NETUREN

Annual Report 2014

For the year ended March 31, 2014

NETUREN CO., LTD.

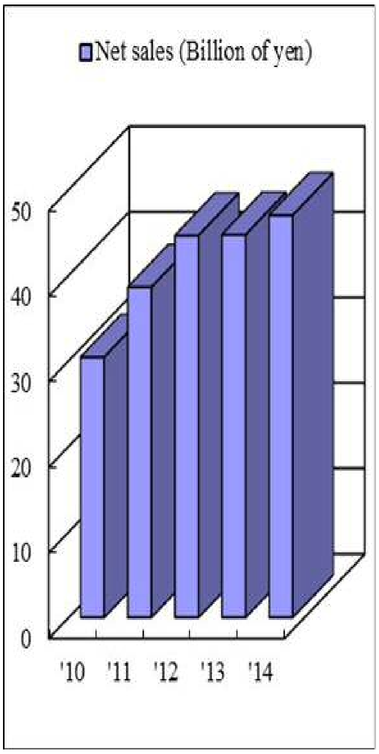
CONTENTS

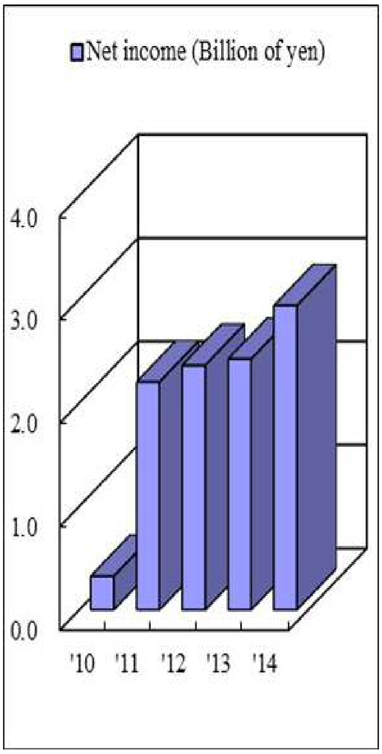
FIVE－YEAR SUMMARY

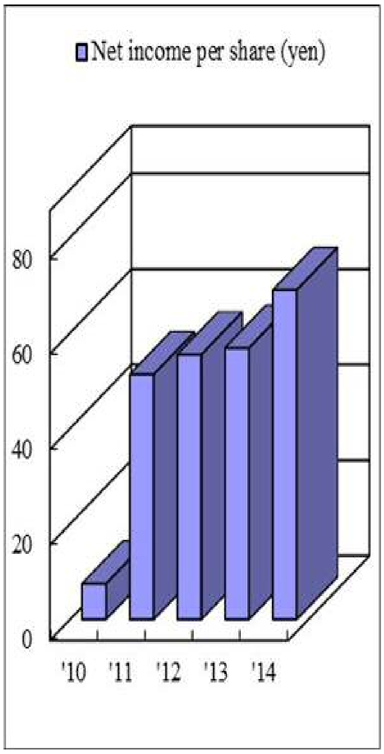
Neturen Co., Ltd. and Consolidated Subsidiaries
Five years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2010	2011	2012	2013	**2014**	**2014**
Net sales..	¥30,423	¥38,592	¥44,635	¥44,728	**¥46,997**	**$456,637**
Operating income............................	236	3,035	4,207	3,826	**3,686**	**35,817**
Income before income taxes and minority interests.......................	1,053	3,807	4,354	4,201	**3,390**	**32,938**
Net income......................................	324	2,201	2,363	2,422	**2,939**	**28,560**
Comprehensive income..................	—	1,628	2,137	4,328	**7,208**	**70,035**
Total assets......................................	60,846	64,342	66,785	70,583	**78,374**	**761,504**
Net assets..	48,458	49,344	51,311	55,376	**61,658**	**599,091**
Per share of common stock (in yen and dollars):						
Net income.................................	¥ 7.47	¥ 51.26	¥ 55.43	¥ 56.83	**¥ 68.96**	**$0.67**
Cash dividends...........................	10.00	10.00	14.00	15.00	**18.00**	**0.17**
Stockholders’ equity..................	1,070.89	1,102.56	1,134.81	1,209.91	**1,325.53**	**12.88**

Note: U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥102.92=US$1.







TO OUR SHAREHOLDERS

The Group, consisting of the Company (Neturen Co., Ltd.), 16 subsidiaries and 6 affiliates, manufactures and sells prestressing steel bars and deformed steel bars for prestressed concrete used in the civil engineering and construction field; Induction Heated, Quenched and Tempered Wire (ITW) used mainly in suspension springs for automobiles and motorcycles, auto parts and construction machine parts; and induction heating equipment for various industries. It also provides heat treatment services for major security parts of automobiles, machine tools and construction equipment.

(1) Activities and Results

During the consolidated fiscal year under review, Japan's economy followed a gradual recovery trend, due partly to the effects of the government's economic policy, although there were unstable factors such as electricity rate increases and concerns over rising prices of imported materials. While the global economy was generally robust, emerging countries faced unstable factors such as economic slowdowns and currency turmoil.

Under such circumstances, the Group strove to reinforce its management base and further increase corporate values, by tackling management issues focused on in the 12th medium-term business plan, "Global Challenge 30," including implementing growth strategies and establishing a necessary structure; expanding global businesses; and securing and developing human resources.

While the performance of overseas subsidiaries was relatively strong, orders received mainly from the construction industries decreased in Japan, and this adversely affected the Group's business performance.

As a result, net sales were ¥46,997 million (up 5.1% from the previous fiscal year), with operating income at ¥3,686 million (down 3.7%) and ordinary income at ¥4,449 million (up 2.0%), due mainly to foreign exchange gains. Net income was ¥2,939 million (up 21.4%), due mainly to a gain on subsidies at overseas subsidiaries and the use of a tax deduction system by the Company.

Status by business segment

a. Specialty Steel and Wire Products Division

The sales volume of our main products, construction-related products, decreased from the previous fiscal year. This was due primarily to a sharper than expected fall in sales of shear reinforcement bars, caused mainly by a delay in the commencement of construction work. In addition, competition with peer manufacturers over orders, mainly for shear reinforcement bars, is intensifying and adjustments to sales prices to address the situation impacted net sales and profits.

