calculated primarily using the moving-average method. Other available-for-sale securities with no available fair values are stated at moving-average cost.

Derivatives and hedge accounting

(1) Derivatives and hedge accounting method

The Companies are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts, interest rate swap contracts and interest rate currency swap contracts are used as hedges and meet certain hedging criteria, hedging instruments and hedged items are accounted for in the following manner:

1. If forward foreign exchange contracts meet specific hedging criteria, the hedged foreign currency receivables and payables are translated at the corresponding forward foreign exchange contract rate.
2. If a forward foreign exchange contract is executed to hedge existing foreign currency receivable and payable:
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable and payable translated using the spot rate at the inception date of the contract and the carrying amounts of the receivable and payable is recognized in the income statement in the period, which includes the inception date; and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
3. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract will be recognized.
4. If interest rate swap contracts are used as hedges and meet certain hedging criteria, interest rate swaps are not remeasured at market value, and the net amount to be paid or received under the interest rate swap contracts is added to or deducted from the interests on the assets or liabilities for which the interest rate swap contracts were executed ("special treatment").
5. If interest rate currency swap contracts are used as hedges and meet hedging certain criteria, interest rate currency swaps are not remeasured at market value, and the net amount to be paid or received under the interest rate currency swap contracts is added to or deducted from the interests on the assets or liabilities for which the interest rate currency swap contracts were executed. Moreover, the long-term debts hedged by the swap contracts are translated at the swap contract rate ("integral treatment").

(2) Hedging instruments and targets

The Companies use foreign exchange contracts to hedge foreign currency risk for receivables and payables denominated in foreign currencies and future transactions denominated in foreign currencies. The Companies similarly use interest rate swaps to hedge the interest rate risk for long-term debt and use interest rate currency swaps to hedge both the interest rate risk and the exchange rate risk for long-term debt denominated in foreign currencies.

(3) Hedging policy

The Companies maintain a policy of limiting the use of derivative transactions to actual demand and do not engage in such transactions for speculative purposes.

(4) Method of assessing hedge effectiveness

The Companies confirm that 1) the hedging instruments and targets can offset the effects of fluctuations and 2) these interrelations are continuously present after implementing hedges.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of acquisition.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the weighted average method for merchandise, finished goods, semi-finished goods, work in process and raw materials, and by the average method for supplies.

Property, plant and equipment (excluding leases)

The Companies calculate depreciation principally by the straight-line method.

Intangible assets (excluding leases)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized over its estimated useful life (five years).

Accounting for lease transactions as lessee

Finance leases, except for certain immaterial leases, are capitalized and depreciated using the straight-line method over the estimated useful lives or lease terms, as applicable.

Provision for doubtful accounts

The provision for doubtful accounts is determined by adding the uncollectible amounts individually estimated for doubtful accounts to the amount calculated by a certain rate, based on past collection experience.

Employees' retirement benefits and net defined benefit liability

The Company and certain domestic consolidated subsidiaries provide two types of defined benefit plans—unfunded lump-sum payment plans and funded non-contributory pension plans—under which all eligible employees are entitled to benefits calculated based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. In certain circumstances, employees are entitled to receive additional payments when they leave the Company before the retirement age. Certain consolidated overseas subsidiaries adopt both defined contribution pension plans and defined benefit pension plans. In addition, the Company has established a retirement benefit trust.

The liabilities and expenses for severance and retirement benefits are determined based on amounts actuarially calculated using certain assumptions.

The Company and certain consolidated subsidiaries provide allowance for employees' severance and retirement benefits at balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at these dates. The estimated amount of all retirement benefits to be paid at future retirement dates is mainly allocated by the benefit formula basis (the estimated amount of all retirement benefits is allocated to periods of service under the plan's benefit formula). Prior service costs and actuarial differences are mainly recognized in the consolidated statements of income when they are incurred.

Certain domestic consolidated subsidiaries, which provide unfunded lump-sum payment plans and funded non-contributory pension plans, calculate net defined benefit liability and severance and retirement benefit expenses by using a simplified method.

Provision for cost of business restructuring

The provision for cost of business restructuring is stated at the amounts based on the cost expected to be incurred in the process of business restructuring.

Provision for environmental measures

The provision for environmental measures is stated at amounts based on the estimated cost required at the end of the fiscal year for the waste disposal of Polychlorinated Biphenyls (PCBs) in accordance with the "PCB Special Measures Law."

Research and development

Research and development expenses are charged to income when incurred. The amounts for the years ended March 31, 2016 and 2015 were ¥10,448 million ($92,731 thousand) and ¥10,253 million, respectively.

Income taxes

The Companies recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pre-tax income included in the consolidated statements of income. 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 of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Amounts per share of common stock

The computations of basic earnings per share are based on the weighted-average number of shares outstanding during the relevant year.

Cash dividends per share represent the cash dividends approved by the shareholders and paid in the respective years, including payment after the year-end.

Consumption taxes

With respect to the Companies, consumption taxes are accounted for with the tax exclusion method.

3. Supplemental information

Changes in accounting policies

The Company and certain subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation. With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively. In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities." There is no effect on the consolidated financial statements of the current fiscal year.

Unapplied accounting standard

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016, hereinafter, "Implementation Guidance")

(1) Summary

With regards to the treatment of the recoverability of deferred tax assets, necessary review was conducted basically following the framework prescribed in Japanese Institute of Certified Public Accountants (JICPA) Auditing Standards Committee Report No.66, "Audit Treatment for Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

(a) Treatment of companies that do not satisfy any of the category criteria from Category 1 to Category 5

(b) Category criteria for Category 2 and Category 3

(c) Treatment of temporary differences in future temporary differences that cannot be scheduled for companies applicable to Category 2

(d) Treatment concerning the reasonable estimable period of temporary differences in future pre-adjusted taxable income for companies applicable to Category 3

(e) Treatment in cases where a company satisfying the category criteria of Category 4 is also applicable to Category 2 or Category 3

(2) Effective date

The aforementioned Implementation Guidance is scheduled to be applied from the beginning of the year ending March 31, 2017.

(3) Effects of the application of the guidance

The Company is currently in the process of determining the effect of this new standard on the consolidated financial statements.

Changes in presentation

Consolidated statements of cash flows

"Amortization of goodwill," which had been included in "Others, net" under "Cash flows from operating activities" in the previous fiscal year, has been presented separately from the fiscal year under review due to its increased significance. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, the amount of ¥808 million, which had been presented as "Others, net" under "Cash flows from operating activities" in the consolidated statements of cash flows for the previous fiscal year, has been reclassified as "Amortization of goodwill" of ¥1,291 million and "Others, net" of ¥(483) million, respectively.

"Purchase of treasury stock," which had been included in "Others, net" under "Cash flows from financing activities" in the previous fiscal year, has been presented separately from the fiscal year under review due to its increased significance. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, the amount of ¥(44) million, which had been presented as "Others, net" under "Cash flows from financing activities" in the consolidated statements of cash flows for the previous fiscal year, has been reclassified as "Purchase of treasury stock" of ¥(9) million and "Others, net" of ¥(34) million, respectively.

4. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Merchandise and finished goods	¥ 12,529	¥ 13,267	$ 111,191
Semi-finished goods	3,754	3,870	33,319
Work in process	1,367	1,222	12,139
Raw materials and supplies	11,438	12,725	101,513
Total	¥ 29,089	¥ 31,084	$ 258,164

The amounts written down charged to cost of sales due to the decline in profitability of inventories held in the normal course of business were ¥243 million ($2,157 thousand) and ¥70 million for the years ended March 31, 2016 and 2015, respectively.

