

TechnoAmenity

“Providing affluence and comfort to people
and society, with our unique technology”

Annual Report

2016



Nippon Shokubai Group Mission:

TechnoAmenity

Providing affluence and comfort to people and society, with our unique technology.

Management Commitment:

We conduct all of our corporate activities based upon a deep respect for humanity.

We aim at coexisting with society, and working in harmony with the environment.

We pursue technologies that will create the future.

We act on the global stage.

Corporate Credo

Safety takes priority over production.

Code of Conduct:

In the belief that it is our social responsibility to conduct business based upon the principles of compliance and self-responsibility for the sake of proper social development, we have set forth the following basic corporate behavior guidelines in the "Nippon Shokubai Code of Conduct."

1. Guided by Nippon Shokubai Group Mission of "**TechnoAmenity**", we will conduct all of our actions as a good corporate citizen.
2. We will comply with relevant laws both inside and outside of Japan, and act in accordance with in-house regulations.
3. We will create and nurture a sound, vibrant workplace, where each individual can hone their professional competence and find fulfillment in their career.
4. We will develop and market products and services that are both safe and useful, based upon an accurate understanding of social demands.
5. We will commit ourselves to eliminating labor hazards and accidents, and constantly strive to protect the global environment.
6. We will conduct business based on fair and open competition.
7. We will take a firm stance when dealing with unlawful or antisocial groups.
8. We will ensure frequent communications with our shareholders and members of society in general, and guarantee the appropriate disclosure of corporate information.
9. With respect for the culture and customs of every nation/region we serve, we will contribute to their development and wellbeing through community-based business undertakings.
10. We will ensure the solid and sustainable development of the company through business undertakings based soundly upon the above action guidelines.

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Consolidated Financial Highlights


Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Net sales
¥323,124
 million
 13.8% 

Operating income
¥31,234
 million
 19.5% 

Total assets
¥407,997
 million
 2.8% 

Net assets
¥282,485
 million
 4.6% 

ROA
8.3%
 1.0points 

Decrease in sales of basic chemicals and functional chemicals




increase in sales of environment and catalyst segment

Decrease in sales of basic chemicals due to lower sales volume, in addition to lower selling prices caused by a decrease in costs of raw materials and a decline in overseas product market conditions

In functional chemicals, although sales volume increased primarily in superabsorbent polymers, sales decreased due to factors such as a decrease in selling prices in line with a decline in costs of raw materials and the exclusion of NIPPON POLYESTER CO., LTD from the scope of consolidation.

In environment and catalyst segment, decrease in sales for process catalysts while automobile catalyst and fuel cell materials up

Decreases in processing costs and selling, general and administrative expenses, increased production and sales volume, and an expanded raw materials / selling price spread

Foreign exchange income and loss worsened, and technology license-related expenses increased 
 increase in share of profit of entities accounted for using equity method

Improvement in extraordinary profit/loss (recording of gain on sales of shares of subsidiaries and associates, decrease in impairment loss, etc.), decrease in income taxes

Messages from President



President **Masanori Ikeda**

A handwritten signature in black ink that reads "M. Ikeda". The signature is written in a cursive, flowing style.

In fiscal 2015, Nippon Shokubai Group steadily proceeded its long-term business plan for the fiscal years 2014 to 2020, entitled “Reborn Nippon Shokubai 2020,” along with the medium-term business plan, which will specify an action plan for the initial three years of the period (fiscal 2014 to 2016). In fiscal 2016, the final year of the current medium-term business plan, we will demonstrate our steady efforts to address our important issues based on basic business investment strategies. Also, we will define the following medium-term business plan for the last four years of the period (fiscal 2017 to 2020).

We reconfirm our intention to follow our corporate credo: “Safety takes priority over production,” endeavor to keep safe and stable operation in order to become “A company gaining further public trust as a responsible chemical company.” By delivering our product with confidence and pride, and by developing new products that meet market needs, we practice our group mission “**TechnoAmenity**- Providing affluence and comfort to people and society, with our unique technology.”

We will strive as a team to achieve the “Reborn Nippon Shokubai”—a company* that everybody can be proud of.

*1. A company that promotes work safety and peace of mind

2. A company that rewards people who make their best efforts and achieve results

3. A company that people can be proud to work for

Special Feature

Long-term Business Plan "Reborn Nippon Shokubai 2020"

Nippon Shokubai started its long-term business plan for the fiscal years 2014 to 2020, entitled "Reborn Nippon Shokubai 2020."

We reconfirm our intention to follow our corporate credo: "Safety takes priority over production," and we are making every effort to implement the preventive/corrective measures learned from the accident that occurred at the Himeji Plant in 2012. We believe that only through these actions will we be able to regain the confidence of stake holders as a chemical company.

Mission/Management Commitment

Nippon Shokubai Group Mission **TechnoAmenity**

Providing affluence and comfort to people and society, with our unique technology

Management Commitment

We conduct all of our corporate activities based upon a deep respect for humanity.

We aim at coexisting with society, and working in harmony with the environment.

We pursue technologies that will create the future.

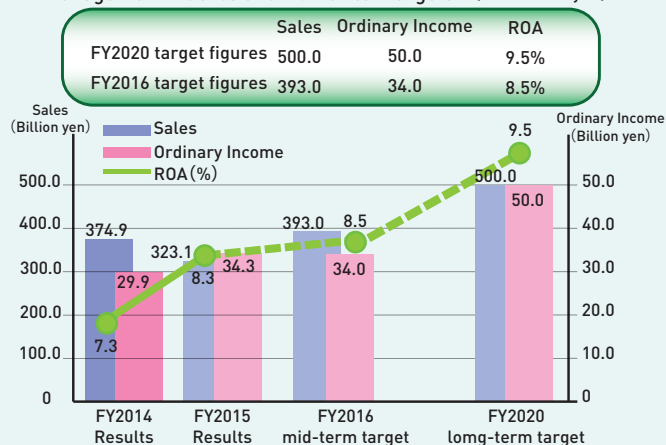
We act on the global stage.

Corporate Credo

**Safety takes priority over
production.**

"Reborn Nippon Shokubai 2020" is designed to ensure safe, reliable production activities. The plan also highlights profitability over sales, setting goals for strengthening existing and core businesses, establishing new businesses as soon as possible, and launching new products to the market quickly.

Management Indexes and Numerical Targets (Unit: Billion yen)



Description of Business

Description of Business	Ethylene Oxide Business Division	Acrylic Business Division	Superabsorbents Business Division	Performance Chemicals Business Division	Catalysts & Green Energy Materials Business Division
Basic Chemicals	<ul style="list-style-type: none"> Ethylene oxide (EO) Ethylene glycol Ethanolamine Secondary alcohol ethoxylates 	<ul style="list-style-type: none"> Acrylic acid Acrylates 			
Functional Chemicals	<ul style="list-style-type: none"> Polymers for concrete admixture Water-soluble polymers 	<ul style="list-style-type: none"> Specialty acrylates Specialty methacrylates 	<ul style="list-style-type: none"> Superabsorbent polymers 	<ul style="list-style-type: none"> Maleic anhydride & Derivatives Resins for paints & adhesives Acrylic resin for optical materials 	
Environment & Catalysts		<ul style="list-style-type: none"> Process catalysts 			<ul style="list-style-type: none"> Zirconia sheets & cells Automotive catalysts De-Nox & dioxins decomposition catalysts

Basic Chemicals

Sales of acrylic acids and acrylates decreased. In Japan, sales prices dropped in line with declining raw materials prices, while overseas, against the backdrop of global oversupply, sales prices fell following a decline in market price in Southeast Asia, and sales volume decreased.

Sales of ethylene oxide decreased due to declining sales prices owing to the drop in raw materials prices and a

decrease in sales volume.

Sales of ethylene glycol decreased due to declining overseas market conditions, although sales volumes in exports increased.

Sales of ethanolamine and secondary alcohol ethoxylates increased in volume, but sales decreased due to declining sales prices owing to the drop in raw materials prices.

As a result of the above, net sales in



the basic chemicals segment decreased 20.5% year-on-year to 117,643 million yen. Operating income rose 13.2% year-

on-year to 8,851 million yen. This was on account of an expanded spread in certain products and a decline in

processing costs, and other factors, despite a decrease in production and sales volume.

Functional Chemicals

Sales of superabsorbent polymers fell due to declining sales prices owing to the drop in raw materials prices, although they increased in sales volume.

Sales of resin modifiers and electronics information materials increased on the back of growing sales volumes.

Sales of special acrylates increased in sales volume, but sales decreased due to declining sales prices owing to the drop in raw materials prices and declining overseas market conditions.

Sales of ethyleneimine derivatives increased as the sales volume increased as well as the effects of the sales price revision.

Sales of maleic anhydride fell due to a decrease in sales volume, in addition to declining sales prices owing to the

drop in raw materials prices.

Sales of polymers for concrete admixture, water-soluble polymers for raw materials of detergents, resins for paints, processed adhesive products and iodine compounds fell due to a decline in sales volumes.

As a result of the above and the exclusion of NIPPON POLYESTER CO., LTD. from the scope of consolidation, net sales in the functional chemicals segment dropped 11.5% year-on-year to 177,798 million yen.

Operating income increased 23.9% year-on-year to 21,422 million yen. Despite the compression of spread, the increased sales volume and decreased processing costs and selling, general, and administrative expenses contributed to this result.



Environment & Catalysts

Sales of automotive catalysts increased due to higher sales volume and product mix.

Sales of De-NOx catalysts, dioxins decomposition catalysts, catalysts for exhaust gas treatment, fuel cell materials and materials for lithium-ion batteries increased on higher sales volumes.

Sales of process catalysts decreased as the sales volume declined

due to encountering a drop-off period for replacement demand.

Sales of wet oxidation catalysts fell due to decreased sales volumes.

As a result, sales in the environment & catalysts segment rose 6.8% year-on-year to 27,683 million yen.

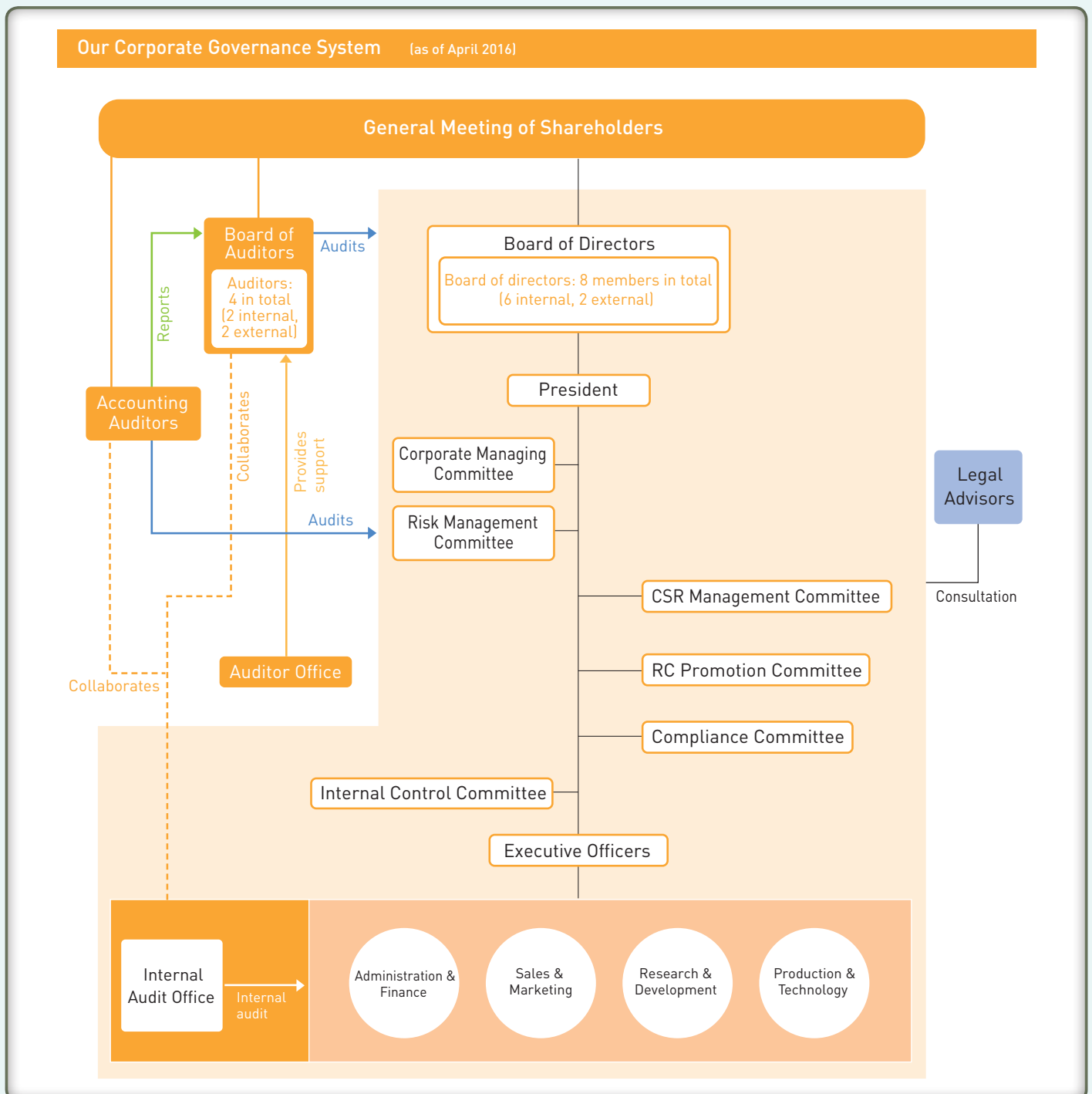
Operating income decreased 51.5% year-on-year to 620 million yen, owing to decline in sales volumes of process catalysts.