Meanwhile, the sales volume of ITW used in suspension springs for automobiles and motorcycles increased from a year earlier both at the Company and overseas subsidiaries.

As a result, sales in this segment were ¥23,530 million (up 1.9% from the previous fiscal year) and operating income was ¥1,957 million (down 7.9%).

b. Induction Heat Treatment Service and Heating Machine Division

Sales of construction machine parts related increased both at the Company and its consolidated subsidiaries in China. In addition, sales of auto parts related remained at the same level as the previous fiscal year. However, sales of induction heat-treatment services related decreased from a year earlier, due mainly to a decline in orders received from the construction equipment industry. Furthermore, expenses related to the commencement of operations of the Company's Ibaraki plant adversely affected profits.

Meanwhile, sales of induction-heating equipment rose year-on-year due to relatively stable orders received.

As a result, sales in this segment were ¥23,331 million (up 8.3% from the previous fiscal year) and operating income was ¥1,673 million (down 2.2%).

c. Others

This segment deals with activities such as the real estate leasing business that are not included in the reportable segments.

Leasing income increased from a year earlier, due partly to the conclusion of a lease agreement for floors of a rental office for which an agreement had not been signed. As a result, sales in this segment were ¥135 million (up 48.7% from the previous fiscal year) and operating income was ¥55 million (compared to a ¥9 million loss a year earlier).

(2) Cash Flow

At the end of the fiscal year under review, the balance of cash and cash equivalents amounted to ¥12,684 million (up ¥1,840 million from the previous fiscal year).

a. Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥5,797 million (¥5,404 million income in the previous fiscal year).

This was caused chiefly by an increase in net income before income taxes and a decrease in trade notes and accounts receivable.

b. Cash Flow Used in Investing Activities

Net cash used in investing activities amounted to ¥5,516 million (¥4,679 million expenditure in the previous fiscal year).

This was caused primarily by payments for purchases of investment securities amounting to ¥1,104 million and payments for purchases of property, plant and equipment totaling ¥4,189 million, despite proceeds from sales and redemption of investment securities amounting to ¥268 million.

c. Cash Flow Used in Financing Activities

Net cash provided by financing activities amounted to ¥581 million (¥1,006 million expenditure in the previous fiscal year).

This was caused mainly by income from long-term debt totaling ¥2,000 million, despite payments of dividends amounting to ¥767 million.

(3) Equipment Investment

The Group (the Company and its consolidated subsidiaries) has been focused on making capital expenditures for new products and businesses as well as to meet orders received. To cope with changes in the business environment, we also have invested in rationalization. We are rigorously reviewing the effects of individual equipment investments by establishing standards for returns on investments.

The Group finances capital investments mainly with funds on hand. However, when large investments such as the establishment of a new subsidiary or construction of a new plant are necessary, capital investments are made using external funds.

During the consolidated fiscal year under review, the Group received a ¥2,000 million loan to finance the establishment of overseas subsidiaries including Neturen Czech s.r.o. (Czech Republic) and other investments including operation of the Company's Ibaraki plant.

In the fiscal year under review, equipment investment amounted to ¥4,091 million on a consolidated basis.

(4) Issues for the Coming Term

We believe the business environment of the Group will continue to be harsh for the foreseeable future. Under such circumstances, the Group will endeavor to enhance corporate values by tackling the following challenges.

1. Increase sales by developing new products suited to customer needs and accelerating market introduction of these products, while securing orders for existing products through marketing activities.
2. Promote energy-saving measures including the necessary capital investments and minimize the impact of a rise in electricity rates on business results.
3. Supply products of consistent quality to the market in a timely fashion by recognizing that taking appropriate action to meet the demand generated by reconstruction from the Great East Japan Earthquake is the social responsibility of the Group.
4. Establish strategies to promote global opportunities, enhance technologies, and urgently secure and develop the human resources needed. In addition, strengthen the management framework to ensure the smooth launch of new overseas businesses, contribute to the Group's consolidated business performance, visualize risks unique to overseas business, and implement countermeasures for those risks.

S. Mizoguchi

Shigeru Mizoguchi
President

CONSOLIDATED BALANCE SHEETS

Neturen Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note2)
	2013	**2014**	**2014**
ASSETS			
Current assets:			
Cash and deposits(Note4)	¥ 10,849	**¥ 13,191**	**$128,172**
Short-term investment securities (Note4,5)	200	**350**	**3,400**
Notes and accounts receivable:			
Trade(Note4)	14,816	**14,088**	**136,888**
Other	1,112	**1,342**	**13,048**
Less: allowance for doubtful accounts	(65)	**(5)**	**(54)**
Inventories (Note3)	4,071	**4,347**	**42,241**
Deferred tax assets (Note7)	450	**486**	**4,728**
Other current assets	324	**351**	**3,412**
Total current assets	31,759	**34,152**	**331,839**
Property, plant and equipment:			
Land	10,073	**10,085**	**97,993**
Buildings and structures	16,694	**18,308**	**177,886**
Machinery and equipment	39,752	**42,609**	**414,010**
Lease assets	112	**139**	**1,356**
Construction in progress	998	**2,168**	**21,068**
Less: accumulated depreciation	(39,815)	**(42,427)**	**(412,234)**
Net property, plant and equipment	27,815	**30,884**	**300,081**
Investments and other assets:			
Investment securities (Note4,5)	6,294	**7,360**	**71,512**
Stocks of subsidiaries and affiliates (Note5)	3,681	**4,838**	**47,016**
Net defined benefit asset	—	**64**	**623**
Deferred tax assets (Note7)	51	**52**	**508**
Other assets	981	**1,021**	**9,923**
Total investments and other assets	11,009	**13,336**	**129,583**
Total	¥70,583	**¥78,374**	**$761,504**

See Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note2)
	2013	**2014**	**2014**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable:			
Trade(Note4)	¥ 5,749	**¥ 5,743**	**$55,805**
Other	471	**439**	**4,269**
Short-term bank loans (Note4,6)	1,783	**1,721**	**16,726**
Current portion of long-term debt (Note4,6)	128	**427**	**4,156**
Lease obligations (Note6)	29	**38**	**378**
Accrued income taxes (Note7)	662	**471**	**4,579**
Accrued expenses	4,159	**3,794**	**36,866**
Deferred tax liabilities (Note7)	1	**2**	**19**
Other current liabilities	748	**568**	**5,528**
Total current liabilities	13,733	**13,207**	**128,330**
Long-term liabilities:			
Long-term debt (Note6)	54	**1,400**	**13,604**
Lease obligations (Note6)	52	**82**	**797**
Provision for retirement benefits (Note11)	330	**—**	**—**
Net defined benefit liability	—	**762**	**7,406**
Deferred tax liabilities (Note7)	800	**1,027**	**9,984**
Other long-term liabilities	235	**235**	**2,288**
Total long-term liabilities	1,473	**3,507**	**34,081**
NET ASSETS:			
Shareholders' equity:			
Common stock:			
Authorized:150,000,000 shares in 2013 and 2014			
Issued:44,713,930 shares in 2013 and 2014	6,418	**6,418**	**62,362**
Additional paid-in capital	5,528	**5,528**	**53,717**
Retained earnings	42,369	**44,541**	**432,774**
Less: Treasury stock, at cost	(1,669)	**(1,669)**	**(16,223)**
Total shareholders' equity	52,646	**54,818**	**532,632**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	113	**1,020**	**9,918**
Foreign currency translation adjustments	(1,190)	**924**	**8,987**
Remeasurements of defined benefit plans	—	**(267)**	**(2,597)**
Total accumulated other comprehensive income	(1,077)	**1,678**	**16,307**
Minority interests	3,806	**5,161**	**50,151**
Total net assets	55,376	**61,658**	**599,091**
Total	¥70,583	**¥78,374**	**$761,504**

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note2)
	2013	**2014**	**2014**
Net sales	¥44,728	**¥46,997**	**$456,637**
Cost of sales	34,496	**36,814**	**357,695**
Gross profit	10,232	**10,183**	**98,942**
Selling, general and administrative expenses (Note8)	6,405	**6,496**	**63,124**
Operating income	3,826	**3,686**	**35,817**
Other income (expenses):			
Interest and dividend income	182	**194**	**1,894**
Interest expenses	(77)	**(74)**	**(719)**
Gain on sales of short-term and investments in securities	4	**66**	**644**
Gain (loss) on sales or disposals of property, plant and equipment	(49)	**(12)**	**(124)**
Equity in earnings of unconsolidated subsidiaries and affiliates	258	**223**	**2,174**
Other net (Note9)	54	**531**	**5,160**
Other income (expenses) - net	374	**929**	**9,029**
Income before income taxes and minority interests	4,201	**4,615**	**44,846**
Income taxes (Note7)			
Current	(1,484)	**(1,206)**	**(11,723)**
Deferred	(54)	**(18)**	**(184)**
Total income taxes	(1,539)	**(1,225)**	**(11,908)**
Income before minority interests	2,661	**3,390**	**32,938**
Minority interests in income	(239)	**(450)**	**(4,378)**
Net income	¥ 2,422	**¥ 2,939**	**$ 28,560**
Minority interests in income	(239)	**(450)**	**(4,378)**
Income before minority interests	2,661	**3,390**	**32,938**
Other comprehensive income			
Unrealized gain on available-for-sale securities	326	**912**	**8,862**
Foreign currency translation adjustments	1,007	**2,347**	**22,805**
Share of other comprehensive income of associates accounted for using equity method	333	**558**	**5,429**
Total other comprehensive income	1,667	**3,817**	**37,096**
Comprehensive income	4,328	**7,208**	**70,035**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	3,754	**5,962**	**57,930**
Comprehensive income attributable to minority interests	573	**1,245**	**12,104**
	Yen		U.S. dollars
Per share of common stock:			
Net income	¥ 56.83	**¥ 68.96**	**$0.67**
Cash dividends	15.00	**18.00**	**0.17**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2012.......	¥ 6,418	¥ 5,528	¥40,500	¥ (1,668)	¥50,779
Changes during the year					
Dividends from surplus........			(554)		(554)
Net income............................			2,422		2,422
Acquisition of treasury stock.				(0)	(0)
Other.....................................					
Balance at March 31, 2013…....	**¥ 6,418**	**¥ 5,528**	**¥42,369**	**¥ (1,669)**	**¥52,646**
Changes during the year					
Dividends from surplus........			**(767)**		**(767)**
Net income............................			**2,939**		**2,939**
Acquisition of treasury stock.				**(0)**	**(0)**
Other.....................................					
Balance at March 31, 2014…....	**¥ 6,418**	**¥ 5,528**	**¥44,541**	**¥ (1,669)**	**¥54,818**

	Thousands of U.S. dollars (Note2)				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2013…....	**$62,362**	**$53,717**	**$411,669**	**$ (16,217)**	**$511,532**
Changes during the year					
Dividends from surplus........			**(7,454)**		**(7,454)**
Net income............................			**28,560**		**28,560**
Acquisition of treasury stock.				**(6)**	**(6)**
Other.....................................					
Balance at March 31, 2014…....	**$62,362**	**$53,717**	**$432,774**	**$ (16,223)**	**$532,632**

	Millions of yen				
	Accumulated other comprehensive income				
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at April 1, 2012…….	¥ (214)	¥ (2,194)	—	¥ 2,942	¥51,311
Changes during the year					
Dividends from surplus........					(554)
Net income............................					2,422
Acquisition of treasury stock.					(0)
Other.....................................	328	1,004		864	2,197
Balance at March 31, 2013…....	**¥ 113**	**¥ (1,190)**	**—**	**¥ 3,806**	**¥55,376**
Changes during the year					
Dividends from surplus........					**(767)**
Net income............................					**2,939**
Acquisition of treasury stock.					**(0)**
Other.....................................	**907**	**2,115**	**(267)**	**1,355**	**4,110**
Balance at March 31, 2014…....	**¥ 1,020**	**¥ 924**	**¥ (267)**	**¥ 5,161**	**¥61,658**