5. Investment securities

The following tables summarize carrying amounts and acquisition costs of available-for-sale securities with available fair values as of March 31, 2016 and 2015:

	Millions of yen		
As of March 31, 2016	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 15,141	¥ 7,860	¥ 7,281
Debt securities	–	–	–
Others	–	–	–
Subtotal	15,141	7,860	7,281
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ 0	¥ 0	¥ (0)
Debt securities	–	–	–
Others	–	–	–
Subtotal	0	0	(0)
Total	¥ 15,142	¥ 7,860	¥ 7,281

	Millions of yen		
As of March 31, 2015	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	¥ 21,510	¥ 9,091	¥ 12,418
Debt securities	–	–	–
Others	–	–	–
Subtotal	21,510	9,091	12,418
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	¥ –	¥ –	¥ –
Debt securities	–	–	–
Others	–	–	–
Subtotal	–	–	–
Total	¥ 21,510	¥ 9,091	¥ 12,418

	Thousands of U.S. dollars		
As of March 31, 2016	Carrying amount	Acquisition cost	Difference
Securities with carrying amounts exceeding acquisition costs:			
Equity securities	$ 134,378	$ 69,755	$ 64,623
Debt securities	–	–	–
Others	–	–	–
Subtotal	134,378	69,755	64,623
Securities with carrying amounts not exceeding acquisition costs:			
Equity securities	$ 5	$ 5	$ (0)
Debt securities	–	–	–
Others	–	–	–
Subtotal	5	5	(0)
Total	$ 134,383	$ 69,760	$ 64,623

The following tables summarize proceeds and realized gains or losses of available-for-sale securities sold during the year ended March 31, 2016:

	Millions of yen		
For the year ended March 31, 2016	Proceeds	Realized gains	Realized losses
Equity securities	¥ 2,485	¥ 1,232	¥ –
Debt securities	–	–	–
Others	–	–	–
Total	¥ 2,485	¥ 1,232	¥ –

	Thousands of U.S. dollars		
For the year ended March 31, 2016	Proceeds	Realized gains	Realized losses
Equity securities	$ 22,058	$ 10,934	$ –
Debt securities	–	–	–
Others	–	–	–
Total	$ 22,058	$ 10,934	$ –

There were no available-for-sale securities sold during the year ended March 31, 2015.

6. Short-term debt and long-term debt

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

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Short-term bank loans	¥ 4,399	¥ 4,679	$ 39,041
Commercial paper	9,000	18,000	79,872
Total	¥ 13,399	¥ 22,679	$ 118,913

Annual average interest rates on short-term bank loans for the years ended March 31, 2016 and 2015 were 0.6% and 0.6%, respectively. Annual average interest rates on commercial paper for the years ended March 31, 2016 and 2015 were 0.0% and 0.1%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Unsecured loans from banks due through 2025	¥ 37,498	¥ 38,386	$ 332,790
Less amounts due within one year	(480)	(3,300)	(4,259)
Total	¥ 37,018	¥ 35,086	$ 328,530

Annual average interest rates on unsecured loans from banks (excluding amounts due within one year) for the years ended March 31, 2016 and 2015 were 0.4% and 0.5%, respectively. Annual average interest rates on amounts due within one year of unsecured loans from banks for the years ended March 31, 2016 and 2015 were 0.1% and 1.7%, respectively.

The annual maturities of long-term debt as of March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
FY2016 ending March 31, 2017	¥ 480	$ 4,259
FY2017 ending March 31, 2018	3,481	30,896
FY2018 ending March 31, 2019	482	4,285
FY2019 ending March 31, 2020	6,666	59,163
FY2020 ending March 31, 2021	5,482	48,658
FY2021 ending March 31, 2022 and thereafter	20,905	185,526
Total	¥ 37,498	$ 332,790

7. Employees' retirement benefits and net defined benefit liability

As explained in Note 2 (Employees' retirement benefits and net defined benefit liability), the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

(1) Defined benefit plans

(a) Change in projected benefit obligations

	Millions of yen		Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Balance at beginning of year	¥ 33,216	¥ 28,560	$ 294,787
Cumulative effects of changes in accounting policies	–	1,672	–
Restated balance	33,216	30,232	294,787
Service cost	1,634	1,487	14,502
Interest cost	342	407	3,039
Actuarial (gain)/loss	270	2,018	2,397
Benefits paid	(2,610)	(1,251)	(23,169)
Exchange difference	(488)	318	(4,330)
Others	319	3	2,831
Balance at end of year	¥ 32,683	¥ 33,216	$ 290,057

Note: The amount calculated by using a simplified method was included in the table above.

(b) Change in plan assets

	Millions of yen		Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Balance at beginning of year	¥ 30,424	¥ 26,706	$ 270,010
Expected return on plan assets	721	616	6,402
Actuarial gain/(loss)	(1,345)	1,825	(11,936)
Employer contributions	1,671	2,273	14,835
Benefits paid	(2,577)	(1,210)	(22,870)
Exchange difference	(337)	189	(2,991)
Others	40	23	356
Balance at end of year	¥ 28,598	¥ 30,424	$ 253,807

Note: The amount calculated by using a simplified method was included in the table above.

(c) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset) funded retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Funded projected benefit obligation	¥ 31,808	¥ 32,389	$ 282,288
Plan assets	(28,598)	(30,424)	(253,807)
	3,209	1,965	28,481
Unfunded projected benefit obligation	875	826	7,768
Net amount of liabilities and assets recognized in consolidated balance sheet	4,084	2,791	36,249
Net defined benefit liability	4,333	3,643	38,459
Net defined benefit asset	249	851	2,210
Net amount of liability and asset recognized in consolidated balance sheet	¥ 4,084	¥ 2,791	$ 36,249

Note: The amount calculated by using a simplified method was included in the table above.

(d) Severance and retirement benefit expenses and its breakdown

	Millions of yen		Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Service cost	¥ 1,634	¥ 1,487	$ 14,502
Interest cost	342	407	3,039
Expected return on plan assets	(721)	(616)	(6,402)
Net actuarial (gain)/loss amortization	2,061	(388)	18,294
Past service costs amortization	(14)	7	(125)
Others	(9)	(9)	(84)
Severance and retirement benefit expenses	¥ 3,292	¥ 888	$ 29,224

Notes:

1. Severance and retirement benefits expenses for certain consolidated subsidiaries applying the simplified method are included in service cost.
2. In addition to the above severance and retirement benefit expenses, special retirement expenses of ¥2,807 million ($24,916 thousand) were recognized as "cost of business restructuring" under other income (expense) for the year ended March 31, 2016.

(e) Remeasurements of defined benefit plans on other comprehensive income

The components of items recognized in remeasurements of defined benefit plans (pre-tax) on other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Past service costs	¥ 4	¥ 0	$ 41
Actuarial (gain)/loss	541	(729)	4,803
Total	¥ 545	¥ (729)	$ 4,845

(f) Remeasurements of defined benefit plans on accumulated other comprehensive income

The components of items recognized in remeasurements of defined benefit plans (pre-tax) on accumulated other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Unrecognized past service costs	¥ (16)	¥ (21)	$ (146)
Unrecognized actuarial (gain)/loss	(1,117)	(1,658)	(9,916)
Total	¥ (1,133)	¥ (1,679)	$ (10,062)

(g) Plan assets

(i) Percentage by major category of plans assets was as follows:

	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015
Bonds	63%	59%
Equities	32	36
Cash and deposits	2	2
Others	3	3
Total	100%	100%

Total plan assets include 11% and 12% of contribution of securities to retirement benefit trust in the corporate pension plan for the years ended March 31, 2016 and 2015, respectively.

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

In determining long-term expected rate of return on plan assets, the Companies consider the current and projected asset allocations, as well as current and future long-term rate of returns for various categories of the plan assets.