Governance System

We are working to improve our corporate culture and strengthen our competitiveness in order to respond to global trends.

Our approach to corporate governance therefore establishes our foundation. Using the system illustrated in the following diagram, we are taking steps to revitalize our board of directors, strengthen our audit system, improve the efficiency of our management structure, and improve and strengthen our compliance system.



Board of Directors

Supervises the execution of duties of each director and reports, deliberates on, and resolves matters related to execution of duties. In general, the board of directors convenes monthly.

Corporate Managing Committee

As an advisory body to the president, this committee deliberates on basic management policies and related matters. It also consults on the execution of important divisional matters.

Board of Auditors

Comprising two external auditors and two internal auditors, this board convenes monthly in general, submits reports, and engages in discussions and deliberations on important matters.

Risk Management Committee

Chaired by the president, this committee implements periodic measures in response to various wide-ranging risks to which the company is exposed.

CSR Management Committee

Chaired by the president, this committee determines the company's CSR direction and promotes CSR initiatives that contribute to the interests of stakeholders while maintaining coordination with the other committees.

RC Promotion Committee

Chaired by the president, this committee promotes the company's Responsible Care activities. It formulates the RC Promotion Basic Plan and works to further improve safety, quality, and environmental issues.

Compliance Committee

Chaired by the president, this committee improves and strengthens the company's overall corporate ethics and systems for compliance with laws and regulations.

Internal Control Committee

This committee, in full operation since April 2008 under the chairmanship of the president, has established a system to ensure the reliability of financial reporting as enforced by the Financial Instruments and Exchange Act. It also seeks to process company operations more efficiently and effectively.

Outside Members of the Board and Outside Corporate Auditors

Koichi Miura

(Outside Member of the Board)

Mr. Koichi Miura attended 12 of the 13 meetings of the Board that were held during the fiscal year 2015. From his viewpoint as a specialist in chemical engineering who is familiar with the chemical industry, he provides useful advice concerning the Company's management and supervises the Company's management from an independent perspective.

Takashi Sakai

(Outside Member of the Board)

Mr. Takashi Sakai attended all 13 meetings of the Board that were held during the fiscal year 2015. Due to his experience as an executive of a company that is a manufacturer and has a strong commitment to public interest, he provides useful advice concerning the Company's management and supervises the Company's management from an independent perspective.

Kozo Arao

(Outside Corporate Auditor)

Mr. Kozo Arao attended all 13 meetings of the Board that were held during the fiscal year 2015. At these meetings, he provides his views from the perspective of an attorney as required.

Mr. Arao also attended all 13 meetings of the Corporate Auditors that were held during the fiscal year 2015, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

Kunimitsu Oba

(Outside Corporate Auditor)

Mr. Kunimitsu Oba attended 9 of the 10 meetings of the Board that were held during the fiscal year 2015 following his election as a Corporate Auditor. At these meetings, he provides his views from the perspective of a corporate executive as required.

Mr. Oba also attended 9 of the 10 meetings of the Corporate Auditors that were held during the fiscal year 2015 following his election as a Corporate Auditor, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

CSR Based on Responsible Care Concept

CSR Concept

In accordance with the Nippon Shokubai Group Mission, **TechnoAmenity** and the Corporate Credo, "Safety takes priority over production", instituted in 1973, Nippon Shokubai established a Management Commitment and Code of Conduct to comprehensively view our corporate conduct from economic, social and environmental perspectives, setting out our corporate ethics, Responsible Care (RC), human rights and labor, information disclosure, social contribution and corporate governance as our management's top priority issues and implementing our activities to enhance our corporate value via continuing dialogue with various stakeholders, including our customers, business partners, shareholders/investors, public administration, employees and local communities.

Based on this concept of CSR, we will strive to contribute to the development of a sustainable society by implementing our long-term management plan, "Reborn Nippon Shokubai 2020," as part of our efforts to achieve our vision for 2025.

CSR Implementation Structure

- CSR Management Committee** Determines overall policy for CSR initiatives.
- RC Promotion Committee** Determines overall policy for RC activities and implements the PDCA cycle.
- Compliance Committee** Determines comprehensive policies for corporate ethics and implements the PDCA cycle.
 - Disclosure Committee** Implements the PDCA cycle related to information disclosure in an effort to enhance communication with society.
 - CSR Promotion Office** Establishes a CSR implementation structure and implements the PDCA cycle for social contribution initiatives.

Basic Policy on Responsible Care

In conformity with the Nippon Shokubai Group mission, Management commitment, Corporate credo and the Nippon Shokubai Code of Conduct, we rank it as an important management measure to provide products and technologies that contribute to society and environmental protection. In addition, while paying due respect to the principle of Sustainable Development, we are determined to conduct all activities in accordance with the following policy related to environmental protection, safety and product quality that will bring our business operations into harmony with the global environment.

- 1 Aim at environmental protection and reduction of negative environmental impact throughout the entire life cycle of a product, from development to disposal.
- 2 Ensure the safety of our employees and our communities by targeting zero accidents and zero disasters with a commitment to the principle "Safety takes priority over production."
- 3 Confirm the safety of chemical materials, intermediates and products, and consider the health of our customers, employees of our logistics subcontractors, our employees, and others.
- 4 Stably supply products and associated services that meet customer satisfaction and inspire their trust.
- 5 Publicly announce the results of these activities and make an effort to communicate for proper understanding.

We will implement this RC Policy in all our business operations by ensuring all employees have a thorough understanding and awareness of its importance. The president shall be the person with the ultimate responsibility for implementing this policy.

Ten-Years Summary

	FY2006	FY2007	FY2008
Operating results			
Net sales	¥266,513	¥302,669	¥289,102
Operating income	19,429	18,379	622
Net income (loss)	13,988	11,875	-5,307
Financial position			
Total assets	323,675	352,783	302,948
Net assets	179,368	175,634	151,662
Cash flows			
Cash flows from operating activities	16,087	20,129	17,613
Cash flows from investment activities	-23,109	-33,100	-16,675
Cash flows from financing activities	4,037	17,495	8,099
Cash and cash equivalents	16,991	21,371	29,450
Per share			
Earnings per share	¥ 74.92	¥ 64.91	¥ -29.61
Net assets	948.34	947.34	831.11
Cash dividends	16.0	16.0	15.5
Shareholders' equity ratio (%)	54.1	48.6	48.8
ROE (%)	8.2	6.9	-3.3
ROA (%)	7.4	6.1	0.2
Liquidity ratio (%)	146	150	159
PER (%)	16.98	10.18	—
Dividend payout ratio (%)	21.4	24.6	—
Market data			
Exchange rate, average (¥/\$)	117	114.38	100.58
Naphtha price (¥/kl)	50,000	61,400	58,900
Share Price (¥) (Closing)	1,272	661	622
(High)	1,503	1,316	866
(Low)	1,152	626	442

*As the Company conducted a reverse stock split at a ratio of one share for every five shares on October 1, 2015, figures for the dividends per share for FY 2015 are amounts that take into account the reverse stock split.

FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2015
(Millions of yen)						(Millions of U.S. dollars)	
¥244,317	¥288,345	¥320,704	¥269,520	¥302,136	¥374,873	¥323,124	\$2,868
13,881	29,813	31,100	10,034	13,752	26,133	31,234	277
10,832	21,119	21,257	8,401	10,503	19,089	26,003	231
310,946	329,332	356,407	352,373	398,396	419,634	407,997	3,621
163,781	194,266	209,070	220,248	242,193	270,128	282,485	2,507
44,346	31,706	43,857	27,322	16,992	32,697	53,264	473
-23,850	-16,696	-21,747	-31,878	-25,141	-18,941	-12,963	-115
-21,772	-3,050	-9,671	81	-2,519	-10,237	-20,012	-178
28,234	39,174	50,812	47,801	39,619	44,336	64,055	568
¥ 60.85	¥ 110.30	¥ 104.71	¥ 41.38	¥ 51.74	¥ 94.06	¥ 640.69	\$ 5.7
898.33	938.67	1,006.48	1,059.85	1,164.10	1,307.13	6,870.84	61.0
14.0	22.0	22.0	16.0	16.0	24.0	150.0	1.3
51.4	57.9	57.3	61.1	59.3	63.2	68.3	—
7.0	12.1	10.8	4.0	4.7	7.6	9.6	—
4.9	9.7	9.7	3.9	4.4	7.3	8.3	—
155	197	174	189	168	205	241	—
13.89	9.45	9.16	19.94	23.56	18.74	8.94	—
23.0	19.9	21.0	38.7	30.9	25.5	23.4	—
92.88	85.72	79.07	83.09	100.21	109.88	120.14	—
41,200	47,500	54,900	57,500	67,300	63,500	42,800	380.0
845	1,042	959	825	1,219	1,763	5,730	50.9
920	1,047	1,100	987	1,286	1,832	—	—
600	682	764	738	791	1,093	—	—

Notes: Conversions into USD are just for indication only. The exchange rate is the rate at March 31, 2015. (¥120.17 / \$1.00) Figures are rounded off.

Management Discussion and Analysis of Operation

Fiscal 2015 Performance

The global economy in the current fiscal year saw the United States economy continue to recover and the situation in Europe also began to come out of its slump, but a deceleration continued in the Asian emerging countries, including China and resource-rich countries.

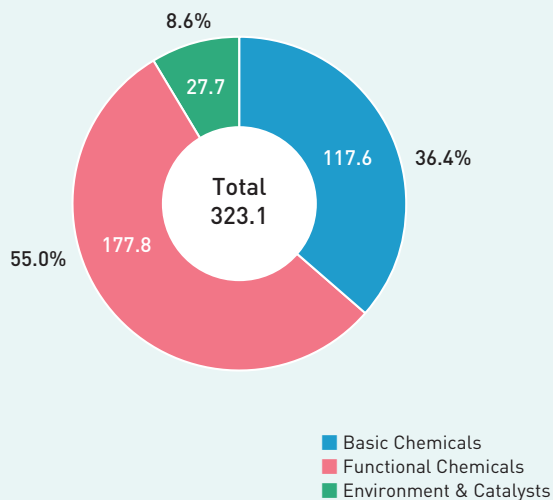
As for the Japanese economy, although there were trends such as the yen appreciation and the drop in stock

prices in the beginning of the year, the country saw a moderate recovery trend due to steady corporate business results and employment conditions.

In the chemicals industry, the future outlook remains unclear due to factors such as a slowdown in the exports to Asia and sharp fluctuations in raw material prices.

Segment Sales

(¥billion)



Financial position

Under these conditions, the Group's consolidated net sales dropped 13.8% year-on-year, to 323,124 million yen (-51,749 million yen) in the current fiscal year. Factors contributing to this result included drop in sales prices due to declines in raw material prices and overseas market conditions, decreasing sales volume in certain products and the exclusion of NIPPON POLYESTER CO., LTD. from the scope of consolidation following the transfer of all of its shares during the current fiscal year.

With regard to profits, operating income increased 19.5% year-on-year to 31,234 million yen (+5,101 million yen). Contributing to this result were decreased fixed costs including processing costs, and selling, general, and administrative expenses, as well as increased production and sales volume.

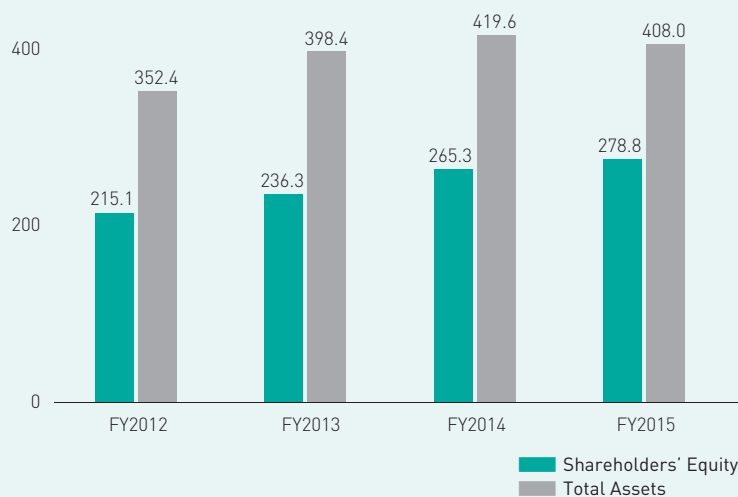
Non-operating income decreased 700 million yen due to deterioration in foreign exchange gains/losses and increased technology transfer study related expenses, although share of profit of entities accounted for using equity method increased. As a result, ordinary income rose 14.7% year-on-year to 34,342 million yen (+4,401 million yen).

Extraordinary income and losses improved year-on-year by 1,232 million yen. The main contributing factors for this were a recording of gain on sales of shares of subsidiaries and associates, and the elimination of impairment loss that was recorded in the previous fiscal year. As a result, profit attributable to owners of parent rose 36.2% year-on-year to 26,003 million yen (+6,914 million yen).

The Company achieved new record highs in operating income, ordinary income and profit attributable to owners of parent for the current fiscal year.