	Thousands of U.S. dollars (Note2)				
	Accumulated other comprehensive income				
	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at March 31, 2013…....	**$1,099**	**$(11,563)**	**—**	**$36,986**	**$538,054**
Changes during the year					
Dividends from surplus........					**(7,454)**
Net income............................					**28,560**
Acquisition of treasury stock.					**(6)**
Other.....................................	**8,819**	**20,551**	**(2,597)**	**13,165**	**39,938**
Balance at March 31, 2014…....	**$9,918**	**$8,987**	**$(2,597)**	**$50,151**	**$599,091**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note2)
	2013	**2014**	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥4,201	**¥4,615**	**$44,846**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	2,669	**2,651**	**25,765**
Increase (decrease) in allowance for doubtful accounts	30	**(61)**	**(602)**
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	(258)	**(223)**	**(2,174)**
Increase (decrease) in provision for retirement benefits	(71)	**70**	**689**
Increase (decrease) in other accrued liabilities	(1,275)	**(196)**	**(1,912)**
Gain on sales of short-term and investment securities	(4)	**(66)**	**(644)**
Loss (gain) on sales or disposals of property, plant and equipment	49	**12**	**124**
Write-down of investment securities	0	**—**	**—**
Decrease (increase) in notes and accounts receivable	1,806	**1,151**	**11,191**
Decrease (increase) in inventories	(258)	**146**	**1,424**
Increase (decrease) in notes and accounts payable	(184)	**(198)**	**(1,932)**
Income taxes paid	(1,550)	**(1,386)**	**(13,468)**
Other	250	**(717)**	**(6,975)**
Total adjustments	1,203	**1,182**	**11,485**
Net cash provided by operating activities	5,404	**5,797**	**56,332**

	Millions of yen		Thousands of U.S. dollars (Note2)
	2013	**2014**	**2014**
Cash flows from investing activities:			
Payments into time deposits	(5)	**(456)**	**(4,434)**
Proceeds from withdrawal of time deposits	5	**5**	**48**
Payments for purchases of property, plant and equipment	(3,834)	**(4,189)**	**(40,709)**
Proceeds from sales of property, plant and equipment	2	**12**	**117**
Payments for purchases of intangible assets	(340)	**(32)**	**(315)**
Payments for purchases of short-term investment securities	(201)	**—**	**—**
Proceeds from sales of short-term investment securities	100	**100**	**971**
Proceeds from sales and redemption of investment securities	526	**268**	**2,611**
Payments for purchases of investment securities	(922)	**(1,104)**	**(10,735)**
Payments for other assets	(4)	**(49)**	**(480)**
Proceeds from other assets	41	**42**	**410**
Other	(46)	**(111)**	**(1,084)**
Net cash provided by (used in) investing activities	(4,679)	**(5,516)**	**(53,600)**
Cash flows from financing activities:			
Repayment of treasury stock	(0)	**(0)**	**(6)**
Proceeds from long-term debt	—	**2,000**	**19,432**
Repayment of long-term debt	(409)	**(364)**	**(3,544)**
Proceeds from short-term debt	57	**105**	**1,023**
Repayment of short-term debt	(419)	**(428)**	**(4,167)**
Dividends paid	(554)	**(767)**	**(7,454)**
Proceeds from stock issuance to minority shareholders	439	**145**	**1,418**
Other	(119)	**(108)**	**(1,054)**
Net cash provided by (used in) financing activities	(1,006)	**581**	**5,648**
Translation adjustments on cash and cash equivalents	201	**423**	**4,119**
Net increase (decrease) in cash and cash equivalents	(79)	**1,286**	**12,498**
Cash and cash equivalents at beginning of year	10,923	**10,843**	**105,363**
Cash and cash equivalents of newly consolidated subsidiary	—	**554**	**5,387**
Cash and cash equivalents at end of year	¥ 10,843	**¥ 12,684**	**$123,249**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Neturen Co., Ltd. (the Company) and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

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

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

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

(1) Principle of Consolidation and Investments in Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and 14 significant subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. All unrealized profits and losses with regard to intercompany transactions of assets are also wholly eliminated in consolidation. The difference after offsetting the amounts in the investment accounts of the parent company and the capital accounts of the subsidiaries is to be equally amortized for 5 years. The equity method to account for investments in an unconsolidated subsidiary and 5 affiliates has been followed by the Company in the accompanying consolidated financial statements. Accordingly, earnings corresponding to the equity ownership are included as income of the Company and the consolidated subsidiaries in investment accounts.

The fiscal year-end of all subsidiaries differs from that of the Company. Accounts of those subsidiaries which have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions and the results of operations.

(2) Foreign Currency financial statement

In translating the financial statements of foreign subsidiaries and affiliates into Japanese yen, all assets, liabilities, revenues and expenses are translated at the current exchange rates in effect each balance sheet date except for capital and retained earnings which are translated at the historical exchange rates in effect at the time of the transactions. The resulting translation adjustments are reflected as separate components in the accompanying consolidated financial statements as foreign currency translation adjustments.

(3) Cash and Cash Equivalents

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

(4) Short-term Securities, Investment securities

Short-term securities and investment securities are classified and account for, depending on management's intent, as follows:

Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are amortized or accumulated to face value. Other securities, "available-for-sale securities" with fair value are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of net assets until realized. Other securities without fair value are carried at cost. In computing realized gain or loss, cost of other securities are principally determined by the moving-average method.

(5) Inventories

Inventories are principally stated at cost on a first-in, first-out basis, evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability.

(6) Property, Plant and Equipment (except under lease)

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed under the declining-balance method at rates based on estimated useful lives of the assets while the straight-line method is applied to buildings acquired after April 1, 1998, and to the assets of foreign subsidiaries.

The range of useful lives is principally from 5 to 50 years for buildings and structures, from 4 to 12 years for machinery and equipment.

(7) Intangible assets

Intangible assets are carried at cost less accumulated amortization, which are amortized by the straight-line method. Goodwill is amortized by the straight-line method within a 5-year period.

(8) Lease assets

Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciation on a straight-line basis, with lease period used as their useful lives and no residual value. The accounting treatment for finance leases that do not transfer ownership of the leased property to the lessee which took place before March 31, 2008 continues to be in accordance with the method used for operating lease transaction.

(9) Allowance for Doubtful Accounts

The allowance for doubtful accounts has been provided at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the analysis of certain individual receivables.

(10) Research and Development Costs

Research and development costs are charged to income as incurred.

(11) Retirement and severance benefits

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

The unrecognized actuarial gain / loss is recognized using the straight-line method over mainly 10 years from next fiscal year.

(12) Income Taxes

Income taxes of the Company and subsidiaries are provided on the basis of amounts payable as indicated in the tax returns.

The Company and its consolidated subsidiaries have adopted the assets and liabilities method of tax effect accounting in order to recognize the effect of all temporary differences in the recognition of assets and liabilities for tax financial reporting purpose.