(h) Basis for calculation of actuarial assumptions

	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015
Discount rates:		
Domestic companies	Mainly, 0.32%	Mainly, 0.65%
Overseas companies	Mainly, 3.25	Mainly, 3.50
Long-term expected rate of return on plan assets	Mainly, 2.40	Mainly, 2.40

(2) Defined contribution pension plans

The amount to be paid by certain consolidated subsidiaries to the defined contribution pension plans was ¥44 million ($396 thousands) and ¥42 million for the years ended March 31, 2016 and 2015, respectively.

8. Income taxes

The Companies are subject to several taxes based on income, which are corporation tax, inhabitant tax and enterprise tax.

The statutory effective tax rate on income before income taxes and non-controlling interests was approximately 33.0% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Deferred tax assets:			
Tax loss carryforwards	¥ 1,833	¥ 2,490	$ 16,268
Tax credit	1,652	1,407	14,667
Net defined benefit liability	1,303	1,087	11,565
Provision for doubtful accounts	1,111	1,257	9,860
Impairment loss	811	523	7,201
Excess bonuses accrued	642	810	5,701
Accrued expenses	385	340	3,416
Provision for cost of business restructuring	335	–	2,974
Shares contributed to employees' retirement benefit trust	310	328	2,757
Loss on devaluation of investment securities	175	233	1,553
Taxable retained income of certain overseas subsidiaries	–	615	–
Others	1,738	1,798	15,428
Subtotal	10,298	10,891	91,396
Valuation allowance	(3,094)	(3,590)	(27,461)
Total deferred tax assets	7,204	7,301	63,935
Deferred tax liabilities:			
Additional depreciation in overseas subsidiaries	(2,984)	(3,000)	(26,488)
Valuation difference on available-for-sale securities	(2,070)	(3,774)	(18,374)
Gain on securities contributed to employees' retirement benefit trust	(490)	(517)	(4,353)
Others	(1,695)	(1,696)	(15,048)
Total deferred tax liabilities	(7,241)	(8,989)	(64,264)
Net deferred tax assets (liabilities)	¥ (37)	¥ (1,688)	$ (329)

The following summarizes the reconciliation between the statutory effective tax rate and the Companies' average income tax rate for the years ended March 31, 2016 and 2015:

	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015
Statutory effective tax rate	33.0%	–
Reconciliation:		
Permanently non-deductible expenses	1.3	–
Permanently non-taxable income	(55.4)	–
Change in valuation allowance	3.0	–
Inhabitant taxes per capital basis	0.7	–
Effect of revision to taxation system	2.8	–
Taxable retained earnings of specified foreign subsidiaries	8.3	–
Withholding taxes for the cash dividends paid by foreign subsidiaries	1.1	–
Tax credit	(7.0)	–
Effect of differences between tax rates in Japan and in other countries	(13.0)	–
Elimination of dividends received in consolidation	57.8	–
Amortization of goodwill	7.4	–
Impairment loss of goodwill	2.2	–
Others	3.9	–
Companies' average income tax rate	46.0%	–

The reconciliation for the year ended March 31, 2015 was omitted because the difference between the statutory effective tax rate and the Companies' average income tax rate in the consolidated statement of income was less than or equal to 5% of the statutory effective tax rate.

(Revisions to amounts of deferred tax assets and deferred tax liabilities due to change in rate of income taxes)
On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet session. Based on the amendments, the statutory effective tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.3% for the year ended March 31, 2015 to 30.8% and 30.6%, respectively, as of March 31, 2016.

Due to these changes in statutory effective tax rate, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥101 million ($898 thousand), deferred income tax expense increased by ¥207 million ($1,841 thousand), and valuation difference on available-for-sale securities increased by ¥106 million ($942 thousand).

9. Net assets

Under the Companies Act, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital 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, depending on the equity account charged upon payment of such dividends, until the aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock. Under the Companies Act, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of common stock may be made available for dividends by resolution of the shareholders. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of the threshold. 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 under certain conditions upon resolution of the shareholders.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 22, 2016, the shareholders resolved to distribute cash dividends amounting to ¥1,176 million ($10,443 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they were resolved.

The Company's capital stock consists of only common stock.

The changes in the number of outstanding common stock and treasury stock during the years ended March 31, 2016 and 2015 were as follows:

	Number of shares			
	April 1, 2015	Increase	Decrease	March 31, 2016
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,085,400	5,514,725	17	27,600,108

Notes:
1. Increase in treasury stock is due to purchase of treasury stock by the resolution at Board of Directors meeting held on November 11, 2015 and purchase of shares less than one unit.
2. Decrease in treasury stock is due to sales of shares less than one unit.

	Number of shares			
	April 1, 2014	Increase	Decrease	March 31, 2015
Outstanding shares issued:				
Common stock	262,952,394	–	–	262,952,394
Treasury stock	22,064,282	21,868	750	22,085,400

Notes:
1. Increase in treasury stock is due to purchase of shares less than one unit.
2. Decrease in treasury stock is due to sales of shares less than one unit.

The Company paid the following cash dividends during the years ended March 31, 2016 and 2015:

Year ended March 31, 2016

Cash dividends approved at the shareholders' meeting held on June 25, 2015:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,204 $ 10,688	¥ 5.00 $ 0.04	March 31, 2015	June 26, 2015

Cash dividends approved at the Board of Directors' meeting held on October 29, 2015:	Total amount (Millions of yen) (Thousands of U.S. dollars)	Per share amount (Yen) (U.S. dollars)	Dividend record date	Effective date
Common stock	¥ 1,204 $ 10,687	¥ 5.00 $ 0.04	September 30, 2015	December 1, 2015

Year ended March 31, 2015

Cash dividends approved at the shareholders' meeting held on June 27, 2014:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,204	¥ 5.00	March 31, 2014	June 30, 2014

Cash dividends approved at the Board of Directors' meeting held on October 31, 2014:	Total amount (Millions of yen)	Per share amount (Yen)	Dividend record date	Effective date
Common stock	¥ 1,204	¥ 5.00	September 30, 2014	December 1, 2014

10. Cost of business restructuring

The cost of business restructuring for the years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Special retirement expenses	¥3,125	¥ –	$ 27,737
Loss on liquidation of subsidiaries	311	–	2,768
Loss on disposal of inventories	383	–	3,406
Loss on disposal of property, plant and equipment	170	–	1,513
Cost of restructuring laboratory	–	189	–
Cost of restructuring of plant in North America	–	136	–
Others	–	0	–
Total	¥3,991	¥ 326	$ 35,427

11. Loss on disaster

The loss on disaster for the years ended March 31, 2015 and 2016 are extinguishment loss on inventories and non-current assets, and removal and recovery costs from fire accident occurred at the subsidiary in Europe in February 2015.

12. Impairment loss

The Companies recognized the following impairment loss for the years ended March 31, 2016 and 2015:

			Millions of yen		Thousands of U.S. dollars
Use	Location	Type of assets	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Idle assets	Fujieda, Shizuoka	Machinery and equipment, etc.	¥ 1,302	¥ –	$ 11,560
	Akita, Akita	Land	–	21	–
Goodwill	U.S.	Goodwill	462	–	4,107
Total			¥ 1,765	¥ 21	$ 15,667

The assets for business use were categorized by business segment of the Company and consolidated subsidiaries. Idle assets (including assets that were substantially in unutilized condition caused by the significant drop of operating rates) were categorized as individual property.

For the year ended March 31, 2016, the carrying amount of (substantive) idle machinery and equipment, etc. in Shizuoka that had significant decrease in the expected future use due to the restructuring of manufacturing sites were written down to the recoverable amounts. In this case, the recoverable amounts of the aforementioned machinery and equipment, etc. were measured at the net selling prices. Considering the potential sale, these were assessed according to their memorandum values because these were determined to have no real value.

