S.T.CORPORATION

Creating Corporate Value Report 2016
Financial Section
Year ended March 31, 2016

# Refreshing the Air

# Management's Discussion and Analysis

**Group Outline**

The S.T. CORPORATION Group is composed of S.T. CORPORATION, six consolidated subsidiaries, three equity method affiliated companies and other affiliated companies.

**Sales Overview**

In the fiscal year ended March 31, 2016 (hereinafter called "the current year"), the Japanese economy recovered gently, because corporate earnings and the employment situation improved due to the yen depreciation and the decline in oil price. However, the economic outlook remains uncertain, amid the downturn of consumer spending due to the slowdown of the Chinese economy, the anxiety over international situations, unstable weathers, etc. as well as the yen appreciation and the fall in share prices from the beginning of 2016.

In these circumstances, the S.T. Group set the goal of "brand value management" with the basic policy of narrowing down and concentrating on targets, developing unprecedented products, and conduct swift business administration; and has been shifting to profit-oriented management based on the creation of clients, the establishment of a highly profitable system, and the introduction of the business division system. In addition, the S.T. Group has continued the company-wide activities for managerial reform STR (S.T. Reformation).

As a result, the sales of the new brand "SHALDAN" in the Air Care category contributed to the sales for the current year, and the performance of the premium series of the existing mega-brand "Shoshu-Riki" and other category was healthy. Consequently, sales increased 0.2% year on year to ¥48,351 million. Regarding individual segments, sales in the Air Care category increased 3.9%, sales in the Cloth Care category decreased 2.4%, sales in the Thermal Care category decreased 18.8%, sales in the Hand Care category increased 5.2%, sales in the Humidity Care category increased 11.1%, and sales in the Home Care category increased 2.8%.

**Cost of Sales, SG&A Expenses, and Operating Income**

Cost of sales declined 3.3% year on year to ¥27,294 million, as S.T. made efforts to reduce manufacturing cost although procurement cost, etc. augmented through the yen depreciation. Selling, general and administrative expenses increased 2.7% year on year to ¥18,715 million, as marketing cost increased, but other expenses were curbed. As a result, operating income rose 29.2% year on year to ¥2,342 million.

**Other Income (Expenses), Pretax and Profit Attributable to Owners of Parent**

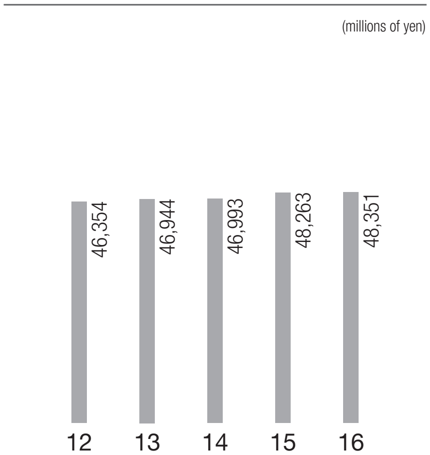
As for other income and expenses, profit before income taxes grew 10.9% year on year to ¥1,703 million, and profit attributable to owners of parent increased 2.2% year on year to ¥912 million.

Accordingly, earnings per share increased from ¥40.83 in the previous year to ¥42.01. The ratio of profit attributable to owners of parent to sales grew from 1.8% in the previous year to 1.9%, while ROE dropped from 4.2% to 4.1%, both indicating little change.

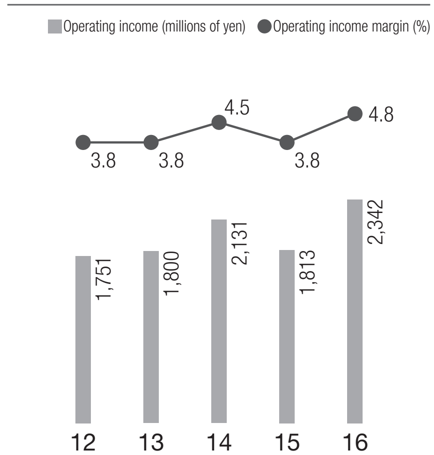
**Financial Position**

Total assets as of March 31, 2016 stood at ¥34,924 million, up ¥1,139 million from the end of the previous year. Current assets declined ¥514

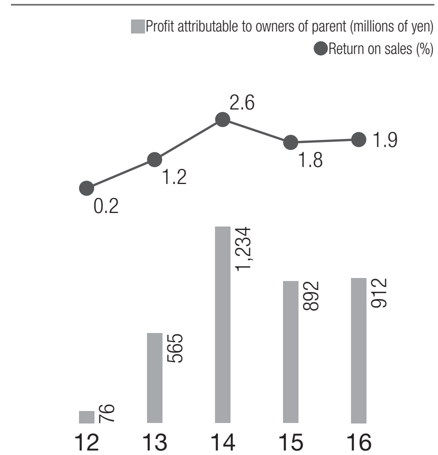
Net sales




Operating income /
Operating income margin




Profit attributable to owners of parent /
Return on sales



million to ¥19,708 million, mainly because of the decrease in notes and accounts receivable. On the other hand, non-current assets grew ¥1,653 million to ¥15,216 million, mainly because of the increase in investment securities.

Total liabilities were ¥11,428 million, up ¥244 million from the end of the previous year, mainly because of the augmentation of notes and accounts payable and deferred tax liabilities, etc. On the other hand, net assets were ¥23,496 million, up ¥896 million from the end of the previous year, mainly because of the growth of retained earnings and valuation difference on available-for-sale securities.

Consequently, net assets per share increased from ¥1,001.84 at the end of the previous year to ¥1,049.58. In addition, equity ratio grew from 64.8% at the end of the previous year to 65.2%, indicating the sound financial standing.

**Capital Expenditures and Depreciation and Amortization**

Capital expenditures increased from ¥1,486 million in the previous year to ¥1,758 million. Depreciation and amortization rose from ¥844 million in the previous year to ¥1,128 million.

**Cash Flows**

Net cash provided by operating activities for the current year was ¥2,481 million, up ¥344 million from the previous year. This increase is mainly due to the rise in depreciation and amortization, etc. On the other hand, net cash used in investment activities was ¥624 million (In the same period of the previous fiscal year, net cash used in investment activities was ¥1,768 million). This is mainly due to the augmentation of expenditures through the acquisition of property, plant and equipment. Net cash used in financing activities was ¥876 million, as expense augmented ¥262 million year on year. This is mainly due to the acquisition of treasury shares.

As a result, the balance of cash and cash equivalents at the end of the current year was ¥7,552 million, up ¥967 million from the end of the previous year.

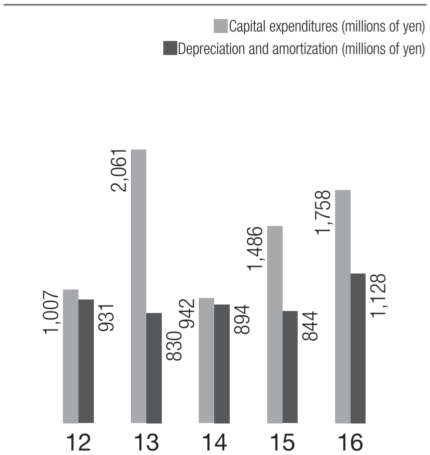
**Dividends and Return to Shareholders**

Taking into consideration such factors as profit attributable to owners of parent and the need to realize shareholder returns, we decided to distribute a term-end dividend of ¥11.0 (¥22.0 for the full year, including the interim dividend), on a par with the previous fiscal year, making for a consolidated payout ratio of 52.4%. The company will continue to place importance on returns to shareholders.

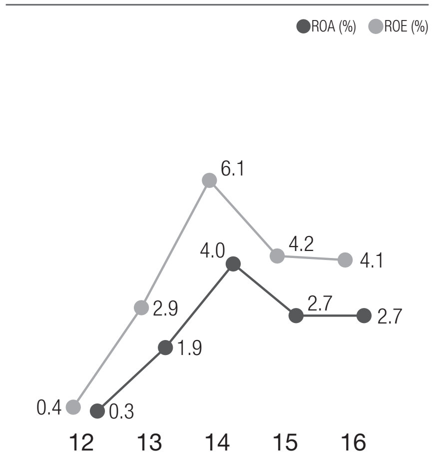
**Business and Operational Risks**

Factors that could possible impact the Group’s operating results, financial position or stock prices include the following: (1) an escalation in raw materials prices; (2) the impact on manufacturing operations from natural disasters and changes in international political or other conditions; (3) sales fluctuations due to unseasonal weather; (4) and the failure of initiatives to raise new businesses. Forward-looking statements in this annual report are based on certain assumptions made by the Group as of the end of this fiscal year.

