

**Basic Accounting Policies:**

**1. Basis of Presentation of Consolidated Financial Statements**

The company's consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles. See Note 2 of Notes to consolidated financial statements on page 12.

**2. Inventories**

Finished goods and work in process are stated at the lower of cost (average) or market. Raw materials are stated at cost, principally on a first-in, first-out or average basis, not in excess of current replacement cost.

**3. Marketable Securities**

The company accounts for debt and equity securities in accordance with the provision of ASC 320, "Investments-Debt and Equity Securities."

**4. Property, Plant and Equipment, and Depreciation**

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the straight-line method.

**5. Leases**

The company accounts for leases in accordance with the provision of ASC 840, "Leases."

**6. Income Taxes**

Income taxes are accounted for under the asset and liability method. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the fiscal year that includes the enactment date.

**7. Retirement and Severance Benefits**

The company accounts for retirement and severance benefits in accordance with the provision of ASC715, "Compensation-Retirement Benefits."

**8. Derivative Financial Instruments**

The company accounts for derivative instruments in accordance with the provision of ASC 815, "Derivative and Hedging."