In addition, as a result of the impairment test performed on goodwill of subsidiary in the U.S. based on US GAAP, the fair value was lower than the carrying amount. The difference between the carrying amount on consolidated basis (amortization of goodwill previously recognized based on Japanese GAAP were deducted) and the fair value was recognized as impairment loss of ¥462 million ($4,107 thousand). In this case, the fair value was measured primarily by the income approach based on US GAAP, using the discount rate of 15%.

For the year ended March 31, 2015, the carrying amounts of idle land in Akita that had significantly declined in market value were written down to the recoverable amount. In this case, the recoverable amount of the aforementioned land was measured at net selling price, calculated using the assessed property tax valuation with reasonable adjustments.

13. Other comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	FY2015 ended March 31, 2016	FY2014 ended March 31, 2015	FY2015 ended March 31, 2016
Valuation difference on available-for-sale securities			
Amount for the year	¥ (3,914)	¥ 2,962	$ (34,740)
Reclassification adjustment	(1,232)	–	(10,934)
Amount before tax effect adjustment	(5,146)	2,962	(45,675)
Tax effect amount	1,706	(637)	15,143
Valuation difference on available-for-sale securities	(3,440)	2,325	(30,532)
Foreign currency translation adjustments			
Amount for the year	(8,023)	14,956	(71,208)
Reclassification adjustment	293	–	2,605
Amount before tax effect	(7,730)	14,956	(68,602)
Tax effect amount	(95)	(10)	(847)
Foreign currency translation adjustment	(7,825)	14,945	(69,449)
Remeasurements of defined benefit plans			
Amount for the year	431	(786)	3,833
Reclassification adjustment	114	56	1,012
Amount before tax effect	545	(729)	4,845
Tax effect amount	(204)	258	(1,817)
Remeasurements of defined benefit plans	341	(471)	3,027
Share of other comprehensive income of associates accounted for using equity method			
Amount for the year	(33)	35	(297)
Total other comprehensive income	¥ (10,958)	¥ 16,835	$ (97,251)

14. Cash flow information

There were no subsidiaries newly consolidated through the acquisition of stock in the year ended March 31, 2016.

Vaupell Holdings, Inc. was newly consolidated following the acquisition of shares in the year ended March 31, 2015. Major assets and liabilities as of the beginning of consolidation and summary of share acquisition cost and net expenses for the acquisition were as follows:

	Millions of yen
Current assets	¥ 5,057
Non-current assets	5,345
Goodwill	19,567
Current liabilities	(1,216)
Long-term liabilities	(457)
Stock acquisition cost	28,296
Other payable	(2)
Cash and cash equivalents	(302)
Difference: expenses required for acquisition	¥ 27,991

15. Financial instruments and related disclosures

The information about financial instruments and related disclosures for the years ended March 31, 2016 and 2015 was as follows:

(1) Status of financial instruments

The Companies confine cash management to investing in short-term deposits and procure funds through bank loans and corporate bond issuance (including commercial paper). The Companies utilize derivative financial instruments to minimize market risks, especially the effect of fluctuations in foreign currency exchange rates on assets and liabilities. The Companies do not hold or issue derivative financial instruments for speculative purposes.

The Companies are exposed to credit risks in relation to trade notes and accounts receivable from customers. The Companies regularly monitor the business condition, due date and balance of receivables of major counterparties according to the Companies' credit management regulations in order to reduce credit risk by identifying and minimizing risks at early stages, including deterioration in counterparty's financial situation. Trade notes and accounts receivable denominated in foreign currencies expose the Companies to exchange rate risks. The Company and some consolidated subsidiaries categorize trade notes and accounts receivable denominated in foreign currencies based on currencies and repayment schedule, and hedge exchange rate risks by utilizing forward foreign exchange contracts.

Investment securities owned by the Companies consist primarily of investments in companies with which the Companies have a business relationship. These investments are exposed to market risks arising from fluctuations in their market price.

The Companies review the fair value of these investments on a quarterly basis. Long-term loans receivable are primarily from affiliates.

Trade notes and accounts payable are primarily short-term liabilities due within one year. Some trade notes and accounts payable that arise from the procurement of raw materials are denominated in foreign currencies, exposing the Companies to foreign exchange risk. The balances of trade notes and accounts payable in a foreign currency are basically at a level which does not exceed the balances of trade notes and accounts receivable in the same currency.

Short-term debt, consisting of short-term loans payable and commercial paper, is incurred primarily for operating transactions. Long-term debt is primarily for investments in facilities. Some long-term debts are subject to interest rate fluctuation risk or exchange rates fluctuation risk. To hedge those risks, the Companies use interest rate swaps or interest rate currency swaps.

In accordance with the internal regulations, the Companies utilize derivative financial instruments to reduce the interest rate fluctuation risk in long-term debt and the market risk of fluctuations in foreign currency exchange rates on assets and liabilities. To further reduce associated credit risk, the Companies contract only with highly-rated financial institutions when utilizing derivative contracts. Please see Note 2 (Derivatives and hedge accounting) for more details regarding derivatives.

The Companies manage liquidity risk in relation to trade notes and accounts payable and loans payable by preparing cash management plans and maintaining sufficient working capital.

The fair values of financial instruments are based on market prices, and on estimates calculated using reasonable values when the financial instruments do not have market prices.

Since certain assumptions are adopted for such calculations, the values may vary under different assumptions.

(2) Fair value of financial instruments

As of March 31, 2016	Millions of yen Carrying amount	Fair value	Difference
Cash and deposits	¥ 44,868	¥ 44,868	¥ –
Trade notes and accounts receivable	41,783	41,783	–
Investment securities	15,142	15,142	–
Long-term loans receivable	4,859		
Provision for doubtful accounts	(3,130)		
	1,729	1,729	–
Total assets	¥ 103,524	¥ 103,524	¥ –
Trade notes and accounts payable	¥ 26,115	¥ 26,115	¥ –
Short-term debt and long-term debt due within one year	13,879	13,879	–
Long-term debt	37,018	37,316	298
Total liabilities	¥ 77,014	¥ 77,312	¥ 298
Derivative financial instruments	–	–	–

As of March 31, 2015	Millions of yen Carrying amount	Fair value	Difference
Cash and deposits	¥ 49,966	¥ 49,966	¥ –
Trade notes and accounts receivable	44,766	44,766	–
Investment securities	21,510	21,510	–
Long-term loans receivable	5,166		
Provision for doubtful accounts	(3,245)		
	1,921	1,921	–
Total assets	¥ 118,164	¥ 118,164	¥ –
Trade notes and accounts payable	¥ 29,721	¥ 29,721	¥ –
Short-term debt and long-term debt due within one year	25,979	25,979	–
Long-term debt	35,086	35,197	110
Total liabilities	¥ 90,787	¥ 90,898	¥ 110
Derivative financial instruments	–	–	–

As of March 31, 2016	Thousands of U.S. dollars Carrying amount	Fair value	Difference
Cash and deposits	$ 398,197	$ 398,197	$ –
Trade notes and accounts receivable	370,819	370,819	–
Investment securities	134,383	134,383	–
Long-term loans receivable	43,129		
Provision for doubtful accounts	(27,779)		
	15,350	15,350	–
Total assets	$ 918,750	$ 918,750	$ –
Trade notes and accounts payable	$ 231,771	$ 231,771	$ –
Short-term debt and long-term debt due within one year	123,173	123,173	–
Long-term debt	328,530	331,176	2,645
Total liabilities	$ 683,475	$ 686,121	$ 2,645
Derivative financial instruments	–	–	–

Note: Provision for doubtful accounts corresponding to long-term loans receivable is deducted.