(Change in accounting policies)

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied ”Accounting Standard for Retirement Benefits” (ASBJ Statement No.26, May 17, 2012 (hereinafter, ”Statement No.26”)) and ”Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25, May 17, 2012 (hereinafter, ” Guidance No.25”)) except for article 35 of Statement No.26 and article 67 of Guidance No.25. As a result, actuarial gains (losses) and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets for each individual benefit plan has been recognized as an asset or a liability for retirement benefits.

In accordance with article 37 of Statement No.26, the effect of the change in accounting policies arising from this initial application has been recognized within accumulated other comprehensive income as accumulated adjustments for retirement benefits.

As a result of the application, an asset for retirement benefits in the amount of ¥64 million ($623 thousand) and a liability for retirement benefits in the amount of ¥762 million ($7,406 thousand) have been recognized, and accumulated other comprehensive income has increased by ¥267 million ($2,597 thousand), at the end of the current fiscal year.

The adoption of this change has increased net assets per share of common stock by 6.27 yen (0.06 U.S. Dollars).

(Accounting standards issued but not yet applied)

・ASBJ Statement No.26 ”Accounting Standard for Retirement Benefits”
・ASBJ Guidance No.25 ”Guidance on Accounting Standard for Retirement Benefits”

(1)Overview

Methods for recognizing unrealized actuarial gains and losses and past service costs, methods for calculating retirement benefit obligations and current service costs and expansion of disclosures have been amended.

(2)Date of adoption

Amendments relating to assessment of retirement benefit obligations and current service costs are effective from the year ending on or after March 31, 2015. As transitional treatments are provided in these new standards, they were not applied retrospectively to consolidated financial statements in prior years.

(2)Effect of adoption of the accounting standard

The effect of adoption of this revised accounting standard is now under assessment.

2. Translation in U.S. Dollars

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥102.92 to $1, the approximate rate of exchange on March 31, 2014, at the Tokyo foreign exchange market. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars amounts at such rate or at any other rate.

3. Inventories

Inventories as of March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Finished goods	¥ 673	**¥ 963**	**$ 9,360**
Work in process	1,676	**1,345**	**13,076**
Raw materials and supplies	1,722	**2,038**	**19,805**
	¥ 4,071	**¥ 4,347**	**$42,241**

4. Status of financial instruments

(1) Policies for financial instruments

The Companies raised the funds by bank borrowings and retained earnings according to capital investment. The Companies manage funds only through short-term time deposit and others. The Companies use derivatives for the purposes of managings foreign currency exchange risk related to trading receivables and payables. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk.

Trade receivables —notes receivable and accounts receivable— are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers. Equity securities —the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices. Trade payable —notes payable and accounts payable— mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Short-term debt is raised mainly in connection with business activities. Long-term debt is taken out principally for the purpose of capital expenditure. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Company undertakes interest rate swap transactions as a hedging instrument for most long-term debt.

(3) Risk management of financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

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

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instrument.

(c) Monitoring of liquidity risks for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage the liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

Estimated fair value of financial instruments:

The book value of the financial instruments on the consolidated balance sheets as of March 31, 2013 and 2014 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2013		
	Book value	Fair value	Difference
Cash and Deposits	¥ 10,849	¥ 10,849	¥ —
Notes and accounts receivable	14,816	14,816	—
Marketable securities and investment securities:			
Held-to-maturity securities	400	400	0
Other securities	5,385	5,385	—
Total	¥ 31,451	¥ 31,451	¥ 0
Notes and accounts payable	¥ 5,749	¥ 5,749	¥ —
Short-term debt	1,912	1,912	—
Total	¥ 7,662	¥ 7,662	¥ —

	Millions of yen		
	2014		
	Book value	Fair value	Difference
Cash and Deposits	**¥ 13,191**	**¥ 13,191**	**¥ —**
Notes and accounts receivable	**14,088**	**14,088**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**300**	**300**	**0**
Other securities	**6,685**	**6,685**	**—**
Total	**¥ 34,265**	**¥ 34,265**	**¥ 0**
Notes and accounts payable	**¥ 5,743**	**¥ 5,743**	**¥ —**
Total	**¥ 5,743**	**¥ 5,743**	**¥ —**

	Thousands of U.S. dollars		
	2014		
	Book value	Fair value	Difference
Cash and Deposits	**$ 128,172**	**$ 128,172**	**$ —**
Notes and accounts receivable	**136,888**	**136,888**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**2,914**	**2,915**	**0**
Other securities	**64,956**	**64,956**	**—**
Total	**$ 332,932**	**$ 332,933**	**$ 0**
Notes and accounts payable	**$ 55,805**	**$ 55,805**	**$ —**
Total	**$ 55,805**	**$ 55,805**	**$ —**

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities

Cash and deposits and notes and accounts receivable

Since these items are settled in a short period, their book value approximates fair value.

Investment securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 5.

Notes and accounts payable and short-term debt

Since these items are settled in a short period of time, their book value approximates fair value.

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

As of March 31, 2013 and 2014, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Other securities without fair value:			
Unlisted equity securities	¥ 708	**¥ 724**	**$ 7,041**

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2013 and 2014

	Millions of yen			
	2013			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	¥ 10,849	¥ —	¥ —	¥ —
Notes and accounts receivable	14,816	—	—	—
Marketable securities and investment securities:				
Held-to-maturity securities:				
Bonds	100	300	—	—
Others	—	—	—	—
Total	¥ 25,765	¥ 300	¥ —	¥ —

	Millions of yen			
	2014			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	**¥ 13,191**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable	**14,088**	**—**	**—**	**—**
Marketable securities and investment securities:				
Held-to-maturity securities:				
Bonds	**300**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**
Total	**¥ 27,580**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	2014			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	**$ 128,172**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**136,888**	**—**	**—**	**—**
Marketable securities and investment securities:				
Held-to-maturity securities:				
Bonds	**2,914**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**
Total	**$ 267,976**	**$ —**	**$ —**	**$ —**

5. Short-term Investment Securities, Investment Securities and Other Securities

The following is an analytical summary of held-to-maturity securities and available-for-sale securities consisted of short-term investment securities, investment securities and stocks of subsidiaries and affiliates as of March 31, 2013 and 2014.