Shareholders' Equity and Total Assets

(¥billion)



Cash Flows

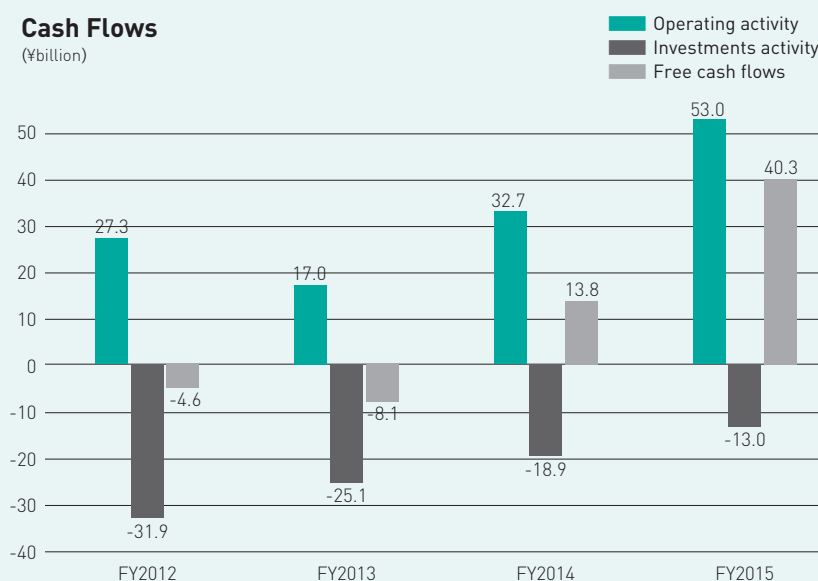
Cash and cash equivalents at the end of the current consolidated fiscal year (hereinafter the current fiscal year) increased by 19,719 million yen over the end of the previous fiscal year to 64,055 million yen, as cash flow provided by operating activities exceeded cash flow used in investing activities (capital investment, etc.), and cash flow used in financing activities (a decrease in short-term loans payable, repayments of long-term loans payable, etc.).

Net cash provided by operating activities totaled 53,264 million yen (compared to 32,697 million yen provided in the previous fiscal year). This was due to an increase of 20,568 million yen from the previous fiscal year as a result of a decrease in notes and accounts receivable - trade owing to declined sales prices per purchase and an increase in income before income taxes.

Net cash used in investing activities totaled 12,963 million yen (compared to 18,941 million yen used in the

previous fiscal year). This was due to a decline of 5,978 million yen in outflows from the previous fiscal year as a result of decrease in purchase of property, plant and equipment including capital investments and a decrease in the purchase of shares of subsidiaries and associates as well as the purchase of investment securities, in spite of a decrease in proceeds from sales of property, plant and equipment, due to sales of land in the previous fiscal year which were not recorded in the current fiscal year.

Net cash used in financing activities totaled 20,012 million yen (compared to 10,237 million yen used in the previous fiscal year). Although redemption of bonds recorded in the previous fiscal year was not recognized for the current fiscal year, a decrease in short-term loans payable and a decrease in proceeds from long-term loans payable resulted in an increase of 9,775 million yen in outflows.



Basic Policy on the Distribution of Profits, and Dividends

Nippon Shokubai has positioned the return of profits to shareholders as the most important management task, and, in consideration of the dividend payout ratio, distributes dividends under a basic policy of aiming to improve medium- to long-term dividend levels in line with projected trends in consolidated earnings, while at the same time taking an overall view to expand the business and strengthen the corporate structure. In addition to dividend distributions, the Company intends to consider stock buybacks as one of the options to raise the value per share.

The Company will continue to distribute profits by taking into careful consideration a balance between the critical need to maintain competitiveness and continue growth into the future by aggressively investing in equipment, R&D and other areas, with the need to accomplish these investments, recognizing the importance of keeping on hand a sufficient level of retained earnings.

The Company pays dividends twice a year, once at the end of the interim period and once at the end of the fiscal year. Based on the above basic policy, the Company plans to pay a year-end dividend of 85 yen (ordinary dividend of 75 yen and commemorative dividend of 10 yen for the Company's 75th anniversary) per share for the record-high FY 2015 earnings, taking into consideration the business environment, earnings results and future prospects for business growth. The Company conducted a reverse stock split at a ratio of one share for every five shares on October 1, 2015. As a result, based on the calculation factoring in the reverse stock split, annual dividends will total 150 yen per share, which will be a record high, for a consolidated payout ratio of 23.4%. For FY 2016, annual dividends are scheduled to be 150 yen (interim dividends of 75 yen and year-end dividends of 75 yen) by incorporating the commemorative dividend of 10 yen from FY 2015 into ordinary dividends.

Fiscal 2016 Outlook

The outlook for the Japanese economy is increasingly uncertain due to such factors as yen appreciation and low stock prices, and trend in crude oil prices since the beginning of the year, in addition to the stagnant demand both in Japan and overseas. While the European economy is expected to be strong, the U.S. economy lacks vigor and a deceleration continues in Asian emerging countries including China and resource-rich countries. Thus, the corporate management environment surrounding the Company is expected to be unpredictable.

Under such conditions, projected earnings in the next fiscal year are based on exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, and naphtha prices of 38,000 yen/kl. Although sales volumes are projected to increase centered around functional chemicals, sales prices are expected to decrease due to lower raw material prices and overseas market conditions. We therefore forecast consolidated

net sales to decrease by 7.2% to 300,000 million yen (-23,124 million yen), with 147,000 million yen in the first half.

With regard to profits, although the Company projections incorporate the expected effect of higher production and sales volumes and decrease in processing costs, a contraction in spread will lead to a decrease in operating income by 29.6%, to 22,000 million yen (-9,234 million yen), with 8,000 million yen in the first half. The Company projects a decrease in ordinary income by 27.2%, to 25,000 million yen (-9,342 million yen), with 9,500 million yen in the first half, assuming a non-operating income and expenses on par with the current fiscal year due to factors such as elimination of foreign exchange losses despite a decrease in share of profit of entities accounted for using equity method, as well as a decrease in profit attributable to owners of parent by 26.9%, to 19,000 million yen (-7,003 million yen), with 7,500 million yen in the first half.

Financial Statements

Consolidated Balance Sheet

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 64,055	¥ 44,336	\$ 568,468
Time deposits (Notes 3 and 7)	5,117	4,919	45,412
Notes and accounts receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	7,843	7,089	69,604
Trade	57,093	67,067	506,683
Allowance for doubtful accounts	(18)	(235)	(160)
Inventories (Note 5)	49,007	56,303	434,922
Deferred income taxes (Note 9)	3,218	3,706	28,559
Other current assets	9,367	13,362	83,129
Total current assets	195,682	196,547	1,736,617
Property, plant and equipment, at cost (Notes 6, 7 and 21):			
Land	33,084	31,680	293,610
Buildings and structures	98,375	98,318	873,048
Machinery and equipment	364,588	366,982	3,235,605
Construction in progress	7,911	2,250	70,208
Leased assets	616	696	5,467
Accumulated depreciation	(357,986)	(350,279)	(3,177,015)
Property, plant and equipment, net	146,588	149,647	1,300,923
Investments and other assets:			
Investments in securities (Notes 3 and 4)	30,318	34,797	269,063
Investments in unconsolidated subsidiaries and affiliates	23,851	23,973	211,670
Deferred income taxes (Note 9)	1,341	1,995	11,901
Asset for retirement benefits (Note 8)	3,529	5,476	31,319
Other assets (Note 7)	6,688	7,199	59,354
Total investments and other assets	65,727	73,440	583,307
Total assets	¥ 407,997	¥ 419,634	\$ 3,620,847

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans <i>(Notes 3 and 7)</i>	¥ 13,186	¥ 22,071	\$ 117,022
Current portion of long-term debt <i>(Notes 3 and 7)</i>	8,195	7,685	72,728
Notes and accounts payable <i>(Note 3)</i> :			
Unconsolidated subsidiaries and affiliates	6,350	5,962	56,354
Trade	32,960	41,553	292,510
Lease obligations <i>(Note 7)</i>	25	28	222
Income taxes payable <i>(Note 9)</i>	4,507	4,839	39,998
Accrued bonuses to employees	3,273	3,075	29,047
Accrued bonuses to directors and audit & supervisory board members	188	152	1,668
Reserve for periodic repairs	2,436	2,485	21,619
Other current liabilities	9,934	8,177	88,161
Total current liabilities	81,054	96,027	719,329
Long-term liabilities:			
Long-term debt <i>(Notes 3 and 7)</i>	29,166	36,910	258,839
Lease obligations <i>(Note 7)</i>	108	149	958
Deferred income taxes <i>(Note 9)</i>	1,628	3,607	14,448
Liability for retirement benefits <i>(Note 8)</i>	12,568	11,755	111,537
Other	989	1,058	8,778
Total long-term liabilities	44,459	53,479	394,560
Contingent liabilities <i>(Note 18)</i>			
Net assets:			
Shareholders' equity <i>(Note 11)</i>:			
Common stock:			
Authorized – 127,200,000 shares in 2016 and 636,000,000 shares in 2015			
Issued – 40,800,000 shares in 2016 and 204,000,000 shares in 2015	25,038	25,038	222,204
Capital surplus	22,395	22,083	198,749
Retained earnings	216,223	195,497	1,918,912
Less treasury stock, at cost	(1,010)	(956)	(8,963)
Total shareholders' equity	262,646	241,662	2,330,902
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	7,614	10,652	67,572
Translation adjustments	11,474	13,095	101,828
Net unrealized deferred gain on hedges	16	27	142
Retirement benefit liability adjustments	(2,916)	(162)	(25,879)
Total accumulated other comprehensive income, net	16,188	23,612	143,663
Non-controlling interests	3,650	4,854	32,393
Total net assets	282,484	270,128	2,506,958
Total liabilities and net assets	¥ 407,997	¥ 419,634	\$ 3,620,847

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Net sales (Note 21)	¥ 323,124	¥ 374,873	\$ 2,867,625
Cost of sales (Note 12)	253,123	309,135	2,246,388
Gross profit	70,001	65,738	621,237
Selling, general and administrative expenses (Note 12)	38,767	39,605	344,045
Operating income (Note 21)	31,234	26,133	277,192
Other income (expenses):			
Interest and dividend income	1,252	1,100	11,111
Interest expense	(440)	(602)	(3,905)
Royalty income	350	1,198	3,106
Equity in earnings of an unconsolidated subsidiary and affiliates	2,458	1,259	21,814
Loss on impairment of property, plant and equipment (Notes 6 and 21)	-	(477)	-
Loss on reduction of non-current assets	(292)	-	(2,591)
Rent income from real estate	1,176	1,129	10,437
Foreign exchange losses, net	(1,270)	-	(11,271)
Licensing of technology expenses	(592)	(6)	(5,254)
Government subsidies	318	-	2,822
Loss on disposal of property, plant and equipment	(36)	(463)	(319)
Loss on discontinued operations (Note 13)	-	(151)	-
Gain on sales of investment in a subsidiary (Note 14)	620	-	5,502
Other, net	210	235	1,864
Profit before income taxes	34,988	29,355	310,508
Income taxes (Note 9):			
Current	7,430	8,333	65,939
Deferred	1,445	1,752	12,824
	8,875	10,085	78,763
Profit	26,113	19,270	231,745
Profit attributable to non-controlling interests	(110)	(181)	(976)
Profit attributable to owners of parent	¥ 26,003	¥ 19,089	\$ 230,769

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 2)</i>
Profit	¥ 26,113	¥ 19,270	\$ 231,745
Other comprehensive income (loss) <i>(Note 16)</i>			
Net unrealized holding (loss) gain on securities	(3,046)	6,211	(27,032)
Net unrealized deferred (loss) gain on hedges	(11)	18	(98)
Translation adjustments	(843)	5,786	(7,481)
Retirement benefits liability adjustments	(2,777)	918	(24,645)
Share of other comprehensive (loss) income of an unconsolidated subsidiary and affiliates accounted for by the equity method	(765)	1,058	(6,789)
Total other comprehensive income (loss)	(7,442)	13,991	(66,045)
Comprehensive income	¥ 18,671	¥ 33,261	\$ 165,700
Total comprehensive income attributable to:			
Owners of parent	¥ 18,579	¥ 32,863	\$ 164,884
Non-controlling interests	92	398	816

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Shareholders' equity							
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity			
	<i>(Millions of yen)</i>							
Balance at April 1, 2014, as originally reported	¥ 25,038	¥ 22,083	¥ 180,240	¥ (924)	¥ 226,437			
Cumulative effect of change in accounting policy	-	-	25	-	25			
Balance at April 1, 2014, as adjusted	25,038	22,083	180,265	(924)	226,462			
Changes during the year:								
Cash dividends	-	-	(3,857)	-	(3,857)			
Profit attributable to owners of parent	-	-	19,089	-	19,089			
Purchases of treasury stock	-	-	-	(32)	(32)			
Disposal of treasury stock	-	-	-	-	-			
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-			
Net changes in items other than shareholders' equity	-	-	-	-	-			
Total changes during the year	-	-	15,232	(32)	15,200			
Balance at March 31, 2015	¥ 25,038	¥ 22,083	¥ 195,497	¥ (956)	¥ 241,662			
Accumulated other comprehensive income (loss)								
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Non-controlling interests	Total net assets	
	<i>(Millions of yen)</i>							
Balance at April 1, 2014, as originally reported	¥ 4,454	¥ 6,344	¥ 9	¥ (970)	¥ 9,837	¥ 5,919	¥ 242,193	
Cumulative effect of change in accounting policy	-	-	-	-	-	-	25	
Balance at April 1, 2014, as adjusted	4,454	6,344	9	(970)	9,837	5,919	242,218	
Changes during the year:								
Cash dividends	-	-	-	-	-	-	(3,857)	
Profit attributable to owners of parent	-	-	-	-	-	-	19,089	
Purchases of treasury stock	-	-	-	-	-	-	(32)	
Disposal of treasury stock	-	-	-	-	-	-	-	
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-	-	-	
Net changes in items other than shareholders' equity	6,198	6,751	18	808	13,775	(1,065)	12,710	
Total changes during the year	6,198	6,751	18	808	13,775	(1,065)	27,910	
Balance at March 31, 2015	¥ 10,652	¥ 13,095	¥ 27	¥ (162)	¥ 23,612	¥ 4,854	¥ 270,128	