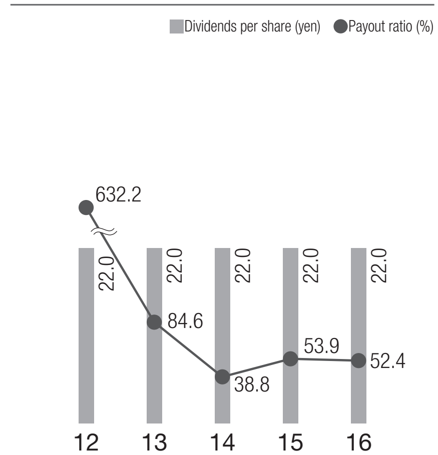
Capital expenditures /
Depreciation and amortization




ROA / ROE




Dividends per share /
Payout ratio



# Consolidated Balance Sheets

S.T.CORPORATION and consolidated subsidiaries
March 31, 2016 and 2015

| | millions of yen | | thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| **Assets** | **2016** | 2015 | **2016** |
| **Current assets:** | | | |
| Cash and time deposits (Notes 6, 10 and 16) | ¥ 7,566 | ¥ 7,629 | $ 67,139 |
| Marketable securities (Notes 6 and 8) | — | 109 | — |
| Trade notes and accounts receivable (Note 6) | 5,380 | 5,867 | 47,741 |
| Merchandise and finished goods | 4,897 | 4,866 | 43,459 |
| Work in process | 235 | 269 | 2,088 |
| Raw materials and supplies | 795 | 638 | 7,053 |
| Deferred tax assets (Note 11) | 384 | 371 | 3,406 |
| Other current assets | 455 | 478 | 4,039 |
| Less - allowance for doubtful accounts | (4) | (5) | (39) |
| Total current assets | 19,708 | 20,221 | 174,886 |
| **Property, plant and equipment, at cost:** | | | |
| Land (Note 9) | 3,195 | 3,189 | 28,356 |
| Buildings and structures | 7,465 | 6,659 | 66,241 |
| Machinery, equipment and vehicles | 6,603 | 6,509 | 58,594 |
| Tools, furniture and fixtures | 3,931 | 3,871 | 34,883 |
| Construction in progress | 124 | 375 | 1,098 |
| Leased assets (Note 17) | 967 | 794 | 8,577 |
| Less - accumulated depreciation | (13,626) | (13,286) | (120,915) |
| Property, plant and equipment, net | 8,659 | 8,110 | 76,835 |
| **Intangible assets, net of accumulated amortization** | 228 | 219 | 2,025 |
| Total intangible assets | 228 | 219 | 2,025 |
| **Investments and other assets:** | | | |
| Investments in non-consolidated subsidiaries and affiliates | 435 | 469 | 3,863 |
| Investment securities (Notes 6 and 8) | 4,850 | 3,757 | 43,034 |
| Long-term loans | 26 | 31 | 228 |
| Deferred tax assets other than unrealized revaluation loss on land (Note 11) | 11 | 4 | 97 |
| Other assets | 1,008 | 974 | 8,945 |
| Total investments and other assets | 6,330 | 5,235 | 56,167 |
| Total assets | ¥ 34,924 | ¥ 33,785 | $ 309,915 |

| Liabilities and net assets | millions of yen 2016 | 2015 | thousands of U.S. dollars (Note 2) 2016 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Trade payables (Note 6) | ¥ 2,202 | ¥ 1,974 | $ 19,542 |
| Electronically recorded obligations-operating | 2,982 | 2,922 | 26,464 |
| Short-term loans payable | 47 | 62 | 415 |
| Lease obligations | 169 | 138 | 1,498 |
| Other payables (Note 6) | 2,160 | 2,384 | 19,166 |
| Accrued expenses | 606 | 614 | 5,375 |
| Electronically recorded obligations-non-operating | 58 | 89 | 519 |
| Income taxes payable | 360 | 315 | 3,197 |
| Consumption taxes payable | 16 | 267 | 139 |
| Allowance for sales returns | 124 | 158 | 1,104 |
| Other current liabilities | 57 | 85 | 504 |
| Total current liabilities | 8,781 | 9,008 | 77,921 |
| **Long-term liabilities:** | | | |
| Lease obligations | 571 | 559 | 5,067 |
| Provision for directors' retirement and severance benefits | 127 | 122 | 1,130 |
| Provision for executive officers' incentive plan (Note 4) | 17 | — | 150 |
| Net defined benefit liability (Notes 1 and 12) | 1,296 | 1,190 | 11,503 |
| Deferred tax liabilities (Note 11) | 373 | 34 | 3,307 |
| Deferred tax liabilities - unrealized revaluation gain on land (Note 9) | 262 | 271 | 2,327 |
| Other liabilities-not current liabilities | 1 | 1 | 11 |
| Total long-term liabilities | 2,648 | 2,176 | 23,494 |
| **Net assets (Note 13):** | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized - 96,817,000 shares in 2016 and 2015 | | | |
| Issued and outstanding - 23,000,000 shares in 2016 and 2015 | 7,066 | 7,066 | 62,699 |
| Capital surplus | 7,068 | 7,068 | 62,719 |
| Retained earnings | 9,739 | 9,394 | 86,419 |
| Treasury stock, at cost | (1,734) | (1,654) | (15,389) |
| Total shareholders' equity | 22,138 | 21,874 | 196,448 |
| **Accumulated other comprehensive income (loss):** | | | |
| Unrealized holding gain on other securities, net of taxes | 1,482 | 743 | 13,154 |
| Unrealized revaluation loss on land, net of taxes (Note 9) | (537) | (546) | (4,767) |
| Translation adjustments | (287) | (202) | (2,549) |
| Remeasurements of defined benefit plans | (20) | 21 | (181) |
| Total accumulated other comprehensive income (loss) | 638 | 17 | 5,657 |
| **Subscription rights** | 75 | 81 | 667 |
| **Non-controlling interests** | 646 | 629 | 5,728 |
| Total net assets | 23,496 | 22,600 | 208,500 |
| Total liabilities and net assets | ¥ 34,924 | ¥ 33,785 | $ 309,915 |

See notes to consolidated financial statements.

# Consolidated Statements of Income

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

| | millions of yen | | thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Net sales** | **¥ 48,351** | ¥ 48,263 | **$ 429,062** |
| **Cost of sales (Notes 15 and 20)** | **27,328** | 28,194 | **242,510** |
| Gross profit before reversal of allowance for sales returns | **21,023** | 20,070 | **186,553** |
| Reversal of allowance for sales returns | **34** | (42) | **302** |
| Gross profit | **21,057** | 20,028 | **186,855** |
| **Selling, general and administrative expenses (Note 15)** | **18,715** | 18,216 | **166,073** |
| Operating income | **2,342** | 1,813 | **20,782** |
| **Non-operating income (expenses):** | | | |
| Interest and dividends received | **92** | 79 | **818** |
| Interest expense | **(1)** | (2) | **(10)** |
| Purchase discounts | **164** | 171 | **1,452** |
| Sales discounts | **(885)** | (863) | **(7,856)** |
| Loss on equity of affiliates | **(15)** | (90) | **(130)** |
| Insurance income | **21** | 154 | **188** |
| Other, net | **7** | 335 | **59** |
| Total non-operating income (expenses) | **(617)** | (215) | **(5,479)** |
| Ordinary income | **1,725** | 1,598 | **15,303** |
| **Special gains (losses), net:** | | | |
| Loss on disposition of property, plant and equipment, net | **(43)** | (111) | **(382)** |
| Gain on reversal of subscription rights to shares | **17** | 29 | **146** |
| Loss on valuation of investment securities | **—** | (10) | **—** |
| Gain (loss) on sales of investment securities, net | **—** | (0) | **—** |
| Gain on extinguishment of tie-in shares, net | **5** | 30 | **42** |
| Total special gains (losses), net | **(22)** | (62) | **(194)** |
| Profit before income taxes | **1,703** | 1,536 | **15,109** |
| **Income taxes (Note 11):** | | | |
| Current | **570** | 532 | **5,054** |
| Prior periods | **107** | — | **954** |
| Deferred | **2** | 25 | **20** |
| Total income taxes | **679** | 557 | **6,028** |
| **Profit** | **1,023** | 979 | **9,081** |
| **Profit attributable to non-controlling interests** | **111** | 87 | **988** |
| **Profit attributable to owners of parent** | **¥ 912** | ¥ 892 | **$ 8,094** |

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

| | millions of yen | | thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| **Profit** | **¥ 1,023** | ¥ 979 | **$ 9,081** |
| **Other comprehensive income (loss) (Note 5)** | | | |
| Unrealized holding gain (loss) on other securities, net of taxes | **739** | 598 | **6,555** |
| Unrealized revaluation loss on land, net of taxes | **8** | 25 | **75** |
| Translation adjustments | **(102)** | 166 | **(905)** |
| Remeasurements of defined benefit plans, net of tax | **(42)** | 170 | **(369)** |
| Other comprehensive income (loss) of equity method companies | **(12)** | 19 | **(110)** |
| Total other comprehensive income (loss) | **591** | 980 | **5,247** |
| **Comprehensive income** | **¥ 1,615** | ¥ 1,959 | **$ 14,329** |
| Total comprehensive income attributable to: | | | |
| Owners of parent | **1,533** | 1,820 | **13,601** |
| Non-controlling interests | **82** | 139 | **728** |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

| | Number of shares of common stock (Thousands) | millions of yen: Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
|---|---|---|---|---|---|---|
| **Balance at April 1, 2015** | 23,000 | ¥ 7,066 | ¥ 7,068 | ¥ 9,394 | ¥ (1,654) | ¥ 21,874 |
| Cash dividends paid by distribution of retained earnings | | | | (481) | | (481) |
| Profit attributable to owners of parent | | | | 912 | | 912 |
| Purchases of treasury stock | | | | | (167) | (167) |
| Disposal of treasury stock | | | | (86) | 86 | 0 |
| Net changes in items other than those in shareholders' equity | | | | | | |
| **Balance at March 31, 2016** | 23,000 | ¥ 7,066 | ¥ 7,068 | ¥ 9,739 | ¥ (1,734) | ¥ 22,138 |

| | millions of yen: Unrealized holding gain on other securities, net of taxes | Unrealized revaluation loss on land, net of taxes (Note 9) | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive loss | Subscription rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2015** | ¥ 743 | ¥ (546) | ¥ (202) | ¥ 21 | ¥ 17 | ¥ 81 | ¥ 629 | ¥ 22,600 |
| Cash dividends paid by distribution of retained earnings | | | | | | | | (481) |
| Profit attributable to owners of parent | | | | | | | | 912 |
| Purchases of treasury stock | | | | | | | | (167) |
| Disposal of treasury stock | | | | | | | | 0 |
| Net changes in items other than those in shareholders' equity | 739 | 8 | (85) | (42) | 621 | (6) | 17 | 632 |
| **Balance at March 31, 2016** | ¥ 1,482 | ¥ (537) | ¥ (287) | ¥ (20) | ¥ 638 | ¥ 75 | ¥ 646 | ¥ 23,496 |