	Millions of yen						Thousands of U.S. dollars		
	2013			**2014**			**2014**		
Held-to-maturity securities:	Book value	Difference	Fair value	Book value	Difference	Fair value	Book value	Difference	Fair value
Bonds………………	¥ 400	¥ 0	¥ 400	**¥ 300**	**¥ 0**	**¥ 300**	**$ 2,914**	**$ 0**	**$ 2,915**
Others………………	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 400	¥ 0	¥ 400	**¥ 300**	**¥ 0**	**¥ 300**	**$ 2,914**	**$ 0**	**$ 2,915**
Other securities:									
Available-for-sale securities	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)
Bonds………………	¥ —	¥ —	¥ —	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**
Equity securities...	4,571	662	5,234	**4,705**	**1,877**	**6,583**	**45,717**	**18,247**	**63,964**
Others………………	152	(0)	151	**102**	**(0)**	**102**	**997**	**(5)**	**991**
	¥ 4,723	¥ 662	¥ 5,385	**¥ 4,807**	**¥ 1,877**	**¥ 6,685**	**$ 46,715**	**$ 18,241**	**$ 64,956**

As of March 31, 2013 and 2014, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Other securities without fair value:			
Unlisted equity securities…………………………………………	¥ 708	**¥ 724**	**$ 7,041**
Non-consolidated subsidiaries and affiliates:			
Equity securities…………………………………………………	¥ 3,681	**¥ 4,838**	**$ 47,016**

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans consist mainly of short-term notes and short-term borrowings under the loan agreements. The weighted average interest rates applicable to such loans as of March 31, 2013 and 2014 were approximately 2.8% and 2.3% respectively.

Long-term debt as of March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Unsecured loans from banks…………………………………	¥ 183	**¥ 1,828**	**$ 17,761**
Less: current portion…………………………………………	(128)	**(427)**	**(4,156)**
Lease obligations………………………………………………	82	**120**	**1,175**
Less: current portion…………………………………………	(29)	**(38)**	**(378)**
	¥ 106	**¥ 1,482**	**$ 14,402**

Interest rates applicable to the long-term loans mentioned above ranged from 3.8% and 0.9% as of March 31, 2013 and 2014 respectively.

The aggregate annual maturities of long-term debt payable as of March 31, 2014 were as follows:

As of March 31,	Millions of yen	Thousands of U.S. dollars
2016……………………………………………………	**¥ 400**	**$ 3,888**
2017……………………………………………………	**400**	**3,886**
2018……………………………………………………	**400**	**3,886**
2019……………………………………………………	**200**	**1,943**
	¥ 1,400	**$ 13,604**

7. Income Taxes

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purpose for the years ended March 31, 2013 and 2014.

	As of March 31	
	2013	**2014**
Statutory tax rate	38.0%	**38.0%**
Permanent differences-Entertainment expenses and other	0.4	**0.4**
Permanent differences-Dividend income and other	(3.1)	**(5.2)**
Per capita tax	1.1	**0.9**
Equity in earnings of unconsolidated subsidiaries and affiliates	(2.3)	**(1.8)**
Dividends from consolidated subsidiaries	2.7	**4.8**
Unrecording dererred tax assets to unrealized gain	0.3	**0.1**
Tax rate differences	(1.3)	**(4.0)**
Amortization of goodwill	0.4	**0.3**
Deficit of consolidated subsidiaries	1.0	**(3.2)**
Valuation allowance for deferred tax assets	(0.8)	**(0.3)**
Tax credit	(1.8)	**(5.4)**
Other-net	2.0	**2.0**
Effective tax rate	36.6%	**26.6%**

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Deferred tax assets:			
Inventories	¥ 35	**¥ 36**	**$ 356**
Depreciation	65	**60**	**590**
Intangible assets	25	**8**	**79**
Unrealized loss on valuation of other securities	66	**26**	**260**
Allowance for doubtful accounts	34	**8**	**82**
Accrued enterprise tax	57	**48**	**469**
Accrued employees' bonuses	268	**252**	**2,451**
Excess allowance for retirement benefits	312	**—**	**—**
Net defined benefit liability	—	**485**	**4,715**
Impairment loss	419	**388**	**3,771**
Valuation allowance	(774)	**(604)**	**(5,870)**
Unrealized loss on available-for-sale securities	302	**185**	**1,801**
Others	182	**323**	**3,147**
Total	¥ 995	**¥ 1,220**	**$11,855**
Deferred tax liabilities:			
Accumulated earnings of consolidated subsidiaries	¥ (230)	**¥ (335)**	**$ (3,260)**
Reserve for deferred capital gains	(434)	**(428)**	**(4,165)**
Unrealized gain on available-for-sale securities	(527)	**(848)**	**(8,245)**
Others	(103)	**(97)**	**(951)**
Total	¥ (1,296)	**¥ (1,710)**	**$(16,622)**
Net deferred tax assets (liabilities)	¥ (300)	**¥ (490)**	**$ (4,767)**

Net deferred tax assets are included in the assets and liabilities shown below.

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Deferred tax assets - current	¥ 450	**¥ 486**	**$ 4,728**
Deferred tax assets - non current	51	**52**	**508**
Deferred tax liabilities - current	(1)	**(2)**	**(19)**
Deferred tax liabilities - non current	(800)	**(1,027)**	**(9,984)**

The "Act for Partial Amendment of the Income Tax Act, etc."(Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Tax effective for fiscal years beginning on or after April 1, 2014. In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 38.0% to 35.6% for temporary differences expected to be realized after April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥23 million ($233 thousand), and income taxes - deferred increased by ¥23 million ($233 thousand) as of and for the year ended March 31, 2014, respectively.