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Shareholders' equity

	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	<i>(Millions of yen)</i>				
Balance at April 1, 2015	25,038	22,083	195,497	(956)	241,662
Changes during the year:					
Cash dividends	-	-	(5,277)	-	(5,277)
Profit attributable to owners of parent	-	-	26,003	-	26,003
Purchases of treasury stock	-	-	-	(54)	(54)
Disposal of treasury stock	-	0	-	0	0
Change in equity resulting from transaction with non-controlling shareholders	-	312	-	-	312
Net changes in items other than shareholders' equity	-	-	-	-	-
Total changes during the year	-	312	20,726	(54)	20,984
Balance at March 31, 2016	¥ 25,038	¥ 22,395	¥ 216,223	¥ (1,010)	¥ 262,646

Accumulated other comprehensive income (loss)

	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>						
Balance at April 1, 2015	10,652	13,095	27	(162)	23,612	4,854	270,128
Changes during the year:							
Cash dividends	-	-	-	-	-	-	(5,277)
Profit attributable to owners of parent	-	-	-	-	-	-	26,003
Purchases of treasury stock	-	-	-	-	-	-	(54)
Disposal of treasury stock	-	-	-	-	-	-	0
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-	-	312
Net changes in items other than shareholders' equity	(3,038)	(1,621)	(11)	(2,754)	(7,424)	(1,204)	(8,628)
Total changes during the year	(3,038)	(1,621)	(11)	(2,754)	(7,424)	(1,204)	12,356
Balance at March 31, 2016	¥ 7,614	¥ 11,474	¥ 16	¥ (2,916)	¥ 16,188	¥ 3,650	¥ 282,484

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Shareholders' equity							
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity		
<i>(Thousands of U.S. dollars) (Note 2)</i>							
Balance at April 1, 2015	222,204	195,980	1,734,975	(8,484)	2,144,675		
Changes during the year:							
Cash dividends	-	-	(46,832)	-	(46,832)		
Profit attributable to owners of parent	-	-	230,769	-	230,769		
Purchases of treasury stock	-	-	-	(479)	(479)		
Disposal of treasury stock	-	0	-	0	0		
Change in equity resulting from transaction with non-controlling shareholders	-	2,769	-	-	2,769		
Net changes in items other than shareholders' equity	-	-	-	-	-		
Total changes during the year	-	2,769	183,937	(479)	186,227		
Balance at March 31, 2016	\$ 222,204	\$ 198,749	\$ 1,918,912	\$ (8,963)	\$ 2,330,902		
Accumulated other comprehensive income (loss)							
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Non- controlling interests	Total net assets
<i>(Thousands of U.S. dollars) (Note 2)</i>							
Balance at April 1, 2015	94,533	116,214	240	(1,438)	209,549	43,078	2,397,302
Changes during the year:							
Cash dividends	-	-	-	-	-	-	(46,832)
Profit attributable to owners of parent	-	-	-	-	-	-	230,769
Purchases of treasury stock	-	-	-	-	-	-	(479)
Disposal of treasury stock	-	-	-	-	-	-	0
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-	-	2,769
Net changes in items other than shareholders' equity	(26,961)	(14,386)	(98)	(24,441)	(65,886)	(10,685)	(76,571)
Total changes during the year	(26,961)	(14,386)	(98)	(24,441)	(65,886)	(10,685)	109,656
Balance at March 31, 2016	\$ 67,572	\$ 101,828	\$ 142	\$ (25,879)	\$ 143,663	\$ 32,393	\$ 2,506,958

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Operating activities:			
Profit before income taxes	¥ 34,988	¥ 29,355	\$ 310,508
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	17,875	18,971	158,635
Gain on sales of investments in securities	-	(422)	-
Loss on reduction of non-current assets	292	-	2,591
Loss on impairment of property, plant and equipment	-	477	-
Government subsidies	(318)	-	(2,822)
Increase in asset for retirement benefits	(1,435)	(2,989)	(12,735)
Increase in liability for retirement benefits	1	1,629	9
Interest and dividend income	(1,252)	(1,100)	(11,111)
Interest expense	440	602	3,905
Equity in earnings of an unconsolidated subsidiary and affiliates	(2,458)	(1,259)	(21,814)
Gain on sales of investment in a subsidiary	(620)	-	(5,502)
Other, net	4,220	(2,254)	37,451
Changes in operating assets and liabilities:			
Notes and accounts receivable	7,476	(2,521)	66,347
Inventories	5,176	3,874	45,935
Notes and accounts payable	(6,155)	(6,278)	(54,624)
Other current liabilities	650	451	5,769
Subtotal	58,880	38,536	522,542
Interest and dividends received	2,425	2,366	21,521
Interest paid	(431)	(621)	(3,825)
Proceeds from government subsidies	318	-	2,822
Income taxes paid	(7,928)	(7,450)	(70,359)
Payment for liquidation of business	-	(134)	-
Net cash provided by operating activities	53,264	32,697	472,701
Investing activities:			
Purchases of property, plant and equipment	(13,311)	(17,629)	(118,131)
Proceeds from sales of property, plant and equipment	103	1,547	914
Purchase of intangible assets	(495)	(986)	(4,393)
Purchases of investments in securities	(730)	(1,108)	(6,479)
Proceeds from sales of investments in securities	985	1,267	8,742
Payments for purchases of shares of affiliates	(22)	(1,285)	(195)
Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation	211	-	1,873
Collection of loans receivable	736	140	6,532
Other, net	(440)	(887)	(3,906)
Net cash used in investing activities	¥ (12,963)	¥ (18,941)	\$ (115,043)

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Financing activities:			
Net (decrease) increase in short-term bank loans	¥ (7,179)	¥ 3,498	\$ (63,711)
Proceeds from long-term debt	1,000	8,750	8,875
Repayment of long-term debt	(7,491)	(8,537)	(66,480)
Repayments of bonds	-	(10,000)	-
Cash dividends paid	(5,277)	(3,857)	(46,832)
Purchase of investments in a subsidiary not resulting in change in scope of consolidation	(952)	-	(8,449)
Cash dividends paid to non-controlling shareholders	(32)	(30)	(284)
Purchases of treasury stock	(54)	(32)	(479)
Other, net	(27)	(30)	(240)
Net cash used in financing activities	(20,012)	(10,238)	(177,600)
Effect of exchange rate changes on cash and cash equivalents	(570)	1,199	(5,058)
Increase in cash and cash equivalents	19,719	4,717	175,000
Cash and cash equivalents at beginning of year	44,336	39,619	393,468
Cash and cash equivalents at end of year	¥ 64,055	¥ 44,336	\$ 568,468

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

March 31, 2016

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of Nippon Shokubai Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2015 to the 2016 presentation. Such reclassifications had no effect on consolidated profit or net assets.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany items have been eliminated in consolidation.

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, a date which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these overseas consolidated subsidiaries and the year end of the Company.

Investments in an unconsolidated subsidiary and significant affiliates are accounted for by the equity method.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

(c) Foreign currency translation

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of profit but are reported as translation adjustments and non-controlling interests in the accompanying consolidated balance sheets at March 31, 2016 and 2015.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the consolidated balance sheet date and gain or loss on each translation is credited or charged to profit.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(e) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(f) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the moving average method.

(g) Property, plant and equipment

Depreciation is computed principally by the straight-line method over the estimated useful lives of the respective assets except for leased assets.

(h) Leases

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

For finance lease transactions that do not transfer ownership to the lessee, those that started on or before March 31, 2008 continue to be accounted for as operating lease transactions.

(i) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gain and loss, both realized and unrealized, are credited and charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(j) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(k) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are computed based on the temporary differences between financial reporting and the tax bases of the assets and liabilities which will result in taxable or tax-deductible amounts in the future. The calculation of deferred income tax assets and liabilities is based on the enacted tax laws.

(l) Hedge accounting

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

Forward foreign currency exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates ("Allocation method").

(m) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which is charged to income in the current year.

(n) Accrued bonuses to directors and audit & supervisory board members

Accrued bonuses to directors and audit & supervisory board members are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

(o) Reserve for periodic repairs

The Company and certain consolidated subsidiaries provide a reserve for the cost of periodic repairs to production facilities at plants based on their estimates of the future cost of such repairs.

(p) Retirement benefits

The liability for retirement benefits is provided based on the retirement benefit obligation reduced by the pension plan assets at fair value at the end of the year.

The retirement benefits are attributed to periods corresponding to the service years of eligible employees based on the benefit formula method.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method principally over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method principally over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

(q) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 23).

(r) Recognition of contract revenue and cost

The Company recognizes revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

(s) Change in accounting policy

Accounting Standard for Business Combinations

The Company and its domestic consolidated subsidiaries adopted “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (“ASBJ”) Statement No.21 of September 13, 2013), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22 of September 13, 2013), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7 of September 13, 2013) effective from April 1, 2015. As a result, under these revised accounting standards, differences arising from changes in the Company’s ownership interest are recorded in capital surplus when the parent company continues to have control and acquisition expenses for business combinations are treated as expenses in the consolidated financial statements for the year in which they arise. Furthermore, effective for business combinations occurring on or after the beginning of the year ended March 31, 2016, any changes to the allocation of the acquisition price arising from finalization of the provisional accounting treatment are reflected in the consolidated financial statements for the year in which the business combination occurred. In addition, the previous accounting standard category of “net income” was changed, and the category of “minority interests” was changed to “non-controlling interests.” The consolidated financial statements for the previous year have been reclassified to reflect these changes in presentation.

In accordance with the provisional treatment prescribed in Clause 58-2 (4) of the “Accounting Standard for Business Combinations,” in Clause 44-5 (4) of the “Accounting Standard for Consolidated Financial Statements” and in Clause 57-4 (4) of the “Accounting Standard for Business Divestitures,” the aforementioned accounting standards have been applied prospectively from the beginning of the year ended March 31, 2016.

As result, capital surplus in the accompanying consolidated balance sheet and consolidated statement of changes in net assets increased by ¥312 million (\$2,769 thousand). Additionally, profit before income taxes for the year ended March 31, 2016 in the accompanying consolidated statement of income decreased by the same amount.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows related to the purchase or sale of shares of a subsidiary not affecting the scope of consolidation were classified into “Cash flows from financing activities,” while cash flows related to expenses arising from the purchase of shares of a subsidiary affecting the scope of consolidation or expenses arising from the purchase or sale of shares of a subsidiary not affecting the scope of consolidation were classified into “Cash flows from operating activities.”

The impact of this change on net assets per share and profit attributable to owners of parent per share is presented in Note 19.

(t) Accounting standards issued but not yet effective

(Implementation Guidance on Recoverability of Deferred Tax Assets)

On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26).

(1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 "Audit Treatment on 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.

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

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance effective from April 1, 2016.

(3) Impact of adopting revised implementation guidance

The Company is currently evaluating the effect of adopting the revised implementation guidance on its consolidated financial statements.

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥112.68 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2016. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Financial Instruments

(1) Current status of financial instruments

1) Policy for financial instruments

The Group manages temporary surplus funds through short-term bank deposits. The Group raises funds through bank loans. The Group uses derivatives for the purpose of reducing foreign currency exchange rate fluctuation risk or interest rate fluctuation risk, and does not enter into derivatives for speculative or trading purposes.

2) Types of financial instruments and related risk

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. Trade receivables in foreign currencies, arising from export transactions for the global business, are exposed to foreign currency exchange rate fluctuation risk, which are hedged by forward foreign exchange contracts.

Investments in securities are composed of the shares of common stock of other companies with which the Group has business or capital relationships, which are also exposed to market price volatility risk.

Substantially all notes and accounts payable, trade have payment due dates within one year, which are also hedged by forward foreign currency exchange contracts. The loans are taken out principally for the purpose of making capital expenditures. The loans with variable interest rates are exposed to interest rate fluctuation risk. However, the interest rate fluctuation risk is covered by interest rate swap transactions.

Regarding derivatives, the Group enters into forward foreign currency exchange transactions to avoid foreign currency exchange rate fluctuation risk related to trade receivables and trade payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to avoid interest rate fluctuation risk related to the loans.

Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 20.

3) Risk management for financial instruments

i) Monitoring for credit risk (the risk that customers or counterparties may default)

With respect to trade receivables, each related division of the Company monitors the conditions of their main customers periodically, monitors due dates and outstanding balances of individual customers, and evaluates credit worthiness of their main customers semiannually. The consolidated subsidiaries also monitor trade receivables in a same manner.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

ii) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and trade payables in foreign currencies, the Group enters into forward foreign currency exchange contracts.

For investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers.