| | Number of shares of common stock (Thousands) | millions of yen: Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
|---|---|---|---|---|---|---|
| **Balance at April 1, 2014** | 23,000 | ¥ 7,066 | ¥ 7,068 | ¥ 8,837 | ¥ (1,652) | ¥ 21,319 |
| Cumulative effects of changes in accounting policies | | | | ¥ 94 | | ¥ 94 |
| **Restated balance at April 1, 2014** | 23,000 | ¥ 7,066 | ¥ 7,068 | ¥ 8,931 | ¥ (1,652) | ¥ 21,412 |
| Cash dividends paid by distribution of retained earnings | | | | (481) | | (481) |
| Profit attributable to owners of parent | | | | 892 | | 892 |
| Purchases of treasury stock | | | | | (2) | (2) |
| Change of scope of consolidation | | | | 5 | | 5 |
| Reversal of unrealized revaluation loss on land, net of taxes | | | | 47 | | 47 |
| Net changes in items other than those in shareholders' equity | | | | | | |
| **Balance at March 31, 2015** | 23,000 | ¥ 7,066 | ¥ 7,068 | ¥ 9,394 | ¥ (1,654) | ¥ 21,874 |

| | millions of yen: Unrealized holding gain on other securities, net of taxes | Unrealized revaluation loss on land, net of taxes (Note 9) | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive loss | Subscription rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2014** | ¥ 145 | ¥ (524) | ¥ (335) | ¥ (149) | ¥ (864) | ¥ 95 | ¥ 536 | ¥ 21,087 |
| Cumulative effects of changes in accounting policies | | | | | | | | ¥ 94 |
| **Restated balance at April 1, 2014** | ¥ 145 | ¥ (524) | ¥ (335) | ¥ (149) | ¥ (864) | ¥ 95 | ¥ 536 | ¥ 21,180 |
| Cash dividends paid by distribution of retained earnings | | | | | | | | (481) |
| Profit attributable to owners of parent | | | | | | | | 892 |
| Purchases of treasury stock | | | | | | | | (2) |
| Change of scope of consolidation | | | | | | | | 5 |
| Reversal of unrealized revaluation loss on land, net of taxes | | | | | | | | 47 |
| Net changes in items other than those in shareholders' equity | 598 | (21) | 134 | 170 | 881 | (14) | 93 | 959 |
| **Balance at March 31, 2015** | ¥ 743 | ¥ (546) | ¥ (202) | ¥ 21 | ¥ 17 | ¥ 81 | ¥ 629 | ¥ 22,600 |

| | Number of shares of common stock (Thousands) | thousands of U.S. dollars (Note 2): Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
|---|---|---|---|---|---|---|
| **Balance at April 1, 2015** | 23,000 | $ 62,699 | $ 62,719 | $ 83,363 | $ (14,675) | $ 194,105 |
| Cash dividends paid by distribution of retained earnings | | | | (4,273) | | (4,273) |
| Profit attributable to owners of parent | | | | 8,094 | | 8,094 |
| Purchases of treasury stock | | | | | (1,479) | (1,479) |
| Disposal of treasury stock | | | | (765) | 765 | 0 |
| Net changes in items other than those in shareholders' equity | | | | | | |
| **Balance at March 31, 2016** | 23,000 | $ 62,699 | $ 62,719 | $ 86,419 | $ (15,389) | $ 196,448 |

| | thousands of U.S. dollars (Note 2): Unrealized holding gain on other securities, net of taxes | Unrealized revaluation loss on land, net of taxes (Note 9) | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive loss | Subscription rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| **Balance at April 1, 2015** | $ 6,596 | $ (4,842) | $ (1,791) | $ 188 | $ 151 | $ 716 | $ 5,581 | $ 200,553 |
| Cash dividends paid by distribution of retained earnings | | | | | | | | (4,273) |
| Profit attributable to owners of parent | | | | | | | | 8,094 |
| Purchases of treasury stock | | | | | | | | (1,479) |
| Disposal of treasury stock | | | | | | | | 0 |
| Net changes in items other than those in shareholders' equity | 6,558 | 75 | (757) | (369) | 5,507 | (49) | 147 | 5,604 |
| **Balance at March 31, 2016** | $ 13,154 | $ (4,767) | $ (2,549) | $ (181) | $ 5,657 | $ 667 | $ 5,728 | $ 208,500 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

| | millions of yen | | thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| **Cash flows from operating activities:** | | | |
| Profit before income taxes | ¥ 1,703 | ¥ 1,536 | $ 15,109 |
| Adjustments to reconcile profit before income taxes to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,128 | 844 | 10,013 |
| Gain on reversal of subscription rights to shares | (17) | (29) | (146) |
| Gain on extinguishment of tie-in shares | (5) | (30) | (42) |
| Loss on sales of property, plant and equipment | 43 | 111 | 382 |
| Loss (gain) on sales and valuation of investment securities | — | 10 | — |
| Increase (decrease) in allowance for doubtful receivables | (1) | (11) | (5) |
| Increase (decrease) in net defined benefit liability | 18 | (232) | 163 |
| Increase (decrease) in provision for directors' retirement and severance benefits | 5 | (34) | 47 |
| Increase (decrease) in provision for executive officers' incentive plan | 17 | — | 150 |
| Increase (decrease) in allowance for sales returns | (34) | 42 | (302) |
| Interest and dividends received | (92) | (79) | (818) |
| Insurance income | (21) | (154) | (188) |
| Interest expense | 1 | 2 | 10 |
| Foreign exchange loss (gain) | 82 | (235) | 726 |
| Equity in loss of affiliates | 15 | 90 | 130 |
| Changes in operating assets and liabilities: | | | |
| Receivables | 436 | (656) | 3,866 |
| Inventories | (201) | 322 | (1,787) |
| Payables and accrued expenses | 324 | (481) | 2,873 |
| Other, net | (369) | 1,048 | (3,272) |
| Subtotal | 3,032 | 2,061 | 26,908 |
| Interest and dividends received | 106 | 89 | 941 |
| Interest paid | (1) | (2) | (10) |
| Proceeds from insurance income | 21 | 154 | 188 |
| Payments for loss on disaster | — | (28) | — |
| Income taxes paid | (677) | (138) | (6,012) |
| Net cash provided by operating activities | 2,481 | 2,137 | 22,016 |
| **Cash flows from investing activities:** | | | |
| Payments into deposits (more than three months) | (0) | (1,005) | (1) |
| Proceeds from withdrawal of time deposits (more than three months) | 1,022 | — | 9,071 |
| Purchases of property, plant and equipment | (1,687) | (840) | (14,967) |
| Proceeds from sales of property, plant and equipment | 3 | 123 | 25 |
| Purchases of investment securities | (9) | (8) | (81) |
| Proceeds from sales of investment securities | — | 3 | — |
| Proceeds from redemption of securities | 106 | — | 945 |
| Other investments, net | (60) | (42) | (532) |
| Net cash provided by investing activities | (624) | (1,768) | (5,541) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term loans payable | (10) | 18 | (89) |
| Purchases of treasury stock | (167) | (2) | (1,479) |
| Payments of dividends | (481) | (481) | (4,273) |
| Payments of dividends to non-controlling interests | (65) | (48) | (581) |
| Other finance, net | (152) | (101) | (1,352) |
| Net cash used in financing activities | (876) | (614) | (7,774) |
| Effect of exchange rate changes on cash and cash equivalents | (19) | 32 | (164) |
| Net increase (decrease) in cash and cash equivalents | 962 | (212) | 8,537 |
| Cash and cash equivalents at beginning of year | 6,585 | 6,728 | 58,432 |
| Increase in cash and cash equivalents from newly consolidated subsidiary | — | 31 | — |
| Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries | 5 | 38 | 47 |
| Cash and cash equivalents at end of year (Note 16) | ¥ 7,552 | ¥ 6,585 | $ 67,017 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

S.T.CORPORATION and Consolidated Subsidiaries
March 31, 2016

## 1 Summary of Significant Accounting Policies

**(a) Basis of presentation**

S.T. CORPORATION (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 countries of domicile. Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006).

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRS, 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 have been made to the consolidated financial statements issued domestically for readers outside Japan. The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Furthermore, certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by Financial Instruments and Exchange Law, amounts are rounded to the nearest million yen. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

**(b) Scope of consolidation**

(1) Number of consolidated subsidiaries:
6 companies

(2) Names of consolidated subsidiaries:
S.T. TRADING CO., LTD., S.T. BUSINESS SUPPORT CO., LTD., S.T. (THAILAND) CO., LTD., FAMILY GLOVE CO., LTD. (TAIWAN), S.T. KOREA CORPORATION (SOUTH KOREA), and SHALDAN (THAILAND) CO., LTD.

(3) Names of major non-consolidated subsidiaries:
JAPAN AROMA LABORATORY CO., LTD. and S.T. GLOVE CO., LTD.
The number of non-consolidated subsidiaries decreased by one from the previous fiscal year because the former subsidiary, JAPAN CORPORATION CO., LTD., was combined into the Company through an absorption-type merger effective August 1, 2015.

(Reasons for exclusion from scope of consolidation)
Non-consolidated subsidiaries have been excluded from the scope of consolidation because the total amounts of their total assets, net sales, profit or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other figures are limited, and the effect on the consolidated financial statements as a whole is not significant.

**(c) Scope of application of equity-method accounting**

(1) Number of affiliated companies accounted for by the equity method:
3 companies

(2) Names of major companies:
SHALDAN (PHILIPPINES), INC., AEKYUNG S.T. CO., LTD., and NS FAFA JAPAN CO., LTD.

