

CONSOLIDATED FINANCIAL STATEMENTS
FURUKAWA ELECTRIC CO., LTD. AND
ITS SUBSIDIARIES
March 31, 2018 and 2017

CONSOLIDATED BALANCE SHEETS
 FURUKAWA ELECTRIC CO., LTD. AND
 ITS SUBSIDIARIES

At March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
<u>ASSETS</u>			
Current assets:			
Cash and bank deposits (Note 4)	¥ 50,635	¥ 47,165	\$ 477,689
Marketable securities (Note 5)	0	54	0
Trade receivable	224,335	198,864	2,116,368
Inventories (Note 6)	113,792	104,355	1,073,509
Deferred income taxes (Note 15)	9,931	8,243	93,689
Other current assets	28,643	24,945	270,217
Allowance for doubtful accounts	(1,215)	(1,231)	(11,462)
Total current assets	426,122	382,398	4,020,019
Non-current assets:			
Investments and long-term loans (Notes 5, 7 and 9)	141,256	132,463	1,332,604
Property, plant and equipment, net of accumulated depreciation (Notes 8 and 9)	216,728	205,490	2,044,604
Deferred income taxes (Note 15)	3,618	4,013	34,132
Asset for retirement benefits (Notes 2g and 10)	5,143	4,884	48,519
Other non-current assets	24,157	22,287	227,896
Allowance for doubtful accounts	(1,206)	(1,410)	(11,377)
Total non-current assets	389,699	367,727	3,676,406
Total	¥ 815,822	¥ 750,126	\$ 7,696,434

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt (Note 9)	¥ 106,279	¥ 90,310	\$ 1,002,632
Current portion of bonds (Note 9)	10,000	10,000	94,340
Trade payable	124,387	108,087	1,173,462
Accrued income taxes	4,024	3,287	37,962
Deferred income taxes (Note 15)	1	8	9
Provision for product defect compensation (Note 2h)	22,827	15,971	215,349
Other current liabilities	62,815	65,698	592,594
Total current liabilities	<u>330,336</u>	<u>293,364</u>	<u>3,116,377</u>
Long-term liabilities :			
Bonds (Note 9)	20,000	20,000	188,679
Long-term debt (Note 9)	122,227	132,234	1,153,085
Liability for retirement benefits (Notes 2g and 10)	43,174	45,178	407,302
Provision for environmental costs (Note 2i)	10,470	10,322	98,774
Asset retirement obligations	1,084	502	10,226
Deferred income taxes (Note 15)	9,515	6,263	89,764
Other long-term liabilities	6,943	5,210	65,500
Total long-term liabilities	<u>213,414</u>	<u>219,711</u>	<u>2,013,340</u>
Contingent liabilities (Note 12)			
Net assets			
Shareholders' equity (Note 11)			
Common stock			
Authorized shares, 250,000 thousand in 2018 and 2017			
Issued shares, 70,666 thousand in 2018 and 2017	69,395	69,395	654,670
Capital surplus	22,271	21,562	210,104
Retained earnings	128,130	103,942	1,208,774
Common treasury stock, at cost 48,650 in 2018 48,062 in 2017	(613)	(633)	(5,783)
Total shareholders' equity	<u>219,184</u>	<u>194,267</u>	<u>2,067,774</u>
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities (Note 5)	30,020	26,622	283,208
Deferred gain (loss) on derivatives under hedge accounting (Note 2c)	(495)	717	(4,670)
Adjustments for retirement benefits	(6,525)	(8,138)	(61,557)
Foreign currency translation adjustments	(5,664)	(6,756)	(53,434)
Total accumulated other comprehensive income	<u>17,335</u>	<u>12,445</u>	<u>163,538</u>
Non-controlling interests	35,552	30,338	335,396
Total net assets	<u>272,071</u>	<u>237,051</u>	<u>2,566,708</u>
Total	<u>¥ 815,822</u>	<u>¥ 750,126</u>	<u>\$ 7,696,434</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
 FURUKAWA ELECTRIC CO., LTD. AND
 ITS SUBSIDIARIES