For derivative transactions, the finance department of the Company enters into and manages derivative transactions. Results of derivative transactions are reported to the director in charge monthly.

iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled due dates)

Based on reports from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

4) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives in the following table are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Fair value of financial instruments

Carrying value, fair value, and unrealized gain or loss on financial instruments at March 31, 2016 and 2015 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	2016			2015		
	<i>(Millions of yen)</i>					
	Carrying value	Fair value	Unrealized (loss) gain	Carrying value	Fair value	Unrealized gain
Assets:						
i) Cash and cash equivalents, and time deposits	¥ 69,172	¥ 69,172	¥ -	¥ 49,255	¥ 49,255	¥ -
ii) Notes and accounts receivable	64,936	64,936	-	74,156	74,156	-
iii) Investments in securities:						
Other securities	28,968	28,968	-	34,147	34,147	-
Total assets	¥ 163,076	¥ 163,076	¥ -	¥ 157,558	¥ 157,558	¥ -
Liabilities:						
iv) Notes and accounts payable	¥ 39,310	¥ 39,310	¥ -	¥ 47,515	¥ 47,515	¥ -
v) Short-term bank loans	13,186	13,186	-	22,071	22,071	-
vi) Current portion of long-term debt	8,195	8,180	(15)	7,685	7,741	56
vii) Long-term debt	29,166	29,260	94	36,910	37,028	118
Total liabilities	¥ 89,857	¥ 89,936	¥ 79	¥ 114,181	¥ 114,355	¥ 174
Derivatives	¥ 23	¥ 23	¥ -	¥ 40	¥ 40	¥ -

	2016		
	<i>(Thousands of U.S. dollars)</i>		
	Carrying value	Fair value	Unrealized (loss) gain
Assets:			
i) Cash and cash equivalents, and time deposits	\$ 613,880	\$ 613,880	\$ -
ii) Notes and accounts receivable	576,287	576,287	-
iii) Investments in securities:			
Other securities	257,082	257,082	-
Total assets	\$1,447,249	\$1,447,249	\$ -

2016			
<i>(Thousands of U.S. dollars)</i>			
	Carrying value	Fair value	Unrealized (loss) gain
Liabilities:			
iv) Notes and accounts payable	\$ 348,864	\$ 348,864	\$ -
v) Short-term bank loans	117,022	117,022	-
vi) Current portion of long-term debt	72,728	72,595	(133)
vii) Long-term debt	258,839	259,673	834
Total liabilities	<u>\$ 797,453</u>	<u>\$ 798,154</u>	<u>\$ 701</u>
Derivatives	\$ 204	\$ 204	\$ -

1) Calculation methods of fair value of financial instruments, securities, and derivatives are as follows:

Assets:

- i) Cash and cash equivalents, time deposits, and ii) notes and accounts receivable
Since these items are settled in a short period of time, their carrying values approximate the fair value.
- iii) Investments in securities
Please refer to Note 1(i).

Liabilities:

- iv) Notes and accounts payable, and v) short-term bank loans
Since these items are settled in a short period of time, their carrying values approximate the fair value.
- vi) Current portion of long-term debt, and vii) long-term debt
The fair value of long-term debt is based on present value of the total amount including principal and interest, discounted by the expected interest rate in the case of new borrowings under the same conditions and in the same amount of the balance as of the end of the period. Long-term loans with floating interest rates were hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The estimated fair value of those long-term loans is reasonably based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates, estimated reasonably, applicable to loans made under similar conditions.

Derivative transactions:

Please refer to Note 20.

2) Financial instruments for which it is extremely difficult to determine the fair value:

Other securities whose market value was not determinable at March 31, 2016 and 2015 are presented as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unlisted securities and other	¥ 1,350	¥ 650	\$ 11,981

Since there is no market price for unlisted securities and it is difficult to determine the fair value, they are not included in the preceding table "(2) Fair value of financial instruments."

3) The redemption schedule for monetary assets with maturity dates as of March 31, 2016 and 2015 is as follows:

	2016		2015		2016	
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
	Due within one year		Due within one year		Due within one year	
Cash and cash equivalents, and time deposits	¥	69,172	¥	49,255	\$	613,880
Notes and accounts receivable		64,936		74,156		576,287
	¥	134,108	¥	123,411	\$	1,190,167

4. Investments in Securities

Marketable securities classified as other securities at March 31, 2016 and 2015 are summarized as follows:

	2016			2015		
	<i>(Millions of yen)</i>					
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 27,031	¥ 16,424	¥ 10,607	¥ 33,247	¥ 18,087	¥ 15,160
Subtotal	27,031	16,424	10,607	33,247	18,087	15,160
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	1,937	2,231	(294)	900	960	(60)
Subtotal	1,937	2,231	(294)	900	960	(60)
Total	¥ 28,968	¥ 18,655	¥ 10,313	¥ 34,147	¥ 19,047	¥ 15,100

	2016		
	<i>(Thousands of U.S. dollars)</i>		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 239,892	\$ 145,758	\$ 94,134
Subtotal	239,892	145,758	94,134
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	17,190	19,799	(2,609)
Subtotal	17,190	19,799	(2,609)
Total	\$ 257,082	\$ 165,557	\$ 91,525

Sales of other securities for the years ended March 31, 2016 and 2015 were as follows:

	2016		2015		2016	
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
Proceeds	¥	447	¥	547	\$	3,967
Gross realized gain	¥	48	¥	422	\$	426

5. Inventories

Inventories at March 31, 2016 and 2015 were as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished goods	¥ 27,884	¥ 33,769	\$ 247,462
Raw materials	9,860	11,446	87,504
Work in process	5,574	6,222	49,468
Supplies	5,689	4,866	50,488
Total	¥ 49,007	¥ 56,303	\$ 434,922

6. Loss on Impairment of Property, Plant and Equipment

Property, plant and equipment are primarily grouped based on the business segment categories designated for management control purposes.

There was no loss on impairment of property, plant and equipment recognized for the year ended March 31, 2016.

For the year ended March 31, 2015, growth of the polymer market for lithium-ion batteries was below expectations followed by a decline in the price of the product. Based on these circumstances, as continuous loss hereafter was expected, a loss on impairment in the amount of ¥181 million was recognized on equipment which was used to manufacture polymer for lithium-ion batteries at the Kawasaki Plant in Kanagawa Prefecture. Accordingly, the Company has written down such assets to their respective net recoverable amounts. The net recoverable amounts of these impaired assets were measured at value in use based on estimated future cash flows discounted at a rate of 5%.

Sales of equipment to manufacture fuel cell materials had decreased and the growth of this market was not expected. Based on these circumstances, as continuous loss hereafter was expected, a loss on impairment in the amount of ¥296 million was recognized on equipment which was used to manufacture fuel cell materials in Saga Prefecture. Accordingly, the Company has written down such assets to their respective net recoverable amounts. The net recoverable amounts of these impaired assets were measured at value in use based on estimated future cash flows discounted at a rate of 5%.

Details of the loss on impairment of property, plant and equipment for the year ended March 31, 2015 are summarized as follows:

2015			
Company	Application	Classification	<i>(Millions of yen)</i>
Kawasaki Plant (Kanagawa Prefecture)	Equipment to manufacture polymer for lithium-ion batteries	Buildings and structures, machinery and equipment	¥181
Saga Prefecture	Equipment to manufacture fuel cell materials	Machinery and equipment	296
Total			¥477

7. Short-Term Bank Loans, Long-Term Debt and Lease Obligations

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2016 and 2015 were 0.89% and 0.57%, respectively.

Long-term debt and lease obligations at March 31, 2016 and 2015 consisted of the following:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates from 0.30% to 0.87%, due through 2021	¥ 17,832	¥ 19,304	\$ 158,253
Unsecured loans from banks, payable in U.S. dollars, at rates from 0.77% to 1.52%, due through 2020	19,524	25,240	173,270
Secured loans from banks, payable in Japanese yen, at rate of 1.24%, due through 2016	5	51	44
Lease obligations	133	177	1,180
Subtotal	37,494	44,772	332,747
Less current portion	(8,220)	(7,713)	(72,950)
Total	¥ 29,274	¥ 37,059	\$ 259,797

The aggregate annual maturities of long-term debt subsequent to March 31, 2016 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2017	¥ 8,195	\$ 72,728
2018	11,749	104,269
2019	4,696	41,676
2020	8,796	78,062
2021 and thereafter	3,925	34,832
	¥ 37,361	\$ 331,567

The aggregate annual maturities of lease obligations to March 31, 2016 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2017	¥ 25	\$ 222
2018	26	231
2019	27	240
2020	21	186
2021 and thereafter	34	301
	¥ 133	\$ 1,180

Assets pledged as collateral for short-term bank loans, long-term debt, including the current portion thereof, and notes and accounts payable at March 31, 2016 and 2015 were as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Time deposits	¥ 8	¥ –	\$ 71
Land	550	526	4,881
Buildings and structures	72	73	639
Machinery and equipment	206	188	1,828
Other assets	5	13	45
Total	¥ 841	¥ 800	\$ 7,464

8. Retirement Benefits

Outline of Retirement Benefit Plan

Employees of the Company and consolidated subsidiaries are mainly covered by funded and unfunded defined benefit plans and defined contribution pension plans to provide for retirement benefits. In funded defined benefit corporate pension plans, lump-sum payments or pensions at retirement based on salary and length of service are paid. In unfunded lump-sum payments plan, lump-sum payments based on salary and length of service are paid as retirement benefits. In addition, the Company has a cash balance plan for a defined benefit corporate pension plan and a retirement lump-sum plan. Under the cash balance plan, each eligible employee has a hypothetical account, which is equivalent to the funded amount as the basis for the pension payment. The hypothetical accounts accumulate contribution credits based on salary level and interest credits based on market interest trends.

The Company also has the employees' retirement benefit trust.

Certain consolidated subsidiaries calculate the retirement benefit obligations, retirement benefit assets and retirement benefit expenses for their defined benefit corporate pension plans and lump-sum payments plans based on the amount which would be payable at the year-end if all eligible employees terminated their services voluntarily ("the simplified method").

Certain consolidated subsidiaries participate in a multi-employer pension plan. Since the portion of pension assets of the consolidated subsidiaries held in the multi-employer pension plan could not be reasonably calculated, the required contribution amount is recognized as retirement benefit expense.

Information on defined benefit pension plans for the years ended March 31, 2016 and 2015 is as follows:

The change in retirement benefit obligation is outlined as follows (excluding plans to which the simplified method is applied):

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year, as originally reported	¥ 36,412	¥ 32,353	\$ 323,145
Cumulative effect of change in accounting principle	–	135	–
Balance at the beginning of the year, as adjusted	36,412	32,488	323,145
Service cost	1,682	1,528	14,927
Interest cost	417	593	3,701
Actuarial loss	2,492	3,673	22,116
Benefits paid	(1,977)	(1,884)	(17,545)
Prior service cost	(9)	3	(80)
Other	(29)	11	(257)
Balance at the end of the year	¥ 38,988	¥ 36,412	\$ 346,007

The change in plan assets at fair value is outlined as follows (excluding plans to which the simplified method is applied):

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 31,122	¥ 25,074	\$ 276,198
Expected return on plan assets	911	717	8,085
Actuarial (loss) gain	(1,590)	4,479	(14,111)
Contributions by the employer	1,702	2,002	15,105
Benefits paid	(1,138)	(1,150)	(10,099)
Balance at the end of the year	¥ 31,007	¥ 31,122	\$ 275,178

The change in liabilities for retirement benefits calculated by the simplified method is outlined as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 988	¥ 1,015	\$ 8,768
Retirement benefit expenses	100	55	887
Benefits paid	(112)	(21)	(994)
Other	(13)	(61)	(115)
Decrease resulting from exclusion of subsidiaries from consolidation	96	-	852
Balance at the end of the year	¥ 1,059	¥ 988	\$ 9,398

The reconciliation of the ending balance of the retirement benefit obligation and plan assets to the asset and liability for retirement benefits recognized in the consolidated balance sheets were as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 28,247	¥ 26,790	\$ 250,683
Plan assets at fair value	(31,200)	(31,977)	(276,890)
	(2,953)	(5,187)	(26,207)
Unfunded retirement benefit obligation	11,992	11,466	106,425
Net amount of liabilities and assets recognized in consolidated balance sheets	9,039	6,279	80,218
Liability for retirement benefits	12,568	11,755	111,537
Asset for retirement benefits	(3,529)	(5,476)	(31,319)
Net amount of liabilities and assets recognized in consolidated balance sheets	¥ 9,039	¥ 6,279	\$ 80,218

Retirement benefit calculated by the simplified method is included in the above table.

The components of retirement benefit expenses are outlined as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 1,682	¥ 1,528	\$ 14,927
Interest cost	417	593	3,701
Expected return on plan assets	(911)	(717)	(8,085)
Amortization:			
Actuarial loss	174	549	1,544
Past service cost	16	40	142
Retirement benefit expenses calculated by simplified method	99	55	879
Retirement benefit expenses	<u>¥ 1,477</u>	<u>¥ 2,048</u>	<u>\$ 13,108</u>

The components of retirement benefits liability adjustments included in other comprehensive income, before the tax effect, are outlined as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ 25	¥ 37	\$ 222
Actuarial (loss) gain	(3,909)	1,355	(34,691)
Total	<u>¥ (3,884)</u>	<u>¥ 1,392</u>	<u>\$ (34,469)</u>

The components of retirement benefit liability adjustments included in accumulated other comprehensive income, before the tax effect, are outlined as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized past service cost	¥ 21	¥ 46	\$ 186
Unrecognized actuarial gain (loss)	3,798	(111)	33,706
Total	<u>¥ 3,819</u>	<u>¥ (65)</u>	<u>\$ 33,892</u>

The breakdown of plan assets by major category is as follows:

	<u>2016</u>	<u>2015</u>
Bonds	55%	40%
Equities	23%	32%
Cash and deposits	14%	12%
Other	8%	16%
Total	<u>100%</u>	<u>100%</u>

(Note) The breakdown of plan assets in the above table is determined based on the percentage of composition of the various assets in the pension fund. Bonds include alternative investments that are approximately the same as bonds in terms of level of risk.

(Note) 0.4% of pension assets are part of a retirement benefit trust for a corporate pension plan.