(3) Name of non-consolidated subsidiaries for which equity method is not applied
The non-consolidated subsidiaries to which the equity method does not apply (JAPAN AROMA LABORATORY CO., LTD, and S.T. GLOVE CO., LTD.) are accounted for using the cost method rather than the equity method because the total amounts of their profit or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other figures are limited, and the effect on the consolidated financial statements as a whole is not significant.

**(d) Accounting period**

The accounting period of the Company begins on April 1 and ends on March 31 of the following year. The four overseas subsidiaries have fiscal years ending on December 31. The necessary adjustments for significant transactions, if any, during the intervening period are made on consolidation.

**(e) Translation of foreign currency transactions and financial statements**

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign exchange gains and losses are credited or charged to income and translation adjustments are included in net assets.

**(f) Marketable securities and investment securities**

Other securities with determinable market value are carried at market value with any changes in unrealized holding gain or loss, net of the related deferred income tax assets or liabilities, included in net assets. Other securities without determinable market value are stated at cost determined by the moving-average method and the cost of other securities sold is computed based on the moving-average method. During the years ended March 31, 2016 and 2015, the Company and its consolidated subsidiaries did not have any trading securities.

**(g) Inventories**

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

**(h) Property, plant and equipment, except for leased assets, and depreciation**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries, except for buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998, is computed by the declining-balance method in conformity with the Corporation Tax Law of Japan. Depreciation of property and equipment of overseas subsidiaries and buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 of the Company and domestic subsidiaries is computed by the straight-line method.

The estimated useful lives of the major depreciable assets are as follows:

| | |
|---|---|
| Buildings and structures | 3 to 50 years |
| Machinery, equipment and vehicles | 2 to 17 years |
| Tools, furniture and fixtures | 2 to 20 years |

**(i) Intangible assets**

Intangible assets, except for leased assets, are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over a period of mainly 5 years, the useful life applicable to commercially available software.

**(j) Leases**

Non-cancelable lease transactions that transfer substantially all the risks and rewards associated with the ownership of the leased assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

Depreciation is computed by the straight-line method over the respective lease terms assuming a nil residual value.

**(k) Allowance for doubtful receivables**
The allowance for doubtful receivables is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

**(l) Allowance for sales returns**
The allowance for sales returns is provided for losses on sales returns subsequent to the balance sheet date at an amount equivalent to that calculated based on the actual percentage of returns in prior years.

**(m) Employees' retirement and severance benefits**
(1) Method of attributing expected benefit payments to the period
In calculating the retirement benefit obligation, the method of attributing expected benefit payments to periods is based on the benefit formula.

(2) Amortization method of actuarial gains/losses
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 over a period of a certain number of years (5 years) which is shorter than the average remaining years of service of the employees.

(3) Adoption of a simplified method in some consolidated subsidiaries
Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the end of fiscal year for the calculation of net defined benefit liability and retirement benefit expenses.

**(n) Provision for directors' retirement and severance benefits**
The Company has accrued provision for directors' retirement and severance benefits at the amount which would be required to be paid if all directors resigned from their positions and left the Company as of the balance sheet date in accordance with its internal regulations.

**(o) Provision for executive officers' incentive plan**
The Company has established an executive officers' incentive plan trust and a provision is made at the amount required for stock awards based on the Company's internal regulations for awarding stock.

**(p) Consumption taxes**
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

**(q) Cash and cash equivalents**
Cash and cash equivalents in the accompanying consolidated statements of cash flows consist of cash on hand, demand deposits and liquid short-term investments with a maturity of three months or less from their respective dates of acquisition.

## 2 Basis of Translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥112.69 = U.S.$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2016. This translation should not be construed as a representation that all amounts shown could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

## 3 Change in Accounting Policies

The Company has adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) (hereinafter, the "Business Combinations Accounting Standard"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statements No. 22, September 13, 2013) (hereinafter, the "Consolidation Accounting Standard"), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) (hereinafter, the "Business Divestitures Accounting Standard") and other standards effective from the fiscal year ended March 31, 2016. Accordingly, the accounting methods have been changed with the difference arising from changes in equity in subsidiaries in which the Company retains control recorded as capital surplus, and acquisition-related costs recorded as expenses for the fiscal year in which they are incurred. In addition, regarding business combinations occurring on or after April 1, 2015, the accounting method has been changed to retroactively reflect adjustments to the amount allocated to acquisition costs arising from the finalization of the provisional accounting treatment on the consolidated financial statements of the period in which the business combination occurs. Furthermore, the presentation of net income and others has been changed and the presentation of minority interests has been changed to non-controlling interests. In order to reflect the changes in presentation, the consolidated financial statements for the fiscal year ended March 31, 2015 have been reclassified.

The Business Combinations Accounting Standard and other standards have been adopted in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard. The Company adopted these accounting standards effective April 1, 2015.

There was no impact on the consolidated financial statements as a result of the application of these accounting standards.

(Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

**(a) Board Benefit Trust (BBT)**

The Company reviewed the system for executive officers' compensation, and introduced a "Board Benefit Trust" with the goal of increasing awareness of the importance of contributing to further enhancing the Company's corporate value and performance over the medium-to-long-term from the fiscal year ended March 31, 2016.

The Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30, issued by the ASBJ on March 26, 2015).

(1) Summary

The Company awards the Company's stock to the executive officers who satisfy certain requirements based on predetermined regulations for awarding stocks. Executive officers are granted a certain number of points depending on the financial results, and upon their retirement, the officers will receive stock depending on the number of points they have accumulated.

The Company has established the Trust by contributing funds to be used for the acquisition of the Company's stock on behalf of executive officers. The Trust will acquire the Company's stock to be awarded to the executive officers in the future, and the shares are managed as trust assets.

(2) The Company's stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value of the shares in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2016 were ¥105 million (U.S.$929 thousand) and 100,000 shares, respectively.

**(b) Employee Stock Ownership Plan (ESOP) Trust**

The Company introduced an Employee Stock Ownership Plan (ESOP) Trust as an employee incentive plan with the aim of raising awareness of share price and improving financial results.

The Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30, issued by the ASBJ on March 26, 2015).

(1) Summary

The Company awards the Company's stock to the employees who satisfy certain requirements based on predetermined regulations for awarding stocks.

If the Company's profit is higher than a pre-determined standard, the Company awards a certain number points to employees. Upon their retirement, employees will receive the Company's stock depending on the number of points they have accumulated.

The Company has established the Trust by contributing funds to be used for the acquisition of the Company's stock on behalf of participating employees. The Trust will acquire the Company's stock to be awarded to employees in the future, and the shares are managed as trust assets.

(2) The Company's stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value of the shares in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2016 were ¥126 million (U.S.$1,115 thousand) and 120,000 shares, respectively.

## 5 Consolidated Statements of Comprehensive Income

The amount of recycling and amount of income tax effect associated with other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Unrealized holding gain (loss) on other securities, net of taxes | | | |
| Amount recognized in the year | ¥ 1,081 | ¥ 864 | $ 9,589 |
| Reclassification adjustments included in the statement of income | (6) | 0 | (57) |
| Before income tax effect adjustment | 1,074 | 864 | 9,532 |
| Amount of income tax effect | (335) | (266) | (2,977) |
| Unrealized holding gain (loss) on other securities, net of taxes | 739 | 598 | 6,555 |
| Unrealized revaluation loss on land, net of taxes | | | |
| Amount of income tax effect | 8 | 25 | 75 |
| Translation adjustments | | | |
| Amount recognized in the year | (102) | 166 | (905) |
| Remeasurements of defined benefit plans, net of tax | | | |
| Amount recognized in the year | (89) | 206 | (788) |
| Reclassification adjustments included in the statement of income | 28 | 55 | 249 |
| Before income tax effect adjustment | (61) | 261 | (538) |
| Amount of income tax effect | 19 | (90) | 170 |
| Remeasurements of defined benefit plans, net of tax | (42) | 170 | (369) |
| Other comprehensive income (loss) on equity method companies | | | |
| Amount recognized in the year | (12) | 26 | (110) |
| Reclassification adjustments included in the statement of income | — | (7) | — |
| Other comprehensive income (loss) on equity method companies | (12) | 19 | (110) |
| Total other comprehensive income (loss) | ¥ 591 | ¥ 980 | $ 5,247 |

## 6 Financial Instruments

**(1) Current status of financial instruments**

(a) Policy in relation to financial instruments

The Company and its consolidated subsidiaries (collectively, the "Group") raise necessary funds following capital investment plans for undertaking the manufacturing-and-selling businesses. Surplus funds of the Group are only invested in highly secure financial assets.

(b) Details of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. In addition, receivables denominated in foreign currencies are exposed to foreign currency exchange risk.

Investment securities, most of which are stocks of other companies with which the Group has business relationships, are exposed to market price fluctuation risk.

Substantially all trade payables—notes and accounts payable-trade, electronically recorded obligations-operating and other payables—have payment due dates within one year. In addition, payables denominated in foreign currencies are exposed to foreign currency exchange risk.

(c) Risk management system for financial instruments

(Credit risk management—the risk that customers or counterparties may default)

The Company has established a management policy whereby the Company evaluates the financial conditions of its customers and monitors due dates and outstanding balances regularly to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The consolidated subsidiaries perform equivalent management procedures as the Company.

(Market risk management—the risk arising from fluctuations in exchange rates and interest rates)

The Company uses forward exchange contract transactions with the aim of avoiding risk related to fluctuation in future foreign exchange.

For investment securities, the Company periodically confirms the market value of such financial instruments and reports to the director in charge. The Company reviews the status of these investments on a continuing basis.