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Net sales	¥ 967,333	¥ 843,344	\$ 9,125,783
Cost of sales (Note 13)	801,411	689,160	7,560,481
Gross profit	165,921	154,184	1,565,292
Selling, general and administrative expenses (Note 13)	121,117	115,560	1,142,613
Operating income	44,804	38,623	422,679
Other income (expenses):			
Interest and dividend income	2,564	2,088	24,189
Interest expense	(3,977)	(3,484)	(37,519)
Foreign exchange loss, net	(1,216)	(1,184)	(11,472)
Equity in income of non-consolidated subsidiaries and affiliates	4,311	102	40,670
Gain on disposal of property, plant and equipment	9,362	4,116	88,321
Loss on disposal of property, plant and equipment	(967)	(1,133)	(9,123)
Impairment loss (Note 14)	(3,122)	(192)	(29,453)
Provision for product defect compensation (Note 2h)	(7,157)	(13,117)	(67,519)
Provision for loss on litigation	(2,131)	-	(20,104)
Gain from negative goodwill	-	5,251	-
Other, net	(2,004)	(3,104)	(18,906)
Profit before income taxes	40,466	27,965	381,755
Income taxes (Note 15) :			
Current	8,402	6,747	79,264
Deferred	(251)	(1,212)	(2,368)
	8,151	5,534	76,896
Profit	32,314	22,430	304,849
attributable to non-controlling interests	3,767	4,860	35,538
attributable to owners of parent	¥ 28,547	¥ 17,570	\$ 269,311

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FURUKAWA ELECTRIC CO., LTD. AND
 ITS SUBSIDIARIES

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Profit	¥ 32,314	¥ 22,430	\$ 304,849
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	3,561	12,247	33,594
Deferred gain (loss) on derivatives under hedge accounting	(1,205)	1,969	(11,368)
Adjustments for retirement benefits (Notes 2g and 10)	1,786	6,054	16,849
Foreign currency translation adjustments	703	766	6,632
Share of other comprehensive income of affiliates accounted for by the equity method	524	(1,720)	4,943
Total other comprehensive income (Note 16)	5,369	19,319	50,651
Total comprehensive income	¥ 37,684	¥ 41,750	\$ 355,509
Attributable to :			
Owners of parent	¥ 33,455	¥ 36,759	\$ 315,613
Non-controlling interests	¥ 4,229	¥ 4,990	\$ 39,896

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FURUKAWA ELECTRIC CO., LTD. AND
ITS SUBSIDIARIES

(For the year ended March 31, 2018)

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Common treasury stock	Total shareholders' equity
Balance at March 31, 2017	¥ 69,395	¥ 21,562	¥ 101,942	¥ (633)	¥ 191,267
Cash dividends paid			(3,884)		(3,884)
Profit attributable to owners of parent			28,547		28,547
Net effect of increase in consolidated subsidiaries			(475)		(475)
Acquisition of treasury stock				(3)	(3)
Disposal of treasury stock				23	23
Net effect of change in parent's equity due to transaction with non-controlling interests		708			708
Net change in items other than those in shareholders' equity					
Net change during the year		708	24,187	19	24,915
Balance at March 31, 2018	¥ 69,395	¥ 22,271	¥ 126,130	¥ (613)	¥ 219,182

Millions of yen

	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Adjustment for retirement benefits (Note 10)	Foreign currency translation adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2017	¥ 26,622	¥ 717	¥ (8,136)	¥ (6,756)	¥ 12,445	¥ 30,338	¥ 237,051
Cash dividends paid							(3,884)
Profit attributable to owners of parent							28,547
Net effect of increase in consolidated subsidiaries							(475)
Acquisition of treasury stock							(3)
Disposal of treasury stock							23
Net effect of change in parent's equity due to transaction with non-controlling interests							708
Net change in items other than those in shareholders' equity	3,398	(1,213)	1,612	1,092	4,890	5,213	10,104
Net change during the year	3,398	(1,213)	1,612	1,092	4,890	5,213	35,020
Balance at March 31, 2018	¥ 30,020	¥ (495)	¥ (6,523)	¥ (5,664)	¥ 17,335	¥ 35,552	¥ 272,071