(a) Fair values of financial instruments, and matters pertaining to securities and derivative transactions

Assets

Cash and cash equivalents, trade notes and accounts receivable

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

Investment securities

The fair value of listed equity securities is measured at the quoted market price of the stock exchange. Information on fair value of investment securities categorized by holding purposes is described in Note 5.

Long-term loans receivable

The fair value of long-term loans receivable, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates over a short term.

Liabilities

Trade notes and accounts payable, short-term debt and long-term debt due within one year

The carrying amount of short-term debt, long-term debt due within one year, and commercial paper approximate their fair value because of their short maturities.

Long-term debt

The fair value of long-term debt is based on the present value of principal and interest, discounted using current assumed rates for similar new debt. Certain long-term debt is subject to special treatment for interest rate swaps and the total principal and interest for these swaps are discounted using rationally estimated interest rates for similar new debt. Certain long-term debt is subject to integral treatment for interest rate currency swaps and the total principal and interest for these swaps are also discounted using rationally estimated interest rates for similar new debt.

Derivative financial instruments

Information on the fair values for derivatives is included in Note 16 (Derivative financial instruments).

(b) Financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	FY2015 as of March 31, 2016	FY2014 as of March 31, 2015	FY2015 as of March 31, 2016
Unlisted equity securities	¥ 747	¥ 756	$ 6,636
Investment securities: Unconsolidated subsidiaries and affiliates	2,045	2,300	18,152
Investment: Unconsolidated subsidiaries and affiliates	444	444	3,941
Total	¥ 3,237	¥ 3,501	$ 28,730

These instruments were not included in the aforementioned tables of (2) Fair value of financial instruments, because their fair value cannot be reliably determined.

(c) Maturity analysis for financial assets subsequent to March 31, 2016

	Millions of yen			
As of March 31, 2016	Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and deposits	¥ 44,868	¥ –	¥ –	¥ –
Trade notes and accounts receivable	41,783	–	–	–
Long-term loans receivable	–	656	500	250
Total	¥ 86,652	¥ 656	¥ 500	¥ 250

As of March 31, 2016	Thousands of U.S. dollars Due in a year or less	1-5 years	5-10 years	Due after 10 years
Cash and deposits	$ 398,197	$ –	$ –	$ –
Trade notes and accounts receivable	370,819	–	–	–
Long-term loans receivable	–	5,825	4,437	2,218
Total	$ 769,016	$ 5,825	$ 4,437	$ 2,218

Long-term loans receivable of ¥3,453 million ($30,648 thousand) was not included in the above schedule, because the repayment schedule was not be determined.

(d) Repayment schedule of long-term debt is described in Note 6 (Short-term debt and long-term debt).

16. Derivative financial instruments

The outstanding balances of derivative contracts as of March 31, 2016 and 2015 were as follows:
(1) Derivative contracts to which hedge accounting was not applied
As of March 31, 2016 and 2015
Not applicable.

(2) Derivative contracts to which hedge accounting was applied
(a) Currency related contracts

		Millions of yen		
		Contract amount		
As of March 31, 2016	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade accounts receivable			
USD		¥ 1,947	¥ –	(*)
Buying:	Trade accounts payable			
USD		549	–	(*)

		Millions of yen		
		Contract amount		
As of March 31, 2015	Principal hedged items	Total	Due after one year	Fair value
Forward foreign exchange contracts				
Selling:	Trade accounts receivable			
USD		¥ 2,251	¥ –	(*)
Buying:	Trade accounts payable			
USD		500	–	(*)

As of March 31, 2016	Principal hedged items	Thousands of U.S. dollars Contract amount Total	 Due after one year	 Fair value
Forward foreign exchange contracts				
Selling:	Trade accounts receivable			
USD		$ 17,285	$ –	(*)
Buying:	Trade accounts payable			
USD		4,880	–	(*)

Note:
(*)Forward foreign exchange contracts subject to allocation method are accounted for together with the trade accounts receivable and trade accounts payable, accordingly the fair value of the forward foreign exchange contracts is included in the fair value of the corresponding trade accounts receivable and trade accounts payable.

(b) Interest rate related contracts

As of March 31, 2016	Principal hedged items	Millions of yen Contract amount Total	 Due after one year	 Fair value
Special treatment for interest rate swaps				
Interest rate swaps:				
Receivable floating rate/ payable fixed rate	Long-term debt	¥ 8,000	¥ 8,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)				
Receivable USD and floating rate/ payable YEN and fixed rate	Long-term debt	11,577	11,577	(*)

As of March 31, 2015	Principal hedged items	Millions of yen Contract amount Total	 Due after one year	 Fair value
Special treatment for interest rate swaps				
Interest rate swaps:				
Receivable floating rate/ payable fixed rate	Long-term debt	¥ 8,000	¥ 8,000	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)				
Receivable USD and floating rate/ payable YEN and fixed rate	Long-term debt	11,577	11,577	(*)

As of March 31, 2016	Principal hedged items	Thousands of U.S. dollars Contract amount Total	 Due after one year	 Fair value
Special treatment for interest rate swaps				
Interest rate swaps:				
Receivable floating rate/ payable fixed rate	Long-term debt	$ 70,997	$ 70,997	(*)
Integral treatment for interest rate currency swaps: (Special treatment and allocation method)				
Receivable USD and floating rate/ payable YEN and fixed rate	Long-term debt	102,746	102,746	(*)

Note:
(*)Interest rate swaps subject to the special treatment for interest rate swaps and interest rate currency swaps subject to integral treatment for interest rate currency swaps are accounted for together with the long-term debt, accordingly the fair value of the interest rate swaps is included in the fair value of the corresponding long-term debt.

17. Per share information

Amounts per share as of March 31, 2016 and 2015 and for the years then ended were summarized as follows:

	Yen FY2015 ended March 31, 2016	 FY2014 ended March 31, 2015	U.S. dollars FY2015 ended March 31, 2016
Net assets per share	¥ 668.44	¥ 702.53	$ 5.93
Basic earnings per share	16.01	29.53	0.14

Note: Diluted earnings per share was not presented since potential shares did not exist for the years ended March 31, 2016 and 2015.

Net assets per share and basic earnings per share were calculated based on the following:

	Millions of yen or thousands of shares FY2015 ended March 31, 2016	 FY2014 ended March 31, 2015	Thousands of U.S. dollars FY2015 ended March 31, 2016
Net assets per share:			
Total net assets on consolidated balance sheets	¥ 158,908	¥ 170,949	$ 1,410,266
Net assets attributable to common shareholders	157,319	169,215	1,396,160
Differences- Non-controlling interests	1,589	1,734	14,105
Number of common shares at the end of fiscal year used in computing net assets per share	235,352	240,866	
Basic earnings per share:			
Profit attributable to owners of parent	¥ 3,828	¥ 7,113	$ 33,978
Profit attributable to common shareholders of the parent	3,828	7,113	33,978
Average number of common shares during the year	239,139	240,877	

18. Segment information

1. General information about reportable segments

Reportable segments of the Companies include items in the constituent units of our business, for which separate financial information is available, and those items to be reviewed regularly by the Board of Directors to determine the distribution of management resources and evaluate business results.

Taking into consideration the major applications of our products in the market and the similarities of our businesses, the Company's reportable segments consist of three segments; Semiconductor materials, High-performance plastics and Quality of life products.