(Liquidity risk management—the risk that the Group may not able to meet its payment obligations on the schedule dates)

The Company manages liquidity risk by means of preparing monthly financial plans.

(d) Supplementary explanation of items relating to the fair value of financial instruments

The fair value of financial instruments is based on their quoted market prices if available. If there are no market prices available, fair value is reasonably estimated. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the value.

### (2) Estimated fair value of financial instruments

The carrying value of financial instruments recognized on the consolidated balance sheets as of March 31, 2016 and 2015, the estimated fair value of such items and the differences between them are shown below. Financial instruments for which fair value is extremely difficult to estimate are not included in the following table.

| | millions of yen | | |
|---|---|---|---|
| **Year ended March 31, 2016** | Carrying value | Fair value | Difference |
| a Cash and time deposits | ¥ 7,566 | ¥ 7,566 | — |
| b Trade notes and accounts receivable | 5,380 | 5,380 | — |
| c Investment securities | 4,794 | 4,794 | — |
| Assets | ¥ 17,740 | ¥ 17,740 | — |
| | | | |
| a Trade payables | ¥ 2,202 | ¥ 2,202 | — |
| b Electronically recorded obligations-operating | 2,982 | 2,982 | — |
| c Other payables | 2,160 | 2,160 | — |
| Liabilities | ¥ 7,344 | ¥ 7,344 | — |

| | millions of yen | | |
|---|---|---|---|
| Year ended March 31, 2015 | Carrying value | Fair value | Difference |
| a Cash and time deposits | ¥ 7,629 | ¥ 7,629 | — |
| b Trade notes and accounts receivable | 5,867 | 5,867 | — |
| c Marketable securities and Investment securities | 3,811 | 3,811 | — |
| Assets | ¥ 17,307 | ¥ 17,307 | — |
| | | | |
| a Trade payables | ¥ 1,974 | ¥ 1,974 | — |
| b Electronically recorded obligations-operating | 2,922 | 2,922 | — |
| c Other payables | 2,384 | 2,384 | — |
| Liabilities | ¥ 7,280 | ¥ 7,280 | — |

| | thousands of U.S. dollars | | |
|---|---|---|---|
| **Year ended March 31, 2016** | Carrying value | Fair value | Difference |
| a Cash and time deposits | $ 67,139 | $ 67,139 | — |
| b Trade notes and accounts receivable | 47,741 | 47,741 | — |
| c Investment securities | 42,545 | 42,545 | — |
| Assets | $ 157,426 | $ 157,426 | — |
| | | | |
| a Trade payables | $ 19,542 | $ 19,542 | — |
| b Electronically recorded obligations-operating | 26,464 | 26,464 | — |
| c Other payables | 19,166 | 19,166 | — |
| Liabilities | $ 65,172 | $ 65,172 | — |

Notes: 1. Method of estimating the fair value of financial instruments and other matters relating to investment securities

Assets

a. Cash and time deposits and b. Trade notes and accounts receivable

Because these items are settled over the short term, the fair value and carrying value are nearly equivalent. Therefore, the relevant carrying value is used.

c. Investment securities

Stocks are valued at the exchange trading price. Bonds are valued at the exchange trading price or at the price provided by the financial institutions offering these securities. For information on securities classified by purpose of holding, please refer to the "Marketable Securities and Investment Securities" section of the notes to the financial statements.

Liabilities

a. Trade payables, b. Electronically recorded obligations-operating and c. Other payables

Because these items are settled over the short term, the fair value and carrying value are nearly equivalent. Therefore, the relevant carrying value is used.

2. Financial instruments for which fair value is extremely difficult to determine

| | Carrying value | | |
|---|---|---|---|
| | millions of yen | | thousands of U.S. dollars |
| | 2016 | 2015 | 2016 |
| Unlisted equity securities | ¥ 55 | ¥ 55 | $ 489 |

Because the fair value of these financial instruments is extremely difficult to determine, given that no quoted market price is available, they are not included in the above table.

3. Redemption schedule for receivables and other securities with maturity dates at March 31, 2016 and 2015 are summarized as follows:

| | millions of yen | | | |
|---|---|---|---|---|
| **Year ended March 31, 2016** | One year or less | More than 1 year and within 5 years | More than 5 years and within 10 years | More than 10 years |
| Time deposits | ¥ 7,565 | ¥ — | — | — |
| Trade notes and accounts receivable | 5,380 | — | — | — |
| Investment securities | | | | |
| Other | — | 100 | — | — |
| Total | ¥ 12,945 | ¥ 100 | — | — |

| | millions of yen | | | |
|---|---|---|---|---|
| Year ended March 31, 2015 | One year or less | More than 1 year and within 5 years | More than 5 years and within 10 years | More than 10 years |
| Time deposits | ¥ 7,627 | ¥ — | — | — |
| Trade notes and accounts receivable | 5,867 | — | — | — |
| Marketable securities and investment securities | | | | |
| Bonds | 100 | — | — | — |
| Other | — | 100 | — | — |
| Total | ¥ 13,594 | ¥ 100 | — | — |

| | thousands of U.S. dollars | | | |
|---|---|---|---|---|
| **Year ended March 31, 2016** | One year or less | More than 1 year and within 5 years | More than 5 years and within 10 years | More than 10 years |
| Time deposits | $ 67,132 | $ — | — | — |
| Trade notes and accounts receivable | 47,741 | — | — | — |
| Investment securities | | | | |
| Other | — | 887 | — | — |
| Total | $ 114,874 | $ 887 | — | — |

## 7 Derivatives

The Company and its consolidated subsidiaries had no derivative instruments outstanding at March 31, 2016 and 2015.

## 8 Marketable Securities and Investment Securities

**(1) Other securities**

The acquisition cost and related carrying value of other securities with a determinable market value at March 31, 2016 and 2015 are summarized as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Acquisition cost | ¥ 2,662 | ¥ 2,753 | $ 23,621 |
| Carrying value | 4,794 | 3,811 | 42,545 |
| Total unrealized gain | 2,170 | 1,077 | 19,253 |
| Total unrealized loss | 37 | 19 | 329 |

At March 31, 2016 and 2015, unlisted stocks (whose carrying value was ¥55 million (U.S.$489 thousand) and ¥55 million, respectively) are not included in the above table because their fair value is extremely difficult to determine, given that no quoted market price is available.

**(2) Sales of other securities**
(Year ended March 31, 2016)
Not applicable

(Year ended March 31, 2015)

| | millions of yen | | |
|---|---|---|---|
| | Proceeds from sales | Gain on sales | Loss on sales |
| (1) Stocks | ¥ 3 | — | ¥ 0 |
| (2) Bonds | | | |
| 1. Government bonds | — | — | — |
| 2. Corporate bonds | — | — | — |
| 3. Others | — | — | — |
| (3) Other securities | — | — | — |
| Total | ¥ 3 | — | ¥ 0 |

**(3) Impairment of investment securities**
The Company recognized impairment loss on investment securities of ¥10 million for the year ended March 31, 2015.

## 9 Land Revaluation

In accordance with the Land Revaluation Law (Proclamation No. 34 dated March 31, 1998), land used for business activities was revalued at March 31, 2002. The revaluation difference, net of taxes, is stated as “unrealized revaluation loss on land, net of taxes” in net assets. Deferred tax liabilities arising from this revaluation difference are presented separately from deferred tax liabilities for other temporary differences in the accompanying consolidated balance sheets. The market value of the land as of March 31, 2016 and 2015 decreased by ¥562 million (U.S.$4,987 thousand) and ¥584 million, respectively, after the revaluation.

## 10 Pledged Assets

Pledged assets for the years ended March 31, 2016 and 2015 are summarized as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Time deposits | **¥ 4** | ¥ 5 | **$ 39** |

Time deposits were pledged as collateral mainly for leased office space at March 31, 2016 and 2015.

## 11 Income Taxes

At March 31, 2016 and 2015, the tax effect of the temporary differences which gave rise to a significant portion of the deferred tax assets (excluding deferred taxes on unrealized revaluation loss on land) was as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Deferred tax assets: | | | |
| Accrued employees' bonuses | ¥ 126 | ¥ 136 | $ 1,119 |
| Allowance for sales returns | 39 | 52 | 342 |
| Accrued business taxes | 34 | 28 | 306 |
| Loss on valuation of inventories | 44 | 24 | 394 |
| Net defined benefit liability | 393 | 379 | 3,484 |
| Provision for directors' retirement and severance benefits | 39 | 39 | 350 |
| Provision for executive officers' incentive plan | 5 | — | 46 |
| Write-downs of securities | 59 | 61 | 523 |
| Impairment loss | 7 | 7 | 64 |
| Other | 148 | 141 | 1,315 |
| Gross deferred tax assets | 895 | 868 | 7,946 |
| Valuation allowance | (112) | (109) | (996) |
| Total deferred tax assets | 783 | 759 | 6,949 |
| Deferred tax liabilities: | | | |
| Deferred gain on sales of property | (13) | (13) | (111) |
| Undistributed earnings of controlled foreign companies | (97) | (88) | (859) |
| Unrealized holding gain on other securities, net of taxes | (652) | (316) | (5,783) |
| Total deferred tax liabilities | (761) | (418) | (6,753) |
| Net deferred tax assets | ¥ 22 | ¥ 341 | $ 196 |

At March 31, 2016 and 2015, net deferred tax assets were included in the following items in the consolidated balance sheets.

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Current assets - deferred tax assets | ¥ 384 | ¥ 371 | $ 3,406 |
| Non-current assets - deferred tax assets | 11 | 4 | 97 |
| Non-current liabilities - deferred tax liabilities | (373) | (34) | (3,307) |

(Changes in presentation)
"Loss on valuation of inventories," which was included in "Other" under deferred tax assets in the previous fiscal year, has been separately presented from the fiscal year ended March 31, 2016 due to increased materiality.