Thousands of U.S. dollars (Note 3)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Common treasury stock	Total shareholders' equity
Balance at March 31, 2017	\$ 654,670	\$ 203,415	\$ 980,585	\$ (5,972)	\$ 1,832,708
Cash dividends paid			(36,642)		(36,642)
Profit attributable to owners of parent			269,311		269,311
Net effect of increase in consolidated subsidiaries			(4,481)		(4,481)
Acquisition of treasury stock				(28)	(28)
Disposal of treasury stock				217	217
Net effect of change in parent's equity due to transaction with non-controlling interests		6,679			6,679
Net change in items other than those in shareholders' equity					
Net change during the year		6,679	228,179	179	235,047
Balance at March 31, 2018	\$ 654,670	\$ 210,104	\$ 1,208,774	\$ (5,783)	\$ 2,067,765

Thousands of U.S. dollars (Note 3)

	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Adjustment for retirement benefits (Note 10)	Foreign currency translation adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2017	\$ 251,151	\$ 6,764	\$ (70,774)	\$ (63,736)	\$ 117,405	\$ 265,208	\$ 2,316,830
Cash dividends paid							(36,642)
Profit attributable to owners of parent							269,311
Net effect of increase in consolidated subsidiaries							(4,481)
Acquisition of treasury stock							(28)
Disposal of treasury stock							217
Net effect of change in parent's equity due to transaction with non-controlling interests							6,679
Net change in items other than those in shareholders' equity	32,057	(11,443)	15,208	10,302	46,132	49,179	95,321
Net change during the year	32,057	(11,443)	15,208	10,302	46,132	49,179	330,377
Balance at March 31, 2018	\$ 283,208	\$ (4,679)	\$ (55,567)	\$ (53,434)	\$ 163,538	\$ 314,387	\$ 2,647,208

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FURUKAWA ELECTRIC CO., LTD. AND
ITS SUBSIDIARIES

(For the year ended March 31, 2017)

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Common treasury stock	Total shareholders' equity
Balance at March 31, 2016	¥ 69,395	¥ 21,466	¥ 90,313	¥ (280)	¥ 180,894
Cash dividends paid	-	-	(2,824)	-	(2,824)
Profit attributable to owners of parent	-	-	17,570	-	17,570
Net effect of increase in consolidated subsidiaries	-	-	(888)	-	(888)
Net effect of decrease in consolidated subsidiaries	-	-	(227)	-	(227)
Acquisition of treasury stock	-	-	-	(353)	(353)
Disposal of treasury stock	-	(0)	-	0	0
Net effect of change in parent's equity due to transaction with non-controlling interests	-	95	-	-	95
Net change in items other than those in shareholders' equity	-	95	13,629	(352)	13,372
Net change during the year	-	95	13,629	(352)	13,372
Balance at March 31, 2017	¥ 69,395	¥ 21,562	¥ 103,942	¥ (633)	¥ 194,267

	Millions of yen						
	Accumulated other comprehensive income						
	Unrealized gain on available-for- sale securities	Deferred gain (loss) on derivatives under hedge accounting	Adjustment for retirement benefits (Note 10)	Foreign currency translation adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2016	¥ 14,070	¥ (1,391)	¥ (13,917)	¥ (6,492)	¥ (7,731)	¥ 25,424	¥ 198,587
Cash dividends paid	-	-	-	-	-	-	(2,824)
Profit attributable to owners of parent	-	-	-	-	-	-	17,570
Net effect of increase in consolidated subsidiaries	-	-	-	-	-	-	(888)
Net effect of decrease in consolidated subsidiaries	-	-	-	-	-	-	(227)
Acquisition of treasury stock	-	-	-	-	-	-	(353)
Disposal of treasury stock	-	-	-	-	-	-	0
Net effect of change in parent's equity due to transaction with non-controlling interests	-	-	-	-	-	-	95
Net change in items other than those in shareholders' equity	12,551	2,109	5,779	(263)	20,177	4,914	25,091
Net change during the year	12,551	2,109	5,779	(263)	20,177	4,914	38,463
Balance at March 31, 2017	¥ 26,622	¥ 717	¥ (8,138)	¥ (6,756)	¥ 12,445	¥ 30,338	¥ 237,051