The major products and services categorized in each reportable segment

Reportable Segments	Major products and services
Semiconductor materials	Epoxy resin molding compounds for encapsulation of semiconductor devices, Positive-type photosensitive coating resins for semiconductor wafers, Pastes for die bonding, Semiconductor substrate materials
High-performance plastics	Phenolic molding compounds, Phenolic resins for industrial use, Molded parts and molding dies, Synthetic resin adhesive, Phenolic resin copper-clad laminates, Epoxy resin copper-clad laminates, Aerospace interior components
Quality of life products	Medical devices, Melamine resin decorative laminates and sheets, Polyvinyl chloride sheets and multilayered films, Freshness preserving films, Polycarbonate resin plates, Polyvinyl chloride plates, Design and construction of sheet waterproof system, Biotechnology related products

2. Basis of measurement of segment sales, segment income (loss), segment assets and other material items

The accounting policies of the reportable segments are consistent with the description of the summary of significant accounting policies (see Note 2). Segment income is operating income of consolidated statements of income. Inter-segment sales are calculated based on market prices.

3. Information about segment sales, segment income (loss), segment assets and other material items

Segment information as of and for the years ended March 31, 2016 and 2015 was as follows:

Millions of yen

	Reportable segments							
Year ended March 31, 2016	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
Sales:								
Outside customers	¥ 45,892	¥ 91,487	¥ 68,815	¥ 206,195	¥ 760	¥ 206,956	¥ –	¥ 206,956
Inter-segment	–	244	0	245	–	245	(245)	–
Total sales	45,892	91,731	68,816	206,440	760	207,201	(245)	206,956
Segment income	5,796	4,696	2,916	13,408	210	13,619	(3,378)	10,241
Segment assets	¥ 59,357	¥ 116,902	¥ 65,485	¥ 241,744	¥ 1,991	¥ 243,736	¥ 16,385	¥ 260,122
Other items:								
Depreciation and amortization	¥ 2,857	¥ 4,523	¥ 2,865	¥ 10,246	¥ 45	¥ 10,291	¥ 538	¥ 10,830
Amortization of goodwill	–	1,378	273	1,651	–	1,651	–	1,651
Investment amount for affiliates to which equity method is applied	–	435	–	435	–	435	–	435
Increase in property, plant and equipment and intangible assets	1,416	4,890	2,772	9,079	10	9,089	607	9,697

Year ended March 31, 2015	Reportable segments: Semi-conductor materials	Reportable segments: High-performance plastics	Reportable segments: Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
	Millions of yen							
Sales:								
Outside customers	¥ 47,221	¥ 94,525	¥ 67,113	¥ 208,860	¥ 798	¥ 209,659	¥ –	¥ 209,659
Inter-segment	–	347	0	348	–	348	(348)	–
Total sales	47,221	94,873	67,114	209,208	798	210,007	(348)	209,659
Segment income	6,088	4,722	2,968	13,779	72	13,851	(2,947)	10,904
Segment assets	¥ 70,969	¥ 129,199	¥ 65,149	¥ 265,318	¥ 702	¥ 266,020	¥ 19,906	¥ 285,927
Other items:								
Depreciation and amortization	¥ 2,197	¥ 4,242	¥ 2,313	¥ 8,752	¥ 45	¥ 8,798	¥ 424	¥ 9,222
Amortization of goodwill	–	1,097	193	1,291	–	1,291	–	1,291
Investment amount for affiliates to which equity method is applied	–	344	–	344	–	344	–	344
Increase in property, plant and equipment and intangible assets	2,338	4,271	4,600	11,211	7	11,218	593	11,812

Year ended March 31, 2016	Reportable segments: Semi-conductor materials	Reportable segments: High-performance plastics	Reportable segments: Quality of life products	Subtotal	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars							
Sales:								
Outside customers	$ 407,281	$ 811,922	$ 610,715	$ 1,829,920	$ 6,753	$ 1,836,673	$ –	$ 1,836,673
Inter-segment	–	2,169	5	2,175	–	2,175	(2,175)	–
Total sales	407,281	814,092	610,721	1,832,095	6,753	1,838,848	(2,175)	1,836,673
Segment income	51,440	41,676	25,882	118,999	1,869	120,869	(29,982)	90,886
Segment assets	$ 526,776	$ 1,037,471	$ 581,163	$ 2,145,411	$ 17,676	$ 2,163,088	$ 145,416	$ 2,308,504
Other items:								
Depreciation and amortization	$ 25,359	$ 40,140	$ 25,430	$ 90,930	$ 402	$ 91,333	$ 4,781	$ 96,115
Amortization of goodwill	–	12,230	2,425	14,655	–	14,655	–	14,655
Investment amount for affiliates to which equity method is applied	–	3,865	–	3,865	–	3,865	–	3,865
Increase in property, plant and equipment and intangible assets	12,569	43,405	24,605	80,579	90	80,670	5,390	86,060

Notes:

1. "Others" for the years ended March 31, 2016 and 2015 include business segments that are not included in any reportable segment and include contracted testing and research, and leasing of land, etc.
2. The "Adjustment" of ¥(3,378) million ($(29,982) thousand) and ¥(2,947) million for "Segment income" include ¥2 million ($21 thousand) and ¥(3) million of elimination of inter-segment transactions and ¥(3,380) million ($(30,004) thousand) and ¥(2,944) million of corporate expenses not allocated to any reportable segment for the years ended March 31, 2016 and 2015, respectively. Corporate expenses primarily consist of basic research spending not attributable to any reportable segments.

   The "Adjustment" of ¥16,385 million ($145,416 thousand) and ¥19,906 million for "Segment assets" include ¥(24) million ($(219) thousand) and ¥(38) million of elimination of inter-segment transactions and ¥16,410 million ($145,636 thousand) and ¥19,945 million of corporate assets not allocated to any reportable segments as of March 31, 2016 and 2015, respectively. Corporate assets principally consist of investment securities, basic research assets and general and administrative division assets held by the Company.

   The "Adjustment" of ¥607 million ($5,390 thousand) and ¥593 million for "Increase in property, plant and equipment and intangible assets" for the years ended March 31, 2016 and 2015, respectively, principally consist of capital investments in basic research assets and general and administrative division assets held by the Company.
3. Segment income is adjusted to agree with operating income in the consolidated statements of income.
4. "Depreciation" and "Increase in property, plant and equipment and intangible assets" include depreciation and increase in long-term prepaid expenses.

Related information

(1) Information about geographical areas

Sales and property, plant and equipment by regions for the years ended March 31, 2016 and 2015 were as follows:

(a) Sales

Millions of yen					
Year ended March 31, 2016					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 84,737	¥ 31,044	¥ 41,942	¥ 29,630	¥ 19,601	¥ 206,956

Millions of yen					
Year ended March 31, 2015					
	Asia				
Japan	China	Others	North America	Europe and others	Total
¥ 87,662	¥ 31,949	¥ 43,490	¥ 27,000	¥ 19,556	¥ 209,659

Thousands of U.S. dollars					
Year ended March 31, 2016					
	Asia				
Japan	China	Others	North America	Europe and others	Total
$ 752,021	$ 275,506	$ 372,225	$ 262,958	$ 173,961	$ 1,836,673

Sales were classified into country or area based on the customer’s location.

(b) Property, plant and equipment

Millions of yen					
Year ended March 31, 2016					
	Asia				
Japan	China	Others	North America	Europe	Total
¥ 48,843	¥ 14,679	¥ 6,358	¥ 7,180	¥ 10,263	¥ 87,325

Millions of yen					
Year ended March 31, 2015					
	Asia				
Japan	China	Others	North America	Europe	Total
¥ 51,424	¥ 16,697	¥ 7,230	¥ 8,008	¥ 9,337	¥ 92,698

Thousands of U.S. dollars					
Year ended March 31, 2016					
	Asia				
Japan	China	Others	North America	Europe	Total
$ 433,467	$ 130,279	$ 56,431	$ 63,727	$ 91,081	$ 774,986

(2) Impairment loss of property, plant and equipment

Impairment loss of property, plant and equipment by reportable segments for the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen						
	Reportable segments						
Year ended March 31, 2016	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ 1,302	¥ 462	¥ –	¥ 1,765	¥ –	¥ –	¥ 1,765

	Millions of yen						
	Reportable segments						
Year ended March 31, 2015	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 21	¥ 21

"Elimination or corporate" was impairment loss for corporate assets.