In order to reflect this change in presentation of the consolidated financial statements, a reclassification of the previous fiscal year has been made accordingly.

As a result, "Other" under deferred tax assets of ¥165 million as of March 31, 2015 has been reclassified as "Loss on valuation of inventories" of ¥24 million and "Other" of ¥141 million.

A reconciliation of the statutory tax rates to the Company's effective tax rates for the years ended March 31, 2016 and 2015 is summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Japanese statutory tax rate | 33.00% | 35.00% |
| Permanent differences, such as entertainment expenses, etc. | 1.35 | 1.69 |
| Permanent differences, such as dividend income | (0.33) | (0.71) |
| Tax credit | (1.93) | (3.10) |
| Undistributed earnings of controlled foreign companies | 0.50 | 1.32 |
| Equity in loss of affiliates | 0.28 | 2.04 |
| Downward adjustment of deferred tax assets at end of year due to tax rate change | 1.31 | 3.46 |
| Income taxes for prior periods | 6.35 | — |
| Other | (0.64) | (3.45) |
| Effective tax rate | 39.89% | 36.25% |

(Adjustment of deferred tax assets and liabilities pursuant to the change in the corporate tax rates)
The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted by the Japanese Diet 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% to 31% for the temporary differences expected to be realized or settled in the year beginning April 1, 2016.

As a result of this change, deferred tax assets (net of deferred tax liabilities) and net defined benefit liability decreased by ¥2 million (U.S.$14 thousand) and ¥0 million (U.S.$3 thousand), respectively. In addition, income taxes-deferred and unrealized holding gain on other securities increased by ¥22 million (U.S.$197 thousand) and ¥21 million (U.S.$187 thousand), respectively. Also, unrealized revaluation gain on land (deferred tax liabilities) decreased by ¥8 million (U.S.$75 thousand) and unrealized revaluation loss on land, net of taxes increased by same amount for the year ended March 31, 2016.

## 12 Employees' Retirement and Severance Benefits

The Company and its consolidated subsidiaries have either funded or unfunded defined benefit plans for payments of employees' retirement.

The Group pays a pension or lump sum based on length of service and salary in the defined benefit corporate pension plan.

In unfunded retirement benefit plans, the Company pays a lump sum based on length of service and salary as a retirement benefit.

Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year end for the calculation of net defined benefit liability and retirement benefit expenses.

Defined benefit plans

Adjustments of beginning and ending balance of retirement benefit obligations

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Balance at the beginning of the year | ¥ 3,810 | ¥ 3,931 | $ 33,808 |
| Cumulative effect of change in accounting principle | — | (144) | — |
| Restated balance at the beginning of the year | 3,810 | 3,787 | 33,808 |
| Service cost | 257 | 229 | 2,283 |
| Interest cost | 30 | 30 | 268 |
| Actuarial loss | 5 | 1 | 47 |
| Payment of retirement benefits | (199) | (240) | (1,767) |
| Other | (1) | 2 | (8) |
| Balance at the end of the year | ¥ 3,903 | ¥ 3,810 | $ 34,631 |

Adjustments of beginning and ending balance of plan assets

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Balance at the beginning of the year | ¥ 2,620 | ¥ 2,367 | $ 23,247 |
| Expected return on plan assets | 52 | 47 | 465 |
| Actuarial loss | (83) | 207 | (740) |
| Employer's contributions | 159 | 161 | 1,413 |
| Payment of retirement benefits | (142) | (162) | (1,257) |
| Balance at the end of the year | ¥ 2,606 | ¥ 2,620 | $ 23,128 |

Adjustments of ending balance of retirement benefit obligations and plan assets, and net defined benefit asset and liability on consolidated balance sheet

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Funded retirement benefit obligations | ¥ 2,736 | ¥ 2,701 | $ 24,281 |
| Plan assets | (2,606) | (2,620) | (23,128) |
| | 130 | 81 | 1,153 |
| Unfunded retirement benefit obligations | 1,166 | 1,109 | 10,350 |
| Net defined benefit asset and liability on consolidated balance sheet | 1,296 | 1,190 | 11,503 |
| Net defined benefit liability | 1,296 | 1,190 | 11,503 |
| Net defined benefit asset and liability on consolidated balance sheet | ¥ 1,296 | ¥ 1,190 | $ 11,503 |

The following table summarizes the components of net retirement benefit expenses:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Service cost | ¥ 257 | ¥ 229 | $ 2,283 |
| Interest cost on benefit obligation | 30 | 30 | 268 |
| Expected return on plan assets | (52) | (47) | (465) |
| Amortization of actuarial loss | 28 | 55 | 249 |
| Extraordinary additional retirement payments | 18 | 28 | 158 |
| Net retirement benefit expenses | ¥ 281 | ¥ 295 | $ 2,493 |

Remeasurements of defined benefit plans, before tax, in the consolidated statements of comprehensive income

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Actuarial gain (loss) | ¥ (61) | ¥ 261 | $ (538) |

Remeasurements of defined benefit plans, before tax, in the consolidated balance sheets

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Unrecognized actuarial gain (loss) | ¥ 30 | ¥ (31) | $ 262 |

Plan assets
(1) Plan assets
The fair value of plan assets, by major category, as a percentage of total plan assets is as follows:

| | 2016 | 2015 |
|---|---|---|
| Domestic bonds | 21.8% | 12.8% |
| Domestic equities | 1.1 | 20.6 |
| Foreign bonds | 15.7 | 5.5 |
| Foreign equities | 3.8 | 14.4 |
| General accounts | 46.3 | 44.3 |
| Other | 11.3 | 2.4 |
| Total | 100.0% | 100.0% |

(2) Calculation method of expected long-term rate of return on plan assets
The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in the actuarial calculation
The main assumptions used in the actuarial calculation (presented as a weighted average) are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 0.8% | 0.8% |
| Expected rate of return on plan assets | 2.0% | 2.0% |

## 13 Net Assets

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. 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.

Capital surplus and the legal reserve are not available for the distribution of dividends but may be used to reduce or eliminate a deficit or may be transferred to stated capital. At March 31, 2016, the legal reserve of the Company included in retained earnings amounted to ¥550 million (U.S.$4,879 thousand).

The maximum amount which the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Corporation Law of Japan.

## 14 Amounts per Share

Net assets per share as of March 31, 2016 and 2015 were ¥1,049.58 (U.S.$9.31) and ¥1,001.84, respectively. Basic earnings per share for the years ended March 31, 2016 and 2015 was ¥42.01 (U.S.$0.37) and ¥40.83, respectively.

Diluted earnings per share for the years ended March 31, 2016 and 2015 was ¥41.97 (U.S.$0.37) and ¥40.82, respectively.

The basis for the calculation of basic earnings per share and diluted earnings per share for the years ended March 31, 2016 and 2015 was as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Basic earnings per share: | | | |
| Profit attributable to owners of parent | ¥ 912 | ¥ 892 | $ 8,094 |
| Amount not attributable to shareholders of common stock | — | — | — |
| Amount attributable to shareholders of common stock | 912 | 892 | 8,094 |
| Weighted-average number of shares outstanding (millions of shares) | 22 | 22 | — |
| Diluted earnings per share: | | | |
| Adjustments to profit attributable to owners of parent | — | — | — |
| Increase in number of shares outstanding (millions of shares) | 0 | 0 | — |
| (Subscription rights to shares) | (0) | (0) | — |
| Shares having an anti-dilutive effect (millions of shares) | — | 1 | — |

The basis for calculation of total net assets per share as of March 31, 2016 and 2015 was as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Total net assets per share: | | | |
| Total net assets | ¥ 23,496 | ¥ 22,600 | $ 208,500 |
| Deductions: | 721 | 710 | 6,395 |
| Subscription rights | 75 | 81 | 667 |
| Non-controlling interests | 646 | 629 | 5,728 |
| Amounts attributable to shareholders of common stock | 22,775 | 21,891 | 202,105 |
| Number of shares outstanding at year end (millions of shares) | 22 | 22 | — |

## 15 Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Sales promotion expenses | ¥ 6,487 | ¥ 5,861 | $ 57,565 |
| Advertising costs | 2,742 | 2,857 | 24,329 |
| Salaries | 2,095 | 2,067 | 18,588 |
| Shipment and storage expenses | 1,358 | 1,357 | 12,050 |
| Provision for employees' retirement and severance benefits | 235 | 267 | 2,089 |
| Provision for directors' retirement and severance benefits | 5 | 20 | 47 |
| Provision for executive officers' incentive plan | 17 | — | 150 |

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2016 and 2015 amounted to ¥536 million (U.S.$4,758 thousand) and ¥513 million, respectively.

## 16 Cash and Time Deposits

A reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows to cash and time deposits in the accompanying consolidated balance sheets at March 31, 2016 and 2015 is as follows:

| | millions of yen | | thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Cash and time deposits | ¥ 7,566 | ¥ 7,629 | $ 67,139 |
| Time deposits with a maturity in excess of three months | (20) | (1,044) | (180) |
| Other current assets (*) | 7 | — | 58 |
| Cash and cash equivalents | ¥ 7,552 | ¥ 6,585 | $ 67,017 |

(*) These represent the Company's contributions of funds to a bank in order to establish the "Board Benefit Trust (BBT)" and "Employee Stock Ownership Plan (ESOP) Trust."

## 17 Leases

(Finance leases)
Leased assets included in property, plant and equipment are machinery, equipment and vehicles, tools, furniture and fixtures in the daily necessities segment. Leased assets included in intangible assets are software.

(Operating leases)
The Company and its consolidated subsidiaries had no significant operating leases at March 31, 2016 and 2015.