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rates	Principally 0.4%	Principally 1.1%
Expected long-term rate of return on plan assets	Principally 3.0%	Principally 3.0%
Rates of salary increase	Principally 5.2%	Principally 5.2%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term expected rates of return from multiple plan assets at present and in the future.

The required contributions to defined contribution pension plans for the years ended March 31, 2016 and 2015 amounted to ¥175 million (\$1,553 thousand) and ¥201 million, respectively.

The following table sets forth the status of the multi-employer pension plan at March 31, 2015 and 2014, the most recent date on which such data was available:

	<u>2015</u>	<u>2014</u>	<u>2015</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Plan assets.....	¥ 571,380	¥ 512,489	\$ 5,070,820
Total amounts of actuarial liability calculated under pension financing and minimum actuarial reserve	561,736	522,290	4,985,232
Difference	¥ 9,644	¥ (9,801)	\$ 85,588

The contribution ratio of the Company and consolidated subsidiaries to the multi-employer plan was 0.5% at March 31, 2016 and 2015. This percentage is not the same as the Company and consolidated subsidiaries' percentage of obligation.

Additional information

The difference of ¥9,644 million (\$85,588 thousand) in the above table is the net amount of the balance of prior service cost of ¥40,107 million (\$355,937 thousand) calculated under pension financing, the general reserve of ¥35,441 million (\$314,528 thousand) and the surplus of the plan of ¥14,311 million (\$127,006 thousand) at March 31, 2015. Prior service cost is amortized on a straight-line basis over 7 years as of March 31, 2015, and the Company and consolidated subsidiaries expensed additional payments in the amount of ¥28 million (\$248 thousand) for amortization of prior service cost.

The difference of ¥9,801 million in the above table was the net amount of the balance of prior service cost of ¥45,242 million calculated under pension financing, the general reserve of ¥17,618 million and the surplus of the plan of ¥17,823 million at March 31, 2014. Prior service cost was amortized on a straight-line basis over 8 years as of March 31, 2014, and the Company and consolidated subsidiaries expensed additional payments in the amount of ¥28 million for amortization of prior service cost.

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended March 31, 2016 and 2015 were, in the aggregate, approximately 33.0% and 35.6%, respectively.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2016 and 2015 differed from the above statutory tax rates for the following reasons:

	<u>2016</u>	<u>2015</u>
Statutory tax rates	33.0 %	35.6 %
Effect of:		
Valuation allowance	(1.8)	2.2
Different tax rate applicable to income of subsidiaries	0.2	(4.2)
Tax credit for research and development costs	(2.6)	(2.9)
Equity in earnings of an unconsolidated subsidiary and affiliates	(2.3)	(1.5)
Other tax credit	(0.3)	(0.1)
Decrease in deferred income tax assets resulting from change in the statutory tax rates	0.8	1.7
Other, net	(1.6)	3.6
Effective tax rates	25.4 %	34.4 %

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Depreciation and amortization (including loss on impairment)	¥ 2,043	¥ 2,249	\$ 18,131
Liability for retirement benefits for employees	2,746	2,179	24,370
Tax loss carryforwards	4,845	5,097	42,998
Intercompany profit on inventories and property, plant and equipment	729	1,525	6,470
Accrued bonuses to employees	963	960	8,546
Loss on impairment of land	886	961	7,863
Reserve for periodic repairs	750	821	6,656
Loss on devaluation of investments in securities and other	645	683	5,724
Other	1,126	1,810	9,994
Gross deferred tax assets	14,733	16,285	130,752
Less: Valuation allowance	(4,938)	(5,647)	(43,824)
Total deferred tax assets	9,795	10,638	86,928
Deferred tax liabilities:			
Net unrealized holding gain on securities	(2,611)	(4,363)	(23,172)
Equity in earnings of an overseas consolidated subsidiary	(945)	(1,156)	(8,387)
Deferred capital gain on property (in overseas subsidiaries)	(245)	(288)	(2,174)
Depreciation and amortization	(1,342)	(996)	(11,910)
Reserve for depreciation for tax purposes	(12)	(8)	(106)
Other	(1,709)	(1,733)	(15,167)
Total deferred tax liabilities	(6,864)	(8,544)	(60,916)
Net deferred tax assets	¥ 2,931	¥ 2,094	\$ 26,012

The “Act to Partially Revise the Income Tax Act and Others” (Act No.15 of 2016) and the “Act to Partially Revise the Local Tax Act and Others” (Act No.13 of 2016) were enacted during the Japanese Diet session on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.2% to 30.08% for temporary differences expected to be realized or settled in the period from April 1, 2016 to March 31, 2018 and to 30.6% for the temporary differences expected to be realized or settled on April 1, 2018 or thereafter. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, after offsetting deferred tax liabilities, by ¥198 million (\$1,757 thousand), net retirement benefits liability adjustments by ¥56 million (\$497 thousand) and increase income taxes-deferred by ¥279 million (\$2,476 thousand), unrealized holding gain on securities by ¥136 million (\$1,207 thousand) and unrealized gain on hedges by ¥1 million (\$9 thousand) as of and for the year ended March 31, 2016.

10. Business Combinations

Transactions under common control

(1) Additional acquisition of subsidiary’s shares

On March 31, 2016, the Company acquired the shares of Nippoh Chemicals Co., Ltd. for ¥950 million (\$8,431 thousand) in cash. Nippoh Chemicals Co., Ltd. is a consolidated subsidiary of the Company, and manufactures and sells iodine, natural gas, medicine, agrichemicals, and aroma chemicals. The purpose of the acquisition is to strengthen the Group management. To achieve this purpose, the Company additionally acquired shares of Nippoh Chemicals Co., Ltd. from non-controlling shareholders and boosted its ownership ratio.

The Company applied ASBJ Statement No.21, “Revised Accounting Standard for Business Combinations,” and ASBJ Guidance No.10, “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures,” and accounted for the business combination as a transaction with non-controlling shareholders under common control.

As result of the additional acquisition of the subsidiary’s shares, capital surplus increased by ¥312 million (\$2,769 thousand).

(2) Business divestiture

On June 30, 2015, the Company transferred all shares of Nippon Polyester Co., Ltd., which was a former consolidated subsidiary of the Company, to Takiron Co., Ltd. The nature of the divested business is the manufacture and sales of corrugated plastic plates and flat plastic plates.

The domestic demand for Nippon Polyester Co., Ltd. is not expected to expand continuously in terms of building and civil construction products in the domestic market. For further growth, technological strength for new product development and cost reduction and marketing strength for business expansion are required. Under such circumstances, Nippon Polyester Co., Ltd. judged that synergies between Nippon Polyester Co., Ltd. and Takiron Co., Ltd. would enable further growth, because Takiron Co., Ltd. has strong capabilities in technology and marketing as a synthetic plastic manufacturer.

The Company transferred shares and received a cash consideration. As result, the Company recognized a gain on transfer from business divestiture of ¥620 million (\$5,502 thousand). The difference between the amount received for the transfer of shares and the amount of owner’s equity in the subsidiary whose shares were transferred was recognized in profit. This accounting method assumes that the investment in the subsidiary subject to the share transfer is liquidated.

The book value of assets pertaining to the transferred business is as follows:

Year ended March 31, 2016	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	¥ 2,773	\$ 24,609
Non-current assets	136	1,207
Total assets	¥ 2,909	\$ 25,816

The divested business was included in functional chemical reportable segment.

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥3,920 million (\$32,620 thousand) at March 31, 2016 and 2015.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2016 and 2015 are summarized as follows:

	2016			
	Number of shares			
	<i>(Thousands)</i>			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	204,000	-	163,200	40,800
Treasury stock	1,056	14	853	217

The Company completed a reverse stock split of its common stock at a ratio of 1 share for 5 shares on October 1, 2015 on the basis of a resolution by the annual meeting of shareholders held on June 19, 2015. As a result, the number of issued shares decreased by 163,200 thousand shares.

The increase in treasury stock of 14 thousand shares was due to the acquisition of fractional shares (14 thousand shares) and the acquisition of shares less than one standard unit as a result of the reverse stock split (0 thousand shares).

The decrease in treasury stock of 853 thousand shares was due to the reverse stock split (853 thousand shares) and the sale of shares less than one standard unit (0 thousand shares).

	2015			
	Number of shares			
	<i>(Thousands)</i>			
	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock	204,000	-	-	204,000
Treasury stock	1,033	23	-	1,056

The increase in treasury stock of 23 thousand shares was due to the acquisition of fractional shares.

12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2016 and 2015 totaled ¥12,303 million (\$109,185 thousand) and ¥11,948 million, respectively.

13. Loss on Discontinued Operations

For the year ended March 31, 2015, the Company recorded a loss on discontinued operations due to termination of the manufacturing business of resins for adhesives and paints in the Suita Factory. The main component is removal cost of fixed assets.

14. Gain on Sales of Investment in a Subsidiary

On June 30, 2015, the Company sold all shares of Nippon Polyester Co., Ltd. to Takiron Co., Ltd. As a result, the Company recorded a gain on sales of investment in a subsidiary in the amount of ¥620 million (\$5,502 thousand) for the year ended March 31, 2016.

15. Assets and Liabilities of a Subsidiary Excluded from Consolidation Following Sales of Its Shares

The assets and liabilities of Nippon Polyester Co., Ltd., a former subsidiary excluded from consolidation following the sales of its shares, are as follows:

(As of the acquisition date)	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	¥ 2,773	\$ 24,609
Non-current assets	136	1,207
Current liabilities	(2,627)	(23,314)
Non-current liabilities	(632)	(5,609)
Non-controlling interests	0	0
Gain on sales of shares	620	5,502
Proceeds from sales of shares of common stock	270	2,395
Cash and cash equivalents held by the subsidiary	(59)	(522)
Net proceeds	¥ 211	\$ 1,873

16. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of components of other comprehensive income for the years ended March 31, 2016 and 2015:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ (4,750)	¥ 8,944	\$ (42,155)
Reclassification adjustments	(48)	(422)	(426)
Before tax effects	(4,798)	8,522	(42,581)
Tax effects	1,752	(2,311)	15,549
Net unrealized holding (loss) gain on securities	(3,046)	6,211	(27,032)
Net unrealized deferred gain (loss) on hedges:			
Amount arising during the year	(17)	26	(151)
Tax effects	6	(8)	53
Net deferred (loss) gain on hedges	(11)	18	(98)
Translation adjustments:			
Amount arising during the year	(843)	5,786	(7,481)
Reclassification adjustments	-	(0)	-
Translation adjustments	(843)	5,786	(7,481)
Retirement benefits liability adjustments:			
Amount arising during the year	(4,073)	803	(36,147)
Reclassification adjustments	190	589	1,687
Before tax effects	(3,883)	1,392	(34,460)
Tax effects	1,106	(474)	9,815
Retirement benefits liability adjustments	(2,777)	918	(24,645)
Share of other comprehensive income of an unconsolidated subsidiary and affiliates accounted for by the equity method:			
Amount arising during the year	(785)	1,044	(6,967)
Reclassification adjustments	20	14	178
Share of other comprehensive (loss) income of an unconsolidated subsidiary and affiliates accounted for by the equity method	(765)	1,058	(6,789)
Total other comprehensive income (loss)	¥ (7,442)	¥ 13,991	\$ (66,045)

17. Lease

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of property leased to the Company and its domestic consolidated subsidiaries at March 31, 2016 and 2015 which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Equipment:			
Acquisition costs	¥ 532	¥ 532	\$ 4,721
Accumulated depreciation	(440)	(386)	(3,905)
Net book value	¥ 92	¥ 146	\$ 816

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance leases amounted to ¥54 million (\$479 thousand) and ¥57 million for the years ended March 31, 2016 and 2015, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥54 million (\$479 thousand) and ¥57 million for the years ended March 31, 2016 and 2015, respectively, if it had been reflected in the accompanying consolidated balance sheet.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2016 under finance lease transactions, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that were entered into on or before March 31, 2008 are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2017	¥ 52	\$ 461
2018 and thereafter	40	355
	¥ 92	\$ 816

18. Contingent Liabilities

The Company and a consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates at March 31, 2016 and 2015 as follows:

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
American Acryl L.P.	¥ 1,709	¥ 2,308	\$ 15,167
Re-guaranteed by Arkema Delaware Inc.	854	1,154	7,579

The consolidated subsidiary had contingent liabilities arising from notes discounted with banks and notes endorsed at March 31, 2016 and 2015 as follows:

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Notes discounted with banks	¥ -	¥ 476	\$ -
Notes endorsed	0	0	0

19. Amounts per Share

	2016	2015	2016
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent	¥ 640.69	¥ 470.28	\$ 5.69
Cash dividends	98.00	24.00	0.87
Net assets	6,870.84	6,535.66	60.98

Profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share has not been presented for the years ended March 31, 2016 and 2015 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2016 and 2015.

As described in 1. Summary of Significant Accounting Policies (s) Change in accounting policy, the Company and its domestic consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations." As a result, profit attributable to owners of parent decreased by ¥7.70 (\$0.07) for the year ended March 31, 2016.

The Company completed a reverse stock split of its common stock at a ratio of 1 share for 5 shares on October 1, 2015. The amounts per share of net assets and profit attributable to owners of parent have been computed based on the assumption that the reverse stock split had been completed at the beginning of the prior year.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of profit attributable to owners of parent per share for the years ended March 31, 2016 and 2015 is summarized as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Profit attributable to owners of parent	¥ 26,003	¥ 19,089	\$ 230,769
Deductions from profit attributable to owners of parent	-	-	-
Adjusted profit attributable to owners of parent available to shareholders of common stock	¥ 26,003	¥ 19,089	\$ 230,769
Weighted-average number of shares of common stock outstanding during the year <i>(thousands of shares)</i>	40,585	40,590	

20. Derivatives

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

There were no derivative transactions to which hedge accounting was not applied as of March 31, 2016 and 2015.