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
 FURUKAWA ELECTRIC CO., LTD. AND
 ITS SUBSIDIARIES

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 40,466	¥ 27,965	\$ 381,755
Adjustments for:			
Depreciation	25,106	23,370	236,849
Equity in income of non-consolidated subsidiaries and affiliates	(4,311)	(102)	(40,670)
Gain on disposal of property, plant and equipment, net	(8,394)	(2,982)	(79,189)
Impairment loss (Note 14)	3,122	192	29,453
Loss on write-down of inventories	1,297	928	12,236
Interest and dividend income	(2,564)	(2,088)	(24,189)
Interest expense	3,977	3,484	37,519
Foreign exchange (gain) loss, net	(137)	559	(1,292)
Increase in trade receivable	(26,363)	(10,935)	(248,708)
Increase in inventories	(9,387)	(7,457)	(88,557)
Increase in trade payable	17,057	7,278	160,915
Gain from negative goodwill	-	(5,251)	-
(Decrease) increase in liability for retirement benefits	(142)	1,563	(1,340)
(Decrease) increase in provision for environmental costs	(1,083)	1,220	(10,217)
Increase in provision for loss on litigation	2,131	-	20,104
Increase in provision for product defect compensation (Note 2h)	6,814	12,963	64,283
Other, net	(1,152)	4,777	(10,868)
Subtotal	46,436	55,486	438,075
Interest and dividend income received	3,961	3,346	37,368
Interest expense paid	(3,953)	(3,587)	(37,292)
Income taxes paid	(8,014)	(7,719)	(75,604)
Loss on litigation paid	-	(7,123)	-
Net cash provided by operating activities	38,429	40,402	362,538
Cash flows from investing activities:			
Increase in time deposits, net	190	(152)	1,792
Purchases of investment securities	(799)	(4,148)	(7,538)
Proceeds from sales of investment securities	526	2,992	4,962
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	72	-	679
Purchases of property, plant and equipment	(34,349)	(28,443)	(324,047)
Purchases of intangible assets	(3,533)	(2,539)	(33,330)
Proceeds from sales of non-current assets	9,951	6,031	93,877
Payments for business transfer	-	(1,944)	-
Increase in short-term loans, net	(5,886)	(7,984)	(55,528)
Other	(491)	(172)	(4,632)
Net cash used in investing activities	(34,319)	(36,361)	(323,764)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Cash flows from financing activities:			
Decrease in short-term debt, net	875	(3,140)	8,255
Proceeds from long-term debt	19,668	35,822	185,547
Repayments of long-term debt	(17,778)	(38,297)	(167,717)
Proceeds from issue of bonds	10,000	10,000	94,340
Repayments of redemption of bonds	(10,000)	(10,000)	(94,340)
Proceeds from non-controlling shareholders	1,649	-	15,557
Payments for purchase of common treasury stock	(3)	(352)	(28)
Payments for purchase of common treasury stock by subsidiaries	(161)	(161)	(1,519)
Cash dividends paid	(3,885)	(2,823)	(36,651)
Cash dividends paid to non-controlling shareholders	(1,226)	(701)	(11,566)
Other	(1,081)	(724)	(10,198)
Net cash used in financing activities	(1,943)	(10,378)	(18,330)
Effect of exchange rate changes on cash and cash equivalents	1,040	(314)	9,811
Net increase (decrease) in cash and cash equivalents	3,206	(6,652)	30,245
Cash and cash equivalents at beginning of year	46,147	51,659	435,349
Cash and cash equivalents of newly consolidated subsidiaries	463	1,529	4,368
Cash and cash equivalents of de-consolidated subsidiaries	(59)	(416)	(557)
Net increase in cash and cash equivalents from mergers	-	27	-
Cash and cash equivalents at end of year (Note 4)	¥ 49,758	¥ 46,147	\$ 469,415

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FURUKAWA ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled by directly or indirectly by the Company (collectively the "Group").

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method.

The Company applies the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force (PITF) No.18) and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method (PITF No.24).