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2016	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Impairment loss	$ 11,560	$ 4,107	$ –	$ 15,667	$ –	$ –	$ 15,667

(3) Goodwill and negative goodwill by reportable segment

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

	Millions of yen						
	Reportable segments						
Year ended March 31, 2016	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	¥ –	¥ 1,378	¥ 273	¥ 1,651	¥ –	¥ –	¥ 1,651
Unamortized balance	–	19,634	4,683	24,318	–	–	24,318

Year ended March 31, 2015	Millions of yen						
	Reportable segments						
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	¥ –	¥ 1,097	¥ 193	¥ 1,291	¥ –	¥ –	¥ 1,291
Unamortized balance	–	22,747	5,312	28,060	–	–	28,060

Year ended March 31, 2016	Thousands of U.S. dollars						
	Reportable segments						
	Semi-conductor materials	High-performance plastics	Quality of life products	Subtotal	Others	Elimination or corporate	Total
Goodwill:							
Amortization	$ –	$ 12,230	$ 2,425	$ 14,655	$ –	$ –	$ 14,655
Unamortized balance	–	174,250	41,564	215,815	–	–	215,815

19. Subsequent events

(1) The Company decided to retire treasury stock at the meeting of the Board of Directors held on March 24, 2016 pursuant to the provisions of Article 178 of the Companies Act and carried it out as follows:

(a) Class of stock retired:	Common stock
(b) Total number of shares retired:	15,000,000 shares (5.70% of the total number of outstanding shares before the retirement)
(c) Date of retirement:	April 14, 2016
(d) Total number of outstanding shares after the retirement:	247,952,394 shares

(2) At the general meeting of shareholders held on June 22, 2016, retained earnings as of March 31, 2016, were resolved as follows:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends ¥5.0 ($0.04) per share	¥ 1,176	$ 10,443

Independent Auditor's Report

Sumitomo Bakelite Company Limited and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

Independent Auditor's Report

To the Board of Directors of Sumitomo Bakelite Company Limited.:

We have audited the accompanying consolidated financial statements of Sumitomo Bakelite Company Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of Sumitomo Bakelite Company Limited. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC.

June 22, 2016
Tokyo, Japan

Corporate Data

(As of March 31, 2016)

Corporate Name:

Sumitomo Bakelite Company Limited

Head Office:

Tennoz Parkside Building,
2-5-8 Higashi-shinagawa, Shinagawa-ku,
Tokyo 140-0002, JAPAN

Corporate General Affairs Div.
Phone: +81-(0)3-5462-4111
Facsimile: +81-(0)3-5462-4873

Corporate Finance & Planning Div.
Phone: +81-(0)3-5462-3447
Facsimile: +81-(0)3-5462-4876

Established:

January 25, 1932

Capital:

¥37,143,093,785

Employees:

6,358 (Consolidated)

URL:

http://www.sumibe.co.jp/english

Investor Information

(As of March 31, 2016)

Common Stock:

Stock trading unit	1,000 shares
Authorized	800,000,000 shares
Issued and outstanding	262,952,394 shares
Number of shareholders	15,100*
*Number of share trading unit holders included in above	10,873

Common Stock Listing:

The Tokyo Stock Exchange 1st Section

Independent Auditor:

KPMG AZSA LLC

Administrator of Shareholders' Register:

Sumitomo Mitsui Trust Bank, Limited
1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233, JAPAN

Principal Shareholders:

Name	Number of stocks held (thousands)	Percentage of total number of issued stocks
Sumitomo Chemical Co., Ltd.	52,549	19.98
Northern Trust Co. (AVFC) Re Silchester International Investors International Value Equity Trust	10,801	4.11
Japan Trustee Services Bank, Ltd. (Trust Account)	7,682	2.92
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,386	2.81
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,697	2.55
Northern Trust Co. (AVFC) RE U.S. Tax Exempted Pension Funds	6,392	2.43
Japan Trustee Services Bank, Ltd. (Retirement Payment Account of Sumitomo Mitsui Trust Bank, Limited)	4,366	1.66
Sumitomo Mitsui Banking Corporation	4,360	1.66
Northern Trust Co. (AVFC) Sub A/C Non Treaty	4,037	1.54
CBNY DFA Intl Small Cap Value Portfolio	3,630	1.38

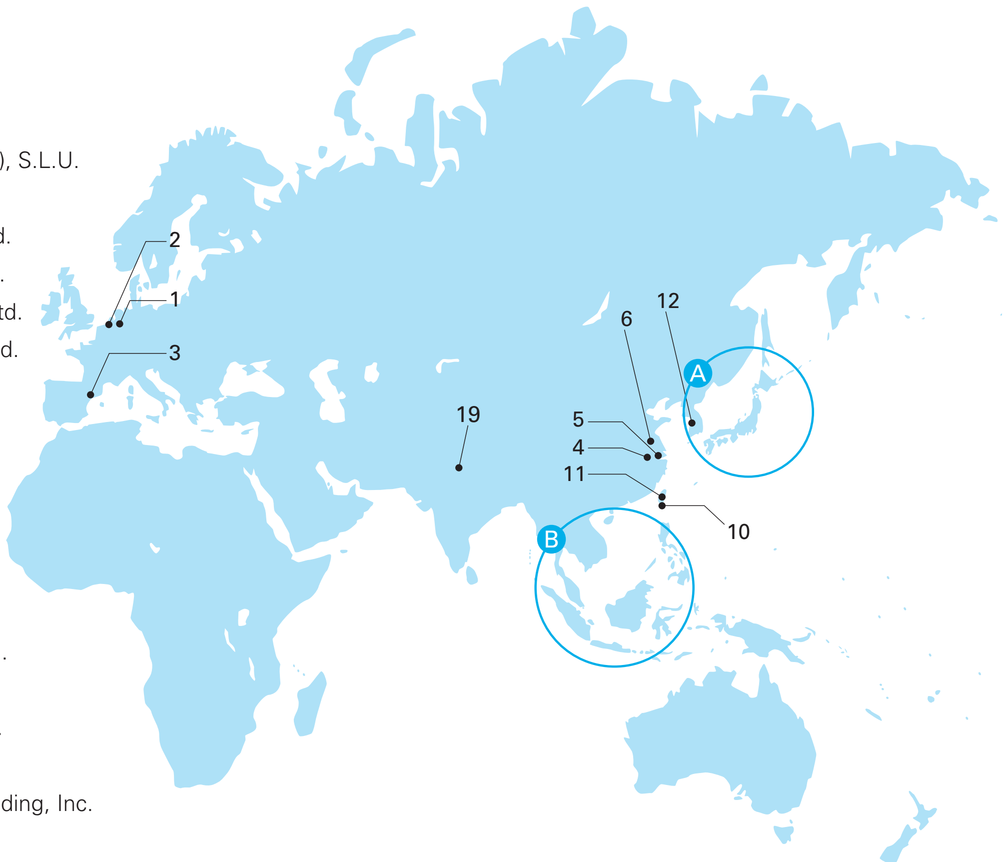
(Note) The company holds 27,600 thousand shares of treasury stock, which are excluded from stock held by the principal shareholders listed above.