## 18 Segment Information

**(1) Summary of Reporting Segments**
The Group changed its reporting segments from two (Mothproofing and Hygiene-Related Products and Household Environment-Related Products) to a single segment (Daily necessities) from the fiscal year ended March 31, 2016.

As a result of having considered the process of making decisions about resource allocation and the nature of the Company's products and their markets, the Company judged that a single segment is the most rational and the best fit considering the actual circumstances.

Segment information for the years ended March 31, 2016 and 2015 is omitted as the Group operates as a single segment.

**(2) Calculation method of sales, profits or losses, and other items by reportable segment**
Information on the calculation method is omitted as the Group operates as a single segment.

**(3) Information on the amounts of sales, income, and other items by reportable segments**
Information on the amounts of sales and other items for the years ended March 31, 2016 and 2015 is omitted as the Group operates as a single segment.

**(4) Related Information**

(a) Information by products and services

| | millions of yen | | | | | |
|---|---|---|---|---|---|---|
| **Year ended March 31, 2016** | Air Care | Cloth Care | Thermal Care | Hand Care | Others | Total |
| Sales to third parties | **¥ 21,118** | **¥ 10,155** | **¥ 4,947** | **¥ 5,333** | **¥ 6,798** | **¥ 48,351** |

| | millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ended March 31, 2015 | Air Care | Cloth Care | Thermal Care | Hand Care | Others | Total |
| Sales to third parties | ¥ 20,319 | ¥ 10,405 | ¥ 6,093 | ¥ 5,070 | ¥ 6,377 | ¥ 48,263 |

| | thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| **Year ended March 31, 2016** | Air Care | Cloth Care | Thermal Care | Hand Care | Others | Total |
| Sales to third parties | **$ 187,402** | **$ 90,114** | **$ 43,896** | **$ 47,321** | **$ 60,329** | **$ 429,062** |

(b) Information by geographical segment
(Sales)
Geographical segment information is not presented as overseas sales were less than 10% of consolidated net sales for the years ended March 31, 2016 and 2015.

(Property, plant and equipment)
Geographical segment information is not presented as the amount of property, plant and equipment in Japan exceeded 90% of the total of property, plant and equipment at March 31, 2016 and 2015.

(c) Information by major customers

| Customers | Sales: millions of yen | | Sales: thousands of U.S. dollars | Related segment |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | |
| PALTAC CORPORATION | **¥ 16,273** | ¥ 16,064 | **$ 144,406** | Daily necessities |
| ARATA CORPORATION | **¥ 9,768** | ¥ 9,964 | **$ 86,682** | Daily necessities |

## 19 Related Party Transactions

(Years ended March 31, 2016 and 2015)
Not applicable

## 20 Inventory Valuation Loss Included in Cost of Sales

Inventory valuation loss write-downs below cost to net selling value are included in cost of sales and amounted to ¥483 million (U.S.$4,285 thousand) and ¥593 million for the years ended March 31, 2016 and 2015, respectively.

## 21 Note to Consolidated Statements of Changes in Net Assets

Shares in issue and outstanding and treasury stock at March 31, 2016 and 2015 were as follows:

(Year ended March 31, 2016)
Number of shares in issue and outstanding:
Common stock 23,000 thousand
Number of shares held in treasury:
Common stock 1,300 thousand

Note: Details of the increase are as follows:
Increases due to purchase on the stock market: 150 thousand
Increase due to purchase of shares less than standard unit: 1 thousand
Increase due to acquisition of treasury stock by the Trust: 220 thousand
Decrease due to disposition of treasury stock by third-party allotment: 220 thousand

The common stock owned by the Trust (220 thousand shares) is included in the number of shares held in treasury stock.

Subscription rights at March 31, 2016 were as follows:
Subscription rights for stock options ¥75 million (U.S.$667 thousand)

Dividends paid from retained earnings for the year ended March 31, 2016 were as follows:

| Resolution | Total amount of dividends (millions of yen) | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|
| Board of directors' meeting held on May 18, 2015 | ¥ 240 | ¥ 11 | March 31, 2015 | June 1, 2015 |
| Board of directors' meeting held on October 29, 2015 | 241 | 11 | September 30, 2015 | December 4, 2015 |

Dividends for which the record date was in the year ended March 31, 2016 and the effective date is in the year ending March 31, 2017 were as follows:

| Resolution | Total amount of dividends (millions of yen) | Source of dividends | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors' meeting held on May 16, 2016 | ¥ 241 | Retained earnings | ¥ 11 | March 31, 2016 | May 31, 2016 |

(Year ended March 31, 2015)
Number of shares in issue and outstanding:
Common stock 23,000 thousand
Number of shares held in treasury:
Common stock 1,149 thousand

Note: Detail of the increase/decrease is as follows:
Increase due to purchase of shares less than standard unit: 2 thousand

Subscription rights at March 31, 2015 were as follows:
Subscription rights for stock options ¥81 million

Dividends paid from retained earnings for the year ended March 31, 2015 were as follows:

| Resolution | Total amount of dividends (millions of yen) | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|
| Board of directors' meeting held on May 19, 2014 | ¥ 240 | ¥ 11 | March 31, 2014 | June 2, 2014 |
| Board of directors' meeting held on October 30, 2014 | 240 | 11 | September 30, 2014 | December 5, 2014 |

Dividends for which the record date was in the year ended March 31, 2015 and the effective date was in the year ended March 31, 2016 were as follows:

| Resolution | Total amount of dividends (millions of yen) | Source of dividends | Dividends per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of directors' meeting held on May 18, 2015 | ¥ 240 | Retained earnings | ¥ 11 | March 31, 2015 | June 1, 2015 |

## 22 Stock Option Plans

At March 31, 2016, the Company had stock option plans, which were approved at the annual general meetings of the shareholders and by the Board of Directors. Details of these stock option plans are summarized as follows:

| Date of approval | Number of shares granted | Eligible participants | Exercisable period |
|---|---|---|---|
| June 18, 2008 | 95,000 | 3 officers and 12 employees | Aug 1, 2010 – July 31, 2015 |
| June 18, 2009 | 20,000 | 4 employees | Aug 4, 2011 – Aug 3, 2016 |
| June 18, 2010 | 155,000 | 4 officers and 17 employees | Aug 3, 2012 – Aug 2, 2017 |
| June 17, 2011 | 35,000 | 7 employees | Aug 2, 2013 – Aug 1, 2018 |
| June 15, 2012 | 130,000 | 3 officers and 8 employees | Aug 2, 2014 – Aug 1, 2019 |
| June 14, 2013 | 130,000 | 2 officers and 10 employees | Aug 2, 2015 – Aug 1, 2020 |
| June 17, 2014 | 175,000 | 6 officers and 11 employees | Aug 2, 2016 – Aug 1, 2021 |

The option price per share was determined on the date the options were granted based on an established formula for determining option prices. The options are exercisable during the above periods provided that the recipients are still directors, officers or employees of the Company or its subsidiaries.

Cost related to the 2016 stock option plan amounting to ¥11 million (U.S.$97 thousand) were included in selling, general and administrative expenses.

Description of stock options

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Grantees | 3 officers and 12 employees | 4 employees | 4 officers and 17 employees | 7 employees | 3 officers and 8 employees | 2 officers and 10 employees | 6 officers and 11 employees |
| Type of stock | Common stock | Common stock | Common stock | Common stock | Common stock | Common stock | Common stock |
| Number of stock options granted (*) | 95,000 | 20,000 | 155,000 | 35,000 | 130,000 | 130,000 | 175,000 |
| Grant date | August 1, 2008 | August 3, 2009 | August 2, 2010 | August 1, 2011 | August 1, 2012 | August 1, 2013 | August 1, 2014 |
| Condition for exercise | Working from August 1, 2008 to July 31, 2010 | Working from August 3, 2009 to August 3, 2011 | Working from August 2, 2010 to August 2, 2012 | Working from August 1, 2011 to August 1, 2013 | Working from August 1, 2012 to August 1, 2014 | Working from August 1, 2013 to August 1, 2015 | Working from August 1, 2014 to August 1, 2016 |
| Working period | August 1, 2008 to July 31, 2010 | August 3, 2009 to August 3, 2011 | August 2, 2010 to August 2, 2012 | August 1, 2011 to August 1, 2013 | August 1, 2012 to August 1, 2014 | August 1, 2013 to August 1, 2015 | August 1, 2014 to August 1, 2016 |
| Exercisable period | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) | Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options) |

(*) Number of stock options in the column "Number of stock options granted" has been converted into the equivalent numbers of shares.

Stock option activity during the year ended March 31, 2016 was as follows:

Number of shares

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Non-vested Outstanding at beginning of year | — | — | — | — | — | 125,000 | 175,000 |
| Granted during the year | — | — | — | — | — | — | — |
| Forfeited during the year | — | — | — | — | — | — | — |
| Vested during the year | — | — | — | — | — | 125,000 | — |
| Outstanding at end of year | — | — | — | — | — | — | 175,000 |
| Vested Outstanding at beginning of year | 75,000 | 20,000 | 140,000 | 35,000 | 70,000 | — | — |
| Vested during the year | — | — | — | — | — | 125,000 | — |
| Exercised during the year | — | — | — | — | — | — | — |
| Forfeited during the year | 75,000 | — | — | — | — | — | — |
| Outstanding at end of year | — | 20,000 | 140,000 | 35,000 | 70,000 | 125,000 | — |

Price of stock options

| | | | | yen | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Exercise price | ¥ 1,264 | ¥ 1,037 | ¥ 1,049 | ¥ 976 | ¥ 946 | ¥ 1,066 | ¥ 1,059 |
| Weighted-average market price | — | — | — | — | — | — | — |
| Fair value per option on grant date | ¥ 220 | ¥ 197 | ¥ 178 | ¥ 194 | ¥ 153 | ¥ 117 | ¥ 97 |

The fair value of each stock option grant was estimated at the grant date using the Black-Scholes option pricing model.