In accordance with these PITFs, the accompanying consolidated financial statements have been prepared based on the financial statements of foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRSs or accounting principles generally accepted in the United States of America as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year presentations.

2. Significant Accounting Policies

a) Basis of consolidation

1) The consolidated financial statements include the accounts of the Company and its 108 major subsidiaries in 2018. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in its 14 major affiliates in 2018 are accounted for by the equity method.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the investments have been written down to fair value.

Differences between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies which are accounted for by the equity method (goodwill) are amortized by the straight-line method over periods, when such a goodwill would be effective, not exceeding 20 years. However, immaterial amounts of goodwill and negative goodwill are charged to expense or credited to profit in the year of acquisition.

2) Fiscal year-end of the consolidated subsidiaries

There are 49 subsidiaries' fiscal year-ends differ from that of the Company due to local statutory requirements. Those 49 subsidiaries' fiscal year-end is December 31 and the Company makes necessary adjustments if there are any significant transactions. There have been no significant transactions, which would materially affect the Company's financial position and results of operations, with such subsidiaries during the period from their closing date to March 31.

b) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits capable of being withdrawn on demand and short-term investments with an original maturity of three months or less and subject to a minor risk of fluctuation in value.

c) Financial instruments

1) Debt and equity securities

Debt securities for which the Company and its consolidated subsidiaries have both the positive intent and ability to hold to maturity are classified as "held-to-maturity debt securities" and mainly carried at amortized cost. Securities other than held-to-maturity debt securities and investments in equity securities of non-consolidated subsidiaries and affiliates are classified as "available-for-sale securities" and carried at fair value with unrealized gain and loss, net of tax, reported as a separate component of net assets. For the purpose of computing gain and loss on securities sold, the cost of these securities is determined using the moving average method. Securities that do not have readily determinable fair values are recorded at cost. The Company and its consolidated subsidiaries do not hold any trading securities.

Debt securities due within one year are presented as "Marketable securities" under current assets, and all other securities are presented as "Investments and long-term loans" in the accompanying balance sheets.

Additional information with respect to marketable debt and equity securities is included in Note 5.

2) Derivatives

Derivative financial instruments are measured at fair value, if determinable, and resulting gain or loss is included in profit or loss, with the exception that gain or loss on certain qualified hedging instruments may be deferred as an a part of “Net assets” until the gain and loss on the hedged items is recognized. The Company’s hedging activities for interest rate risk on outstanding debt and firm contracts for sales, foreign currency risk and fluctuation risk in market prices are considered qualified hedge transactions.

Additional information on derivatives is presented in Note 19.

d) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the amount of estimated non-recoverable receivables on an individual account basis, plus the amount calculated by applying the historical bad debt loss ratios to the remaining receivables.

e) Inventories

Inventories are stated principally at cost determined using the average method, which requires the amount of the inventories on the balance sheets be written down when there is a decrease in profitability.

f) Property, plant and equipment, and depreciation

Property, plant and equipment, including significant capital expenditures and additions, are stated at cost. Repairs and maintenance expense are charged to income as incurred.

Properties except for leased assets are depreciated principally using the straight-line method.

g) Retirement benefits

Employees who terminate their service with the Company or its domestic consolidated subsidiaries are entitled to lump-sum severance indemnities determined based on accumulated points allocated to employees each year according to their job classification and performance. The liability for these severance indemnities is not funded.

The retirement benefit plans of the Company and its domestic consolidated subsidiaries have features whereby employees who retire at age 55 or over with 20 or more years of service may elect to receive benefits in the form of pensions. These plans, which are non-contributory and funded, generally provide for an annuity payable over a ten-year period subsequent to retirement. The annual contributions for pension benefits include current service costs, amortization of prior service costs and interest on the unfunded portion of past service costs.

The Company and its domestic consolidated subsidiaries recognize retirement benefits based on the estimated amounts of projected benefit obligation reduced by the fair value of the pension plan assets at each fiscal year-end.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 1 year through 10 years), which are shorter than the average remaining years of service of the employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 1 year through 10 years), which are shorter than the average remaining years of service of the employees.