(2) Derivative transactions to which hedge accounting is applied

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting as of March 31, 2016 and 2015 are summarized as follows:

Currency-related transactions

			2016		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
<i>Millions of yen</i>					
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	¥ 120	¥ -	¥ 23
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	1,977	-	(*)
	Buy	Accounts payable, trade	25	-	(*)
			2015		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
<i>Millions of yen</i>					
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	¥ 222	¥ -	¥ 40
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	9,722	-	(*)
	Buy	Accounts payable, trade	25	-	(*)
			2016		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
<i>Thousands of U.S. dollars</i>					
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	\$ 1,065	\$ -	\$ 204
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	17,545	-	(*)
	Buy	Accounts payable, trade	222	-	(*)

Fair value of forward foreign currency exchange contracts is computed using prices provided by counterparty financial institutions.

(*) Fair value of forward foreign currency exchange contracts under the allocation method is included in accounts receivable, trade or accounts payable, trade.

Interest-rate related transactions

			2016		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
			<i>(Millions of yen)</i>		
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	¥ 5,000	¥ 5,000	(*)

			2015		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
			<i>(Millions of yen)</i>		
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	¥ 5,000	¥ 5,000	(*)

			2016		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
			<i>(Thousands of U.S. dollars)</i>		
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	\$ 44,373	\$ 44,373	(*)

(*) Because interest rate swap agreements are accounted for by applying swap rates to underlying long-term debt, their fair value is included in that of the long-term debt disclosed in Note 3.

21. Segment Information

(1) Outline of reporting segments

The Group's reporting segments are divisions of the Group for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors meeting of the Company in order to allocate management resources and assess performance of operations.

The Group's main business lines are divided based on similarities of function and nature and the Company prepares the comprehensive strategy and conducts the business activities corresponding to the products handled by each business line.

Accordingly, the Group has three reporting segments based on product family: Basic chemicals, Functional chemicals, and Environment and catalysts.

Basic chemicals division is engaged in manufacturing and sales of acrylic acids, acrylic ester, ethylene oxides, ethylene glycols, ethanolamine, higher-alcohol and glycol ether.

Functional chemicals division is engaged in manufacturing and sales of superabsorbent polymers, pharmaceutical intermediates, polymer for concrete admixture, electronic and information materials, iodine, maleic anhydride, resins for adhesives and paints, and process adhesive products.

Environment and catalysts division is engaged in manufacturing and sales of automotive catalysts, De-NOx catalysts, dioxin decomposition catalysts, industrial catalysts, exhaust gas treatment equipment and fuel cell material.

(2) Calculation methods used for sales, income or loss, assets, and other items on each reporting segment.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

(3) Information as to sales, profit or loss, assets, and other items on each reporting segment

The segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2016 and 2015 is outlined as follows:

	Year ended March 31, 2016					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>					
Sales to third parties	¥ 117,643	¥ 177,798	¥ 27,683	¥ 323,124	¥ -	¥ 323,124
Intragroup sales and transfers	34,353	5,010	746	40,109	(40,109)	-
Net sales	¥ 151,996	¥ 182,808	¥ 28,429	¥ 363,233	¥ (40,109)	¥ 323,124
Segment profit	¥ 8,851	¥ 21,422	¥ 620	¥ 30,893	¥ 341	¥ 31,234
Segment assets	134,121	207,886	27,665	369,672	38,325	407,997
Depreciation and amortization	9,441	8,425	520	18,386	-	18,386
Increases in property, plant and equipment and other assets	4,585	10,830	341	15,756	-	15,756

Year ended March 31, 2015

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consoli- dated
	<i>(Millions of yen)</i>					
Sales to third parties	¥ 147,976	¥ 200,966	¥ 25,931	¥ 374,873	¥ -	¥ 374,873
Intragroup sales and transfers	44,032	5,312	2,308	51,652	(51,652)	-
Net sales	<u>¥ 192,008</u>	<u>¥ 206,278</u>	<u>¥ 28,239</u>	<u>¥ 426,525</u>	<u>¥ (51,652)</u>	<u>¥ 374,873</u>
Segment profit	¥ 7,820	¥ 17,286	¥ 1,277	¥ 26,383	¥ (250)	¥ 26,133
Segment assets	149,225	205,794	26,111	381,130	38,504	419,634
Depreciation and amortization	9,469	9,439	602	19,510	-	19,510
Increases in property, plant and equipment and other assets	7,358	5,762	518	13,638	-	13,638

Year ended March 31, 2016

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consoli- dated
	<i>(Thousands of U.S. dollars)</i>					
Sales to third parties	\$ 1,044,045	\$ 1,577,902	\$ 245,678	\$ 2,867,625	\$ -	\$ 2,867,625
Intragroup sales and transfers	304,872	44,462	6,621	355,955	(355,955)	-
Net sales	<u>\$ 1,348,917</u>	<u>\$ 1,622,364</u>	<u>\$ 252,299</u>	<u>\$ 3,223,580</u>	<u>\$ (355,955)</u>	<u>\$ 2,867,625</u>
Segment profit	\$ 78,550	\$ 190,114	\$ 5,502	\$ 274,166	\$ 3,026	\$ 277,192
Segment assets	1,190,282	1,844,924	245,518	3,280,724	340,123	3,620,847
Depreciation and amortization	83,786	74,769	4,615	163,170	-	163,170
Increases in property, plant and equipment and other assets	40,690	96,114	3,026	139,830	-	139,830

Notes 1. The adjustments in segment profit are related to the elimination between inter segment transactions. The adjustments in segment assets consist of inter segment elimination and the common properties of the group. The common properties are the investments held by the Company, mainly cash and cash equivalents, and investments in securities.

Note 2. The amount of long-term prepaid expense and its amortized cost are included in increases in property, plant and equipment and other assets.

(4) Related information

Geographical information

1) Sales

Sales categorized by countries and regions based on locations of customers of the Group for the years ended March 31, 2016 and 2015 are summarized as follows:

2016					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Americas	Other	Total
¥ 162,192	¥ 63,531	¥ 46,902	¥ 31,785	¥ 18,714	¥ 323,124

2015					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Americas	Other	Total
¥ 182,709	¥ 81,155	¥ 52,634	¥ 39,724	¥ 18,651	¥ 374,873

2016					
<i>(Thousands of U.S. dollars)</i>					
Japan	Asia	Europe	Americas	Other	Total
\$ 1,439,404	\$ 563,818	\$ 416,241	\$ 282,082	\$ 166,080	\$ 2,867,625

“Asia” includes east and south-east Asia. “Americas” includes U.S.A. and Canada. “Other” includes areas except for Asia, Europe, North America and Japan.

2) Property, plant and equipment

Property, plant and equipment categorized by countries and regions as of March 31, 2016 and 2015 is summarized as follow:

2016					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Other	Total	
¥ 100,001	¥ 30,457	¥ 5,839	¥ 10,291	¥ 146,588	

2015					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Other	Total	
¥ 100,802	¥ 33,237	¥ 4,055	¥ 11,553	¥ 149,647	

2016					
<i>(Thousands of U.S. dollars)</i>					
Japan	Asia	Europe	Other	Total	
\$ 887,478	\$ 270,296	\$ 51,819	\$ 91,330	\$ 1,300,923	

(5) Information about loss on impairment

2015						
<i>(Millions of yen)</i>						
Reporting segments					Adjustments and eliminations	Total
Basic chemicals	Functional chemicals	Environment and catalysts				
Loss on impairment	¥ -	¥ -	¥ 477	¥ -	¥ -	¥ 477

22. Related Party Transactions

Principal transactions between the Company and its related party for the years ended March 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<i>Umicore Shokubai Japan Co., Ltd.:</i>			
Sales of finished goods	¥ 19,888	¥ 18,242	\$ 176,500
Purchases of raw materials	17,844	16,146	158,360

The balances due from and to its related party at March 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<i>Umicore Shokubai Japan Co., Ltd.:</i>			
Notes and accounts receivable	¥ 6,970	¥ 6,684	\$ 61,857
Notes and accounts payable	4,947	4,079	43,903

The prices for the above related party transactions were determined in reference to market value and cost.

Umicore Shokubai Co., Ltd. is a related company in which the Company indirectly owns 40% of the shares.

23. Subsequent Events

(1) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2016, was approved at a shareholders' meeting held on June 21, 2016:

	<u><i>(Millions of yen)</i></u>	<u><i>(Thousands of U.S. dollars)</i></u>
Cash dividends (¥85.00 = \$0.754 per share)	¥ 3,450	\$ 30,618

(2) Bonds

On June 16, 2016, pursuant to a resolution of the Board of Directors at a meeting held on May 10, 2016, the Company issued the 8th unsecured domestic straight bonds in the amount of ¥10,000 million (\$88,747 thousand) with an interest rate of 0.11% per annum and a maturity date on June 16, 2021 for the purpose of business investment. The issuance price was ¥100 per ¥100 face value.



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Nippon Shokubai Co., Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 21, 2016
Osaka, Japan

Corporate Data

NIPPON SHOKUBAI CO., LTD. (As of March 31, 2016)

Established: August 21, 1941

Common Stock (Paid in Capital): 25,038 million yen

Number of Shares Issued: 40,800,000 shares

Number of Shares Authorized: 127,200,000 shares

Number of Employees: : 4,006 (Consolidated)
2,163 (Non-consolidated)

Markets listed: Tokyo Stock Exchange; Securities Code:
4114;
ADR (The Bank of New York Mellon Bank);
Checker Symbol: NPSHY

Fiscal Year Ends: March 31

Auditors: Ernst & Young Shin Nihon LLC

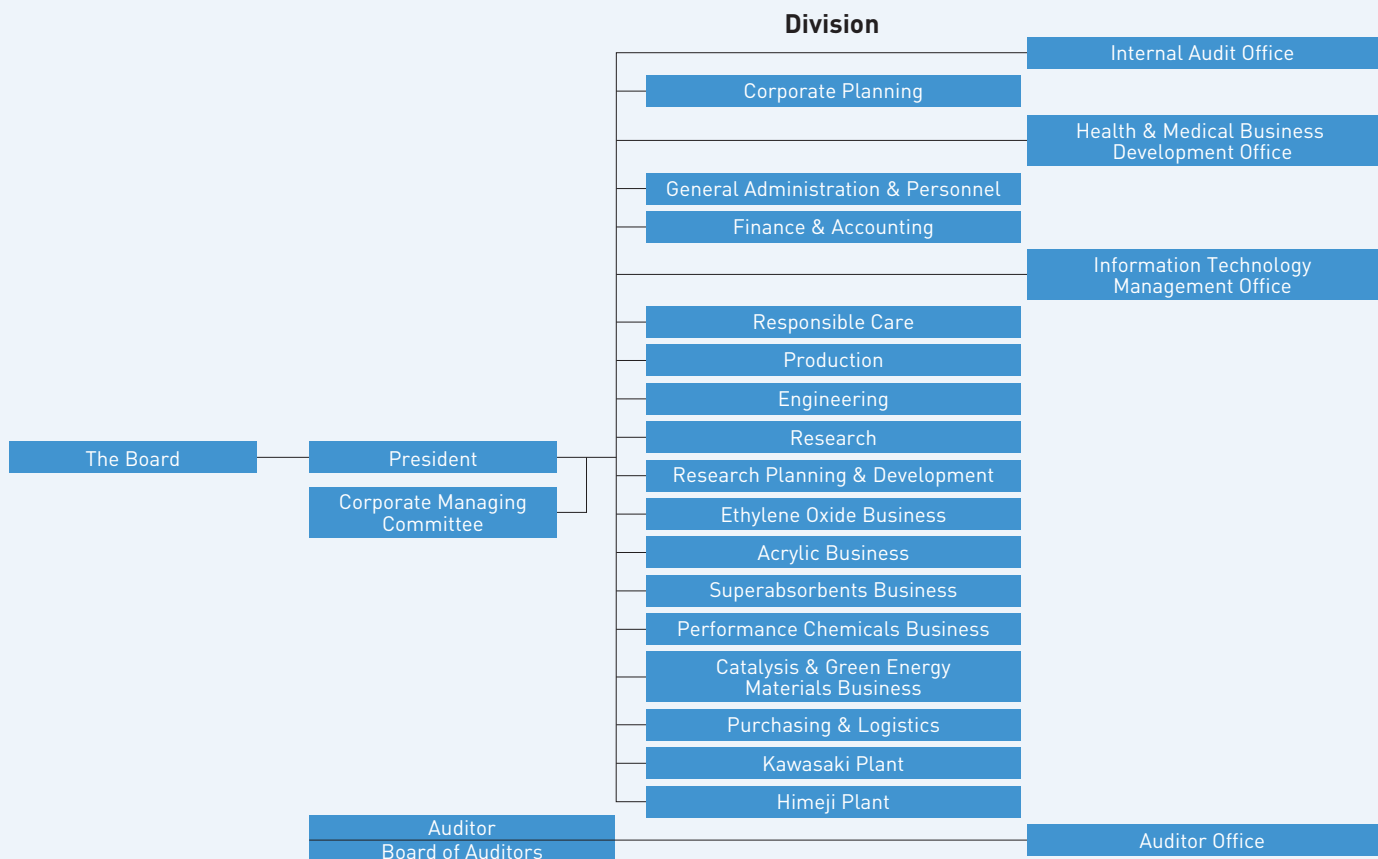
Lead Managers (Securities): Nomura Securities Co., Ltd.,
Mizuho Securities Co., Ltd.