8. Research and Development Costs

Research and development costs are charged to income for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Research and development costs..	¥ 1,011	**¥ 904**	**$ 8,786**

9. Other Income / (Expenses) — Other, net

Other income / (expenses) — Other, net consists of the following items:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Gain on insurance claims	¥ 5	**¥ 11**	**$ 106**
Foreign exchange gains	69	**278**	**2,709**
Compensation for damage	(86)	**—**	**—**
Loss on valuation of golf club membership	(34)	**—**	**—**
Subsidy income	—	**109**	**1,062**
Other	100	**131**	**1,281**
Other income (expenses) - net	¥ 54	**¥ 531**	**$ 5,160**

10. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Other consolidated comprehensive income for the year ended March 31, 2014			
Unrealized gain on available-for sale securities			
Amount arising during the year	¥432	**¥1,296**	**$12,598**
Reclassification adjustments for gains and losses recognized in the income statement	(4)	**(63)**	**(615)**
Amount before tax effect adjustment	427	**1,233**	**11,982**
Tax effect	(101)	**(321)**	**(3,120)**
Total	326	**912**	**8,862**
Foreign currency translation adjustments			
Amount arising during the year	1,007	**2,347**	**22,805**
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	338	**569**	**5,529**
Reclassification adjustments for gains and losses recognized in the income statement	(5)	**(10)**	**(100)**
Total	333	**558**	**5,429**
Total	¥ 1,667	**¥ 3,817**	**$ 37,096**

11. Retirement and severance benefits

The Company has adopted a corporate pension plan and a lump-sum pension plan, both of which are defined benefit plans. The Company also adopted a retirement benefit trust.

Domestic consolidated subsidiaries have adopted lump-sum pension plans, and calculated projected benefit obligations by the simplified method.

The Provision for employees' retirement benefits as of March 31, 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(2,239)
Fair value of plan assets	1,469
Unfunded retirement benefit obligation	(769)
Unrecognized actuarial loss	557
Net amount recognized in consolidated balance sheets	(211)
Prepaid retirement benefits cost in consolidated balance sheets	118
Provision for retirement benefits recognized in consolidated balance sheets	¥ (330)

The components of net periodic benefit costs for the years ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥ 199
Interest cost	34
Expected return on plan assets	(21)
Amortization of actuarial loss	85
Net periodic benefit costs	¥ 297

Actuarial assumption and the basis used in accounting for the Company's plans are principally as follows:
Discount rate for the year ended March 31, 2013 was 1.0%.
Expected rate of return for the year ended March 31, 2013 was 1.9%.
Actuarial gain / loss is recognized using the straight-line method over mainly 10 years from next fiscal year.

Defined benefit plans

Movements in retirement benefit obligations except plan applied simplified method for the years ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥ 2,193**	**$ 21,314**
Service cost	**130**	**1,266**
Interest cost	**19**	**186**
Actuarial loss (gain)	**3**	**30**
Benefits paid	**(19)**	**(187)**
Balance at March 31, 2014	**¥ 2,327**	**$ 22,610**

Movements in plan assets except plan applied simplified method for the years ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥ 1,469**	**$ 14,278**
Expected return on plan assets	**21**	**208**
Actuarial loss (gain)	**83**	**814**
Contributions paid by the employer	**123**	**1,197**
Benefits paid	**(19)**	**(187)**
Balance at March 31, 2014	**¥ 1,678**	**$ 16,311**

Movements in liability for retirement benefitts based on the simplified method for the years ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at April 1, 2013	¥ 45	$ 441
Retirement benefit costs	4	46
Benefits paid	(0)	(4)
Balance at March 31, 2014	¥ 49	$ 483

Reconciliation from retirement benefit obligations and plan assets to liability (asset) for the years ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥ 2,327	$ 22,610
Plan assets	(1,678)	(16,311)
	648	6,299
Unfunded retirement benefit obligations	49	483
Total net liabilitiy (asset) for retirement benefits at March 31, 2014	698	6,782
Asset for retirement benefits	(64)	(623)
Liabilitiy for retirement benefits	762	7,406
Total net liabilitiy (asset) for retirement benefits at March 31, 2014	¥ 698	$ 6,782

Retirement benefit costs for the years ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 130	$ 1,266
Interest cost	19	186
Expected return on plan assets	(21)	(208)
Net actuarial loss amortization	61	600
Retirement benefit costs calculated by the simplified method	4	46
Total retirement benefit costs for year ended March 31, 2014	¥ 194	$ 1,891

Breakdown of items recognized in accumulated other comprehensive income for the years ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial differences	¥ 415	$ 4,034
Total	¥ 415	$ 4,034

Plan assets for the years ended March 31, 2014 were as follows:

	As of March 31
	2014
Plan assets comprise:	
Domestic Bonds	7.7%
Domestic Stocks	20.6
Foreign Bonds	2.4
Foreign Stocks	11.6
Insurance assets (General account)	43.9
Other	13.8
Total	100.0

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Actuarial assumptions

The discount rate for the year ended March 31, 2014 used by the Company is 1.0%. Also, the rate of expected return on plan assets for the year ended March 31, 2014 is 1.9%.

Defined contribution plans

The estimated amount of contributions to defined contribution plans at March 31, 2014 was ¥53 million ($519 thousand).

12. Segment information

notes:

Summary of report segment

The reportable segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies divides the business into 2 segments: Specialty Steel & Wire Products Division-related business segment manufactures prestressing steel bars, deform prestressing steel bars, shear reinforcement bars for civil engineering and construction works, and Induction Heated, Quenched and Tempered Wire (ITW), etc. mainly for automobile and motorcycle suspension springs. The Induction Heat Treatment Service and Heating Machine Division-related business segment provides induction heat treatment services for major security parts of automobiles and machine tools. The segment also manufactures auto parts and construction machine parts, as well as induction heating equipment for various industries.

Calculating methods of amounts of sales, profit (loss), assets and liabilities etc of each reportable segment

The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies (Note 1)". Segment profit (loss) are based on operating income. Intersegment sales are mainly based on market price.

Operations in different industries:

(1) Specialty Steel and Wire Products Division: Prestressing Steel Bars & Wires, Spiral Wires, etc.

(2) Induction Heat Treatment Service and Heating Machine Division: Surface heat treatment, Induction heating machine, automobile components, etc.