A minimum pension liability adjustment is required for the Company's consolidated subsidiaries in the U.S., generally when the accumulated benefit obligation exceeds plan assets under U.S. GAAP. The minimum liability adjustment, less allowable intangible assets, is directly charged to retained earnings, net of tax benefit, in the accompanying consolidated financial statements.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities based on the assumption that the benefits payable, which are calculated as if all eligible employees voluntarily terminated their employment at fiscal year-end, approximates the retirement benefit obligation at year-end.

In addition, retirement benefits to directors and statutory auditors of the Company's consolidated subsidiaries are provided at the amount which would be required if all directors and statutory auditors were to retire at the balance sheet date according to internal regulations.

h) Provision for product defect compensation

Provision for product defect compensation is provided at an amount deemed necessary to cover possible compensation costs.

i) Provision for environmental costs

Provision for environmental costs, mainly to remove Poly Chlorinated Biphenyl ("PCB") and to improve soil conservation, is provided to cover estimated future costs.

j) Leases

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

Depreciation of finance lease assets that transfer ownership of the assets is calculated by the same method applied for property, plant and equipment.

Depreciation of finance lease assets, that do not transfer ownership of the assets, at the end of the lease term, mainly machinery and equipment, and vehicles, is calculated by the straight-line method over the lease periods, which are deemed as the useful lives, assuming no residual value.

k) Revenue recognition

Operating revenue is mainly recorded upon shipment of goods.

Revenue is recognized by the percentage-of-completion method for construction contracts of which the outcome of the progress performed by the end of the year is deemed to be certain. The construction progress is estimated based on the percentage of construction costs incurred for the work performed to date compared to the estimated total construction costs ("cost-comparison method"). For other construction contracts, such revenue is recognized by the completed-construction method.

l) Research and development costs, and computer software

Research and development expenditure is charged to income when incurred. Expenditure relating to computer software developed for internal use is charged to income when incurred, except when it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and amortized using the straight-line method over its estimated useful life of 5 years.

m) Income taxes

Accrued income taxes are recorded based on the Company's income tax returns.

Deferred income taxes are recognized to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and measured using the enacted tax rates and laws, which will be in effect when differences are expected to reverse.

The Company has elected to file its tax return under the consolidated tax filing system.

n) Translation of foreign currency accounts

Current and non-current monetary items denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the respective balance sheet dates. Monetary items denominated in foreign currencies, for which foreign exchange forward contracts are used to hedge the foreign currency fluctuation, are translated into Japanese yen at the contracted rates. Exchange gain or loss is credited or charged to current operations.

The Company translates the revenue and expense accounts of the overseas consolidated subsidiaries and affiliates accounted for by the equity method at the

average rates of exchange in effect during the year. The balance sheet accounts except for the components of net assets excluding non-controlling interests in the overseas consolidated subsidiaries and affiliates accounted for by the equity method, are translated into Japanese yen at the rates of exchange in effect at the respective balance sheet date. The components of net assets excluding non-controlling interests in the overseas consolidated subsidiaries and affiliates accounted for by the equity method are translated at their historical exchange rates. Differences arising from translation where two exchange rates have been used are presented under translation adjustments and non-controlling interests as a component of net assets.

o) Cash dividends

Dividends paid out of earnings are, in principle, approved by the shareholders' meeting. Interim dividends can be paid at any time during the fiscal year by resolution of the board of directors, if the Article of Incorporation set out for such dividends under the Corporate Law of Japan.

The Corporate Law of Japan provides certain limitations on the amount available for dividends.

p) Impairment of property, plant and equipment

Property, plant and equipment are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the statements of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount, to be measured as the higher of net selling price or value in use.

Accumulated loss of impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

Additional information on impairment of property, plant and equipment, and depreciation is presented in Note 14.

q) Standards issued but not yet effective

I. Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28)
Implementation Guidance on Recoverability of Deferred Tax Assets (revised 2018)
(ASBJ Guidance No.26)

(1) Overview

Accounting treatments for taxable temporary differences associated with investments in subsidiaries have been revised in preparing separate financial statements and also accounting treatments of recoverability of deferred tax assets in entities that qualified as Category 1 have been clarified.

(2) Schedule date of adaption

It will