Stock Transfer Agency: Mitsubishi UFJ Trust and Banking
Corporation

Banks: Resona Bank, Limited,
Mizuho Bank, Ltd.,
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

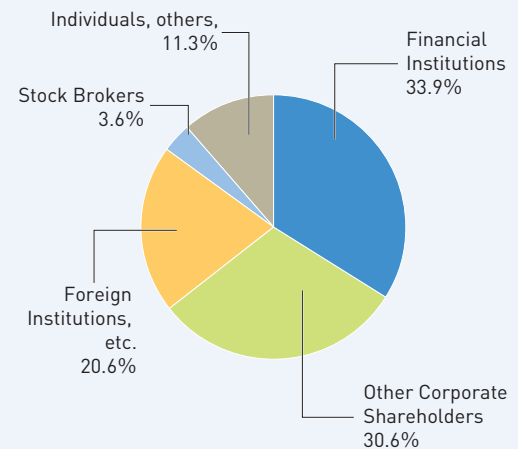
Number of shareholders: 11,640

Organization Chart (As of June 21, 2016)



Major Shareholders (As of March 31, 2016)

Name	Number of Shares Owned (thousand shares)	Ratio of capital Contribution (%)
Sumitomo Chemical Company, Limited	3,896	9.60
Japan Trustee Services Bank, Ltd. (Trust Account)	2,354	5.80
JX Holdings, Inc.	2,129	5.24
Resona Bank, Limited.	1,373	3.38
National Mutual Insurance Federation of Agricultural Cooperatives	1,308	3.22
Sanyo Chemical Industries, Ltd.	1,267	3.12
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,238	3.05
Mizuho Bank, Ltd.	948	2.33
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	946	2.33
Toyo Ink SC Holdings Co., Ltd.	904	2.22

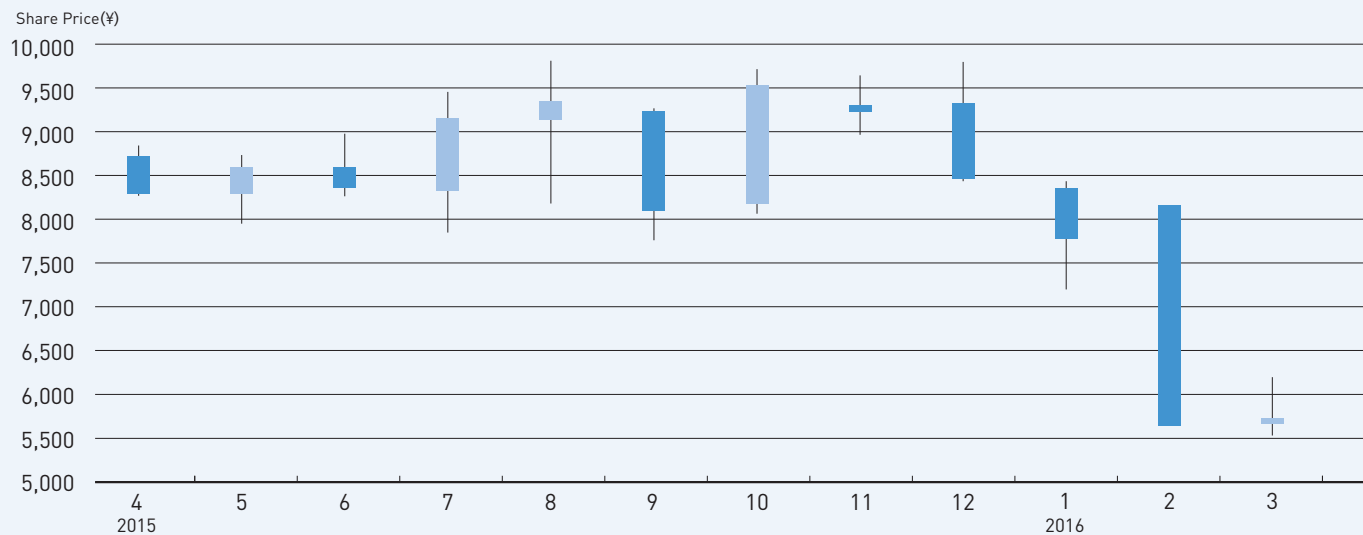


(Note 1) Other than the above, the Company holds 217 thousand shares as treasury stock.

(Note 2) Treasury stock is excluded from the calculation for "Shareholding Ratio of the Total Shares Outstanding" above.

(Note 3) Figures in "Number of Shares Owned" and "Shareholding Ratio of the Total Shares Outstanding" are truncated.

Share Price and Turnover (April 2015- March 2016)



(Note) The company conducted a reverse stock split at a ratio of one common share for every five common shares on October 1, 2015. The figures for share price are amounts on the assumption that the company conducted the reverse stock split on April 1, 2015.

Subsidiaries & Affiliates

Japan

NIPPOH CHEMICALS CO., LTD.	Neo Kawai Bldg., 8-15, 4-Chome, Nihonbashi-Honchou, Chuo-Ku, Tokyo 103-0023, Japan TEL +81-3-3270-5341 FAX +81-3-3270-3401 Principle Business: Manufacture and sale of iodine, intermediates for API and agro-chemicals, flame retardants, and photo/electro chemicals
CHUGOKU KAKO CO., LTD.	1575 Mizue, Kurashiki, Okayama 710-0802 Japan TEL +81-86-465-3555 FAX +81-86-465-7843 Principle Business: Manufacture and sale of adhesive-processed products and fine sphere particles
Nisshoku Butsuryu Co., Ltd.	6F Kogin Bldg., 4-1-1 Koraibashi, Chuo-ku, Osaka 541-0043 Japan TEL +81-6-6202-5267 FAX +81-6-6233-2475 Principle Business: Logistics of chemicals
NIPPON NYUKAZAI CO., LTD.	4-1 Nihonbashi Kobuna-cho, Chuo-ku, Tokyo 103-0024 Japan TEL +81-3-5651-5631 FAX +81-3-5651-5639 Principle Business: Manufacture and sale of surfactant and other chemicals
Tokyo Fine Chemical CO., LTD.	3F Bussan Bldg., 1-4-14 Nishi Shinbashi, Minato-ku, Tokyo 105-0003 Japan TEL +81-3-3506-7666 FAX +81-3-3506-7671 Principle Business: Manufacture and sale of stabilizer of vinyl chloride resin, antiseptics, antifouling agents and antifreeze
NISSHOKU TECHNO FINE CHEMICAL CO., LTD. (formerly NIHON JYORYU KOGYO CO., LTD)	9-1 Koutani Shinmachi, Ichikawa, Chiba 272-0011 Japan TEL +81-47-328-1185 FAX +81-47-328-1189 Principle Business: Manufacture and sale of polycyclic aromatic hydrocarbons, (meth)acrylic acid derivatives and photo/electro chemicals
NIPPON SHOKUBAI TRADING CO., LTD.	2F TT-1 Bldg., 1-14-8 Nihonbashi Ningyou-cho, Chuo-ku, Tokyo 103-0013 Japan TEL +81-3-5695-4021 FAX +81-3-5695-4024 Principle Business: Sale of chemical products
NIPPON POLYMER IND. Co., Ltd.	2114 Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-273-4121 FAX +81-79-273-4601 Principle Business: Manufacture and sale of acrylic resins
Japan Composite Co., Ltd.	3-2-13 Nihonbashi-Honcho, Chuo-ku, Tokyo 103-0023 Japan TEL +81-3-3516-3002 FAX +81-3-3516-3090 Principle Business: Manufacture and sale of unsaturated polyester resins and plastic molded materials
Umicore Shokubai Japan Co. Ltd	1-25-19 Rinku-cho, Tokoname, Aichi 479-0882 Japan TEL +81-569-38-7670 FAX +81-569-38-7678 Principle Business: Manufacture, R&D and sale of automotive catalysts
NS Green Co., Ltd.	992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-273-4744 FAX +81-79-273-4744 Principle Business: Maintenance of green tract of land of plant site
NISSHOKU ENGINEERING SERVICE CO., LTD.	992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-272-0677 FAX +81-79-271-5188 Principle Business: Design, construction, repair and maintenance of production facilities
NIHON METHACRYL MONOMER CO. LTD.	Sumitomo Twin Bldg., 2-27-1 Shinkawa, Chuo-ku, Tokyo 104-0033 Japan TEL +81-3-5543-5302 FAX +81-3-5543-5907 Principle Business: Manufacture and sale of MAA and MMA

CATOX Co., Ltd.	1-46 Higashi Kaigan-cho, Amagasaki, Hyogo 660-0843 Japan TEL +81-6-6409-1301 FAX +81-6-6409-1302 Principle Business: Development and sale of plant control systems
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Overseas

Nippon Shokubai America Industries, Inc.	4631 Old Highway 146, Suite A, Pasadena, TX 77507, USA TEL +1-832-284-4033 Principle Business: Manufacture and sale of superabsorbent polymers, polymers for concrete admixture and water soluble polymers
SINGAPORE ACRYLIC PTE LTD	80 Robinson Road #18-02 Singapore 068898 TEL +65-6532-0078 FAX +65-6532-0079 Principle Business: Manufacture and sale of crude acrylic acid
PT.NIPPON SHOKUBAI INDONESIA	Kawasan Industri Panca Puri Jl. Raya Anyer Km. 122 Ciwandan, Cilegon 42447 Banten, Indonesia TEL +62-254-600-660 FAX +62-254-600-657 Principle Business: Manufacture and sale of acrylic acid and acrylic esters
NIPPON SHOKUBAI (ASIA) PTE.LTD.	80 Robinson Road #18-02 Singapore 068898 TEL +65-6532-0078 FAX +65-6532-0079 Principle Business: Manufacture glacial acrylic acid, Sale of chemical products
NIPPON SHOKUBAI EUROPE N.V.	Haven 1053, Nieuwe Weg1, B-2070 Zwijndrecht, Belgium TEL +32-3-250-3705 FAX +32-3-250-3712 Principle Business: Manufacture and sale of superabsorbent polymers
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.	No.19 Changjiang Road (E),Yangtze River International Chemical Industrial Park, Zhangjiagang, Jiangsu, China, 215635 TEL +86-512-5893-7910 FAX +86-512-5893-7912 Principle Business: Manufacture and sale of superabsorbent polymers, polymers for concrete admixture
SINO-JAPAN CHEMICAL CO.,LTD	14Fl, 99, Sec. 2, Jen Ai Rd., Taipei, Taiwan TEL +886-2-2396-6223 FAX +886-2-2396-9076 Principle Business: Manufacture and sale of surfactant and other chemicals
LG MMA Corporation	27F One IFC, 10, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul 07326, Korea TEL+82-2-6930-3800 FAX +82-2-6930-3801 Principle Business: Manufacture and sale of MAA and PMMA
American Acryl NA,LLC American Acryl L.P.	4631 Old Highway 146, Suite B, Pasadena, TX 77507, USA Principle Business: Manufacture and sale of acrylic acid
Umicore Shokubai S.A.	L-4940, Bascharage, 5, rue Bommel, Luxembourg Principle Business: Automotive catalyst
NISSHOKU TRADING (SHANGHAI) CO., LTD	R/No.3604,The Center,989 Changle Road Shanghai, China, 200031 TEL +86-21-5407-5959 FAX +86-21-5407-5673 Principle Business: Sale of chemical products
NIPPON SHOKUBAI KOREA CO., LTD.	4F 26, Hwangsaeul-ro 200beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-Do, Korea, 13595 TEL +82-31-718-9111 FAX +82-31-718-9693 Principle Business: Sale of E&I materials and chemical products

Directory

Management

Member of the Board, President

Masanori Ikeda *

Member of the Board, Senior Managing Executive Officer

Haruhisa Yamamoto *
Masao Yamamoto

Member of the Board, Managing Executive Officer

Yojiro Takahashi
Yujiro Goto

Member of the Board, Executive Officer

Yukihiro Matsumoto

Member of the Board

Koichi Miura
Takashi Sakai
Kozo Arao

Statutory Corporate Auditor

Taizo Maruo
Yoshihiro Arita
Kunimitsu Oba
Yoichiro Komatsu

Managing Executive Officer

Koichiro Yamada
Nobuyuki Harada

Executive Officer

Takumi Hatsuda
Kin-ya Nagasuna
Masaya Yoshida
Kazukiyo Arakawa
Teruo Kamei
Ren Hasebe

* Representative

Company Outline

Business establishments

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FAX +81-3-3506-7598

• Kawasaki Plant and Kawasaki Research Center

[Chidori Plant]
14-1 Chidori-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0865 Japan
TEL +81-44-288-7366
[Ukishima Plant]
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TEL +81-44-288-5715

• Himeji Plant and Himeji Research Center

992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1282 Japan
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+81-79-273-1145
(Research Center)

• Suita Research Center

5-8 Nishi Otabi-cho, Suita, Osaka 564-0034 Japan
TEL +81-6-6317-2202

• Tsukuba Research Center

1-25-12 Kannondai, Tsukuba, Ibaraki 305-0856 Japan
TEL +81-29-838-2561

Research Centers

• Strategic Technology Research Center (Suita, Himeji, Tsukuba)

• Advanced Materials Research Center (Suita, Himeji)

• Catalysts Technology Research Center (Himeji, Kawasaki)

• Superabsorbents Research Center (Himeji)

• Fine & Specialty Chemicals Research Center (Suita)

• E&I & Performance Materials Research Center (Suita, Himeji, Tsukuba)

• Process Technology Center (Suita, Himeji)



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