(3) Others: Leasing and others

	Millions of yen				
	2013				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	¥23,085	¥21,552	¥44,637	¥ 90	¥44,728
Inter-segment	—	90	90	—	90
Total	23,085	21,643	44,728	90	44,819
Segment profit (loss)	2,125	1,711	3,836	(9)	3,826
Segment assets	17,131	33,200	50,331	2,217	52,549
Other items					
Depreciation and amortization	668	1,695	2,363	265	2,628
Increase in property, plant and equipment and intangible assets	¥ 559	¥ 3,958	¥ 4,518	¥ 85	¥ 4,603

	Millions of yen				
	2014				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	¥23,530	¥23,331	¥46,862	¥ 135	¥46,997
Inter-segment	—	53	53	—	53
Total	23,530	23,385	46,915	135	47,050
Segment profit	1,957	1,673	3,631	55	3,686
Segment assets	21,191	36,993	58,185	2,148	60,333
Other items					
Depreciation and amortization	709	1,732	2,441	172	2,614
Increase in property, plant and equipment and intangible assets	¥ 1,372	¥ 2,601	¥ 3,974	¥ 97	¥ 4,071

	Thousands of U.S. dollars				
	2014				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	$228,624	$226,699	$455,324	$ 1,312	$456,637
Inter-segment	—	519	519	—	519
Total	228,624	227,219	455,844	1,312	457,157
Segment profit	19,022	16,258	35,281	536	35,817
Segment assets	205,901	359,443	565,344	20,873	586,217
Other items					
Depreciation and amortization	6,896	16,829	23,726	1,673	25,399
Increase in property, plant and equipment and intangible assets	$ 13,339	$ 25,277	$ 38,616	$ 944	$ 39,560

Reconciliation between reportable segment total and amounts disclosed in consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Sales:			
Reportable segment total	¥44,728	¥46,915	$455,844
Sales in "Others"	90	135	1,312
Elimination of inter-segment transaction	(90)	(53)	(519)
Sales in consolidated financial statements	¥44,728	¥46,997	$456,637

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Profit:			
Reportable segment total	¥3,836	¥3,631	$35,281
Profit in "Others"	(9)	55	536
Elimination of inter-segment transaction	—	—	—
Operating income in consolidated financial statements	¥3,826	¥3,686	$35,817

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Assets:			
Reportable segment total	¥50,331	¥58,185	$565,344
Assets in "Others"	2,217	2,148	20,873
Corporate assets	18,034	18,040	175,287
Assets in consolidated financial statements	¥70,583	¥78,374	$761,504

Other items are as follows:

	Millions of yen			
	2013			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization	¥2,363	¥265	¥40	¥2,669
Increase in property, plant and equipment and intangible assets	¥4,518	¥85	¥24	¥4,627

	Millions of yen			
	2014			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization	**¥2,441**	**¥172**	**¥37**	**¥2,651**
Increase in property, plant and equipment and intangible assets	**¥3,974**	**¥97**	**¥19**	**¥4,091**

	Thousands of U.S. dollars			
	2014			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization	**$23,726**	**$1,673**	**$365**	**$25,765**
Increase in property, plant and equipment and intangible assets	**$38,616**	**$ 944**	**$ 191**	**$39,751**

Related information

Information about products and services

	Millions of yen						
	2014						
	Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers	**¥12,000**	**¥10,589**	**¥9,828**	**¥7,324**	**¥6,172**	**¥1,080**	**¥46,997**

	Thousands of U.S. dollars						
	2014						
	Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers	**$116,601**	**$102,894**	**$95,495**	**$71,171**	**$59,975**	**$10,498**	**$456,637**

Information about geographical areas

	Millions of yen				
	2014				
	Japan	Asia	North America	Others	Total
Net sales	**¥35,049**	**¥9,013**	**¥2,915**	**¥18**	**¥46,997**

	Thousands of U.S. dollars				
	2014				
	Japan	Asia	North America	Others	Total
Net sales	**$340,554**	**$87,578**	**$28,323**	**$181**	**$456,637**

Note:Net sales is based on a customer's location and classified by countries.

	Millions of yen				
	2014				
	Japan	Asia	North America	Europe	Total
Property,plant and equipment..........	**¥22,508**	**¥5,936**	**¥1,394**	**¥1,044**	**¥30,884**

	Thousands of U.S. dollars				
	2014				
	Japan	Asia	North America	Europe	Total
Property,plant and equipment..........	**$218,698**	**$57,680**	**$13,552**	**$10,149**	**$300,081**

Amortization and unamortized balances of goodwill by reportable segment

	Millions of yen				
	2014				
	(1)	(2)	(3)	Corporate and eliminations	Total
Amortization....................................	**¥ —**	**¥ 38**	**¥ —**	**¥ —**	**¥ 38**

	Thousands of U.S. dollars				
	2014				
	(1)	(2)	(3)	Corporate and eliminations	Total
Amortization....................................	**$ —**	**$ 373**	**$ —**	**$ —**	**$ 373**

13. Subsequent events

The following appropriations of unappropriated retained earnings were approved at the meeting of shareholders of the Company held on June 26, 2014.

Cash dividends	Millions of yen	Thousands of U.S. dollars
¥10 per share (applicable to the six-month period ended March 31, 2014)	¥ 426	$ 4,141

Independent Auditors' Report

To The Board of Directors of Neturen Co., Ltd.

We have audited the accompanying consolidated financial statements of Neturen Co., Ltd. and its subsidiaries, which comprise the consolidated balance sheet as of March 31, 2014, the consolidated statements of income and comprehensive income, changes in net assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Neturen Co., Ltd. and its subsidiaries as of March 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translations

The accompanying consolidated financial statements as of and for the year ended March 31, 2014 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into dollars on the basis set forth in Note2 of the notes to consolidated financial statements.

Inoue Auditing Co., Inc.

Inoue Auditing Co.,Inc.

Tokyo, Japan

June 26, 2014

CORPORATE DATA

Head Office:
Oval Court Ohsaki Mark West 2-17-1, Higashi-gotanda, Shinagawa-ku, Tokyo, Japan
Tel:+81-3-3443-5441
Fax:+81-3-3449-3969
http://www.k-neturen.co.jp/

Date of Establishment:
May, 1946

Paid-in Capital:
¥6,418 million

Common Stock:
Authorized: 150,000,000 shares
Issued: 44,713,930 shares
Number of shareholders: 4,755

Number of Employees:
1,302(Consolidated)

(As of March 31, 2014)

Directors and Corporate Auditors:

President (Representative Director)
Shigeru Mizoguchi

Senior Managing Director (Representative Director)
Kazuhiro Kawasaki

Managing Director
Yasuyuki Nakao   Shinjiroh Motoki

Director
Junichi Goya   Katsumi Oomiya   Tomokatsu Yasukawa
Tetsuji Murata

Outside Director
Yasuko Teraura

Standing Audit & Supervisory Board Member
Hitoshi Inagaki

Outside Audit & Supervisory Board Member
Yoshitoshi Urabe   Hiroshi Yoshimine

(As of June 26, 2014)