Method of estimating exercised stock options
The Company estimated the number of exercised stock options based on the actual number of forfeitures because it is difficult to estimate the number of stock options which will be forfeited in the future.

# Report of Independent Auditors

EY

Building a better working world

## Independent Auditor's Report

The Board of Directors
S.T.CORPORATION

We have audited the accompanying consolidated financial statements of S.T.CORPORATION 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 S.T.CORPORATION 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.

June 15, 2016
Tokyo, Japan

Ernst & Young ShinNihon LLC

# Five-Year Financial Summary

S.T. CORPORATION and consolidated subsidiaries
Years ended March 31

| | millions of yen (except per share data and ratios) | | | | | thousands of U.S. dollars (except per share data and ratios) |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 | **2016** |
| **For the Year:** | | | | | | |
| Net sales | **¥ 48,351** | ¥ 48,263 | ¥ 46,993 | ¥ 46,944 | ¥ 46,354 | **$ 429,062** |
| Cost of sales | **27,294** | 28,235 | 26,980 | 27,738 | 27,347 | **242,208** |
| Selling, general and administrative expenses | **18,715** | 18,216 | 17,881 | 17,406 | 17,256 | **166,073** |
| Operating income | **2,342** | 1,813 | 2,131 | 1,800 | 1,751 | **20,782** |
| Profit before income taxes | **1,703** | 1,536 | 1,637 | 1,105 | 596 | **15,109** |
| Profit attributable to owners of parent | **912** | 892 | 1,234 | 565 | 76 | **8,094** |
| Capital expenditures | **1,758** | 1,486 | 942 | 2,061 | 1,007 | **15,597** |
| Depreciation and amortization | **1,128** | 844 | 894 | 830 | 931 | **10,013** |
| R&D expenses | **536** | 513 | 564 | 572 | 659 | **4,758** |
| Cash flows from operating activities | **2,481** | 2,137 | 2,110 | 980 | 1,560 | **22,016** |
| Cash flows from investing activities | **(624)** | (1,768) | 514 | (1,924) | (787) | **(5,541)** |
| Free cash flow | **1,857** | 369 | 2,624 | (944) | 773 | **16,476** |
| Cash flows from financing activities | **(876)** | (614) | (465) | (557) | (549) | **(7,774)** |
| **At Year-End:** | | | | | | |
| Total current assets | **¥ 19,708** | ¥ 20,221 | ¥ 18,956 | ¥ 15,533 | ¥ 16,941 | **$ 174,886** |
| Property, plant and equipment, net | **8,659** | 8,110 | 7,555 | 7,524 | 6,295 | **76,835** |
| Total assets | **34,924** | 33,785 | 32,370 | 30,076 | 30,287 | **309,915** |
| Total current liabilities | **8,781** | 9,008 | 8,966 | 8,058 | 8,778 | **77,921** |
| Total long-term liabilities | **2,648** | 2,176 | 2,318 | 1,805 | 1,807 | **23,494** |
| Total net assets | **23,496** | 22,600 | 21,087 | 20,213 | 19,701 | **208,500** |
| Cash and cash equivalents | **7,552** | 6,585 | 6,728 | 4,469 | 5,921 | **67,017** |
| Number of shares issued (thousand shares) | **23,000** | 23,000 | 23,000 | 23,000 | 23,000 | |
| Treasury stock (thousand shares) | **1,301** | 1,149 | 1,147 | 1,284 | 1,282 | |
| Number of employees | **860** | 859 | 760 | 663 | 647 | |
| **Per Share** (yen and U.S. dollars)**:** | | | | | | |
| Profit attributable to owners of parent | **¥ 42.01** | ¥ 40.83 | ¥ 56.74 | ¥ 26.01 | ¥ 3.48 | **$ 0.37** |
| Dividends | **22.00** | 22.00 | 22.00 | 22.00 | 22.00 | **0.20** |
| Net assets | **1,049.58** | 1,001.84 | 936.06 | 905.84 | 884.45 | **9.31** |
| Common stock price | **1,114** | 1,021 | 999 | 988 | 1,025 | **9.89** |
| **Ratios** (%)**:** | | | | | | |
| Operating income margin | **4.8** | 3.8 | 4.5 | 3.8 | 3.8 | |
| Profit before income taxes/net sales | **3.5** | 3.2 | 3.5 | 2.4 | 1.3 | |
| Return on sales | **1.9** | 1.8 | 2.6 | 1.2 | 0.2 | |
| ROA | **2.7** | 2.7 | 4.0 | 1.9 | 0.3 | |
| ROE | **4.1** | 4.2 | 6.1 | 2.9 | 0.4 | |
| Equity ratio | **65.2** | 64.8 | 63.2 | 65.4 | 63.4 | |

Notes: 1. U.S. dollar amounts are translated from yen for convenience only, at the rate of ¥112.69 = U.S.$1.00, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2016.
2. The common stock prices listed are as of the end of the fiscal year ended in March.
3. ROA = Profit attributable to owners of parent divided by average total assets for the fiscal year.
4. ROE = Profit attributable to owners of parent divided by average total equity (total net assets minus subscription rights less non-controlling interests in consolidated subsidiaries) for the fiscal year.

# Investor Information

As of March 31, 2016

## Corporate Data

| | |
|---|---|
| Company name | S.T. CORPORATION |
| Headquarters | 4-10, Shimo-ochiai 1-chome, Shinjuku-ku, Tokyo 161-8540, Japan |
| Establishment | August 31, 1948 |
| Common stock | ¥7,065,500,000 |
| Fiscal year-end | March 31 |
| Shares issued and outstanding | 23,000,000 |
| Listed stock exchange | Tokyo Stock Exchange, First Section |
| Shareholders | 16,055 |
| Registered transfer agent | Mizuho Trust & Banking Co., Ltd. |
| Accounting auditors | Ernst & Young ShinNihon LLC |
| Annual shareholders' meeting | Middle of June each year |
| Employees | 860 (consolidated)<br>406 (non-consolidated) |
| Contact | Kouichi Yoshizawa, Public Relations Department |
| E-mail | ir@st-c.co.jp |
| Telephone | +81-3-3367-6115 |
| Facsimile | +81-3-3367-6320 |

## Group Companies

S.T. TRADING CO., LTD.

S.T. BUSINESS SUPPORT CO., LTD.

S.T. (THAILAND) CO., LTD.

FAMILY GLOVE CO., LTD. (TAIWAN)

S.T. KOREA CORPORATION (SOUTH KOREA)

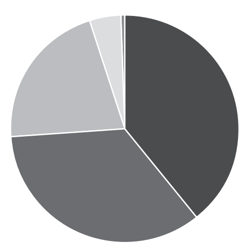
JAPAN AROMA LABORATORY CO., LTD.

SHALDAN (THAILAND) CO., LTD.

## Major Shareholders

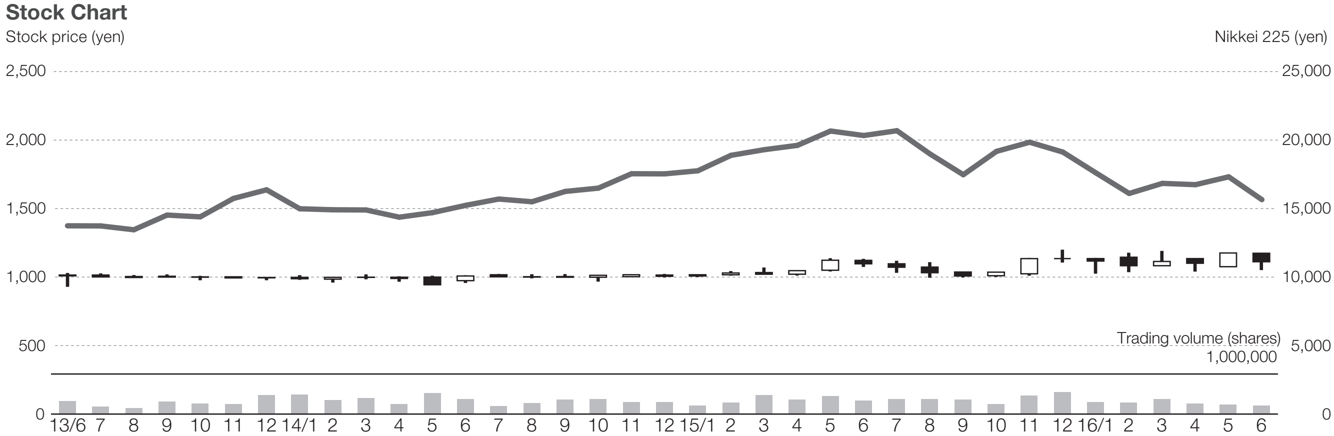
| | Thousands of shares | % of total |
|---|---|---|
| Shaldan Co., Ltd. | 5,587 | 25.5 |
| Nippon Life Insurance Company | 1,336 | 6.1 |
| TCSB (Mizuho Bank) | 884 | 4.0 |
| Takashi Suzuki | 682 | 3.1 |
| FUMAKILLA LIMITED | 541 | 2.5 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 524 | 2.4 |
| Kanichi Suzuki | 500 | 2.3 |
| Suzuki Kanichi Shouten | 433 | 2.0 |
| Takako Suzuki | 424 | 1.9 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 393 | 1.8 |

Note: The Company holds treasury stock of 1,080 thousand shares as of March 31, 2016; however, it is excluded from the list of major shareholders shown above.



- Individuals, etc. ..........................39.3%
- Other Japanese corporations .....34.6%
- Financial institutions .................. 21.2%
- Non-Japanese institutions .......... 4.5%
- Securities firms ............................0.4%

## Stock Chart



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