Global and Domestic Network

(As of June 22, 2016)

Overseas

1. N.V. Sumitomo Bakelite Europe S.A.
2. Vyncolit N.V.
3. Sumitomo Bakelite Europe (Barcelona), S.L.U.
4. Sumitomo Bakelite (Suzhou) Co., Ltd.
5. Sumitomo Bakelite (Shanghai) Co., Ltd.
6. Sumitomo Bakelite (Nantong) Co., Ltd.
7. Sumitomo Bakelite (Dongguan) Co., Ltd.
8. Sumitomo Bakelite Hong Kong Co., Ltd.
9. Sumitomo Bakelite Macau Co., Ltd.
10. Sumitomo Bakelite (Taiwan) Co., Ltd.
11. Sumibe (Taiwan) Co., Ltd.
12. Sumibe Korea Co., Ltd.
13. SNC Industrial Laminates Sdn. Bhd.
14. P.T. Indopherin Jaya
15. P.T. SBP Indonesia
16. Sumitomo Bakelite Singapore Pte. Ltd.
17. Sumidurez Singapore Pte. Ltd.
18. Sumitomo Bakelite (Thailand) Co., Ltd.
19. SBE India Pvt. Ltd.
20. Sumitomo Bakelite North America Holding, Inc.
21. Sumitomo Plastics America, Inc.
22. Durez Corporation
23. Promerus LLC
24. Sumitomo Bakelite North America, Inc.
25. Vaupell Holdings, Inc.
26. Durez Canada Co., Ltd.



Head Office

Tennoz Parkside Building,
2-5-8 Higashi-shinagawa, Shinagawa-ku,
Tokyo 140-0002, JAPAN

Corporate General Affairs Div.
Phone: +81-(0)3-5462-4111
Facsimile: +81-(0)3-5462-4873

Corporate Finance & Planning Div.
Phone: +81-(0)3-5462-3447
Facsimile: +81-(0)3-5462-4876

Offices

Osaka Office
4-7-28 Kitahama, Chuo-ku, Osaka,
Osaka 541-0041, JAPAN
Phone: +81-(0)6-6232-5288
Facsimile: +81-(0)6-6232-5312

Nagoya Office
3-71 Hongo, Meito-ku, Nagoya,
Aichi 465-0024, JAPAN
Phone: +81-(0)52-726-8351
Facsimile: +81-(0)52-726-8398

Kobe Facility Office
1-1-5 Murotani, Nishi-ku, Kobe,
Hyogo 651-2241, JAPAN
Phone: +81-(0)78-992-3900
Facsimile: +81-(0)78-992-3919

Laboratories

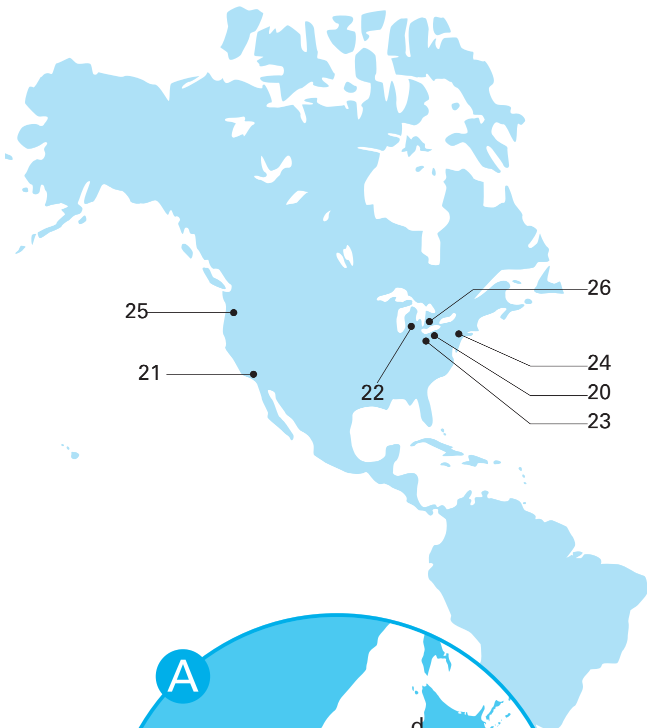
Corporate R&D Center
(Located at Kobe Facility Office and Utsunomiya Plant)

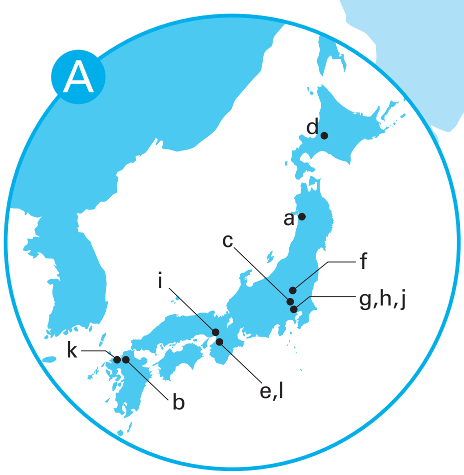
Corporate Engineering Center
(Located at Shizuoka Plant)

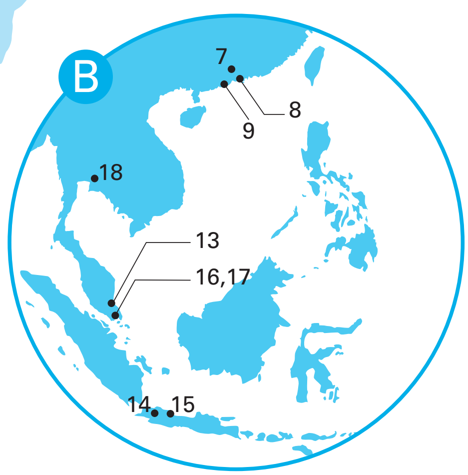
High Performance Plastic Technology Development Laboratory
(Located at Shizuoka Plant)

Domestic

a. Akita Sumitomo Bakelite Co., Ltd.
b. Kyushu Sumitomo Bakelite Co., Ltd.
c. S.B. Techno Plastics Co., Ltd.
d. Hokkai Taiyo Plastic Co., Ltd.
e. Yamaroku Kasei Industry Co., Ltd.
f. S.B. Research Co., Ltd.
g. Sunbake Co., Ltd.
h. S.B. Sheet Waterproof Systems Co., Ltd.
i. Softec Co., Ltd.
j. Thanxs Trading Co., Ltd.
k. Seibu Jushi Co., Ltd.
l. Tsutsunaka Kosan Co., Ltd.







Films & Sheets Research Laboratory
(Located at Amagasaki Plant)

Plates Research Laboratory
(Located at Kanuma Plant)

Electronic Device Materials Research Laboratory
(Located at Kyushu Sumitomo Bakelite Co., Ltd.)

Plants

Amagasaki Plant
2-3-47 Higashi-tsukaguchi-cho,
Amagasaki, Hyogo 661-8588, JAPAN
Phone: +81-(0)6-6429-6941
Facsimile: +81-(0)6-6427-8055

Kanuma Plant
7-1 Satsuki-cho, Kanuma,
Tochigi 322-0014, JAPAN
Phone: +81-(0)28-976-2131
Facsimile: +81-(0)28-976-2135

Shizuoka Plant
2100 Takayanagi, Fujieda, Shizuoka,
426-0041, JAPAN
Phone: +81-(0)54-635-2420
Facsimile: +81-(0)54-636-0294

Utsunomiya Plant
20-7 Kiyohara-kogyodanchi, Utsunomiya,
Tochigi 321-3231, JAPAN
Phone: +81-(0)28-667-6211
Facsimile: +81-(0)28-667-5519

SUMITOMO BAKELITE CO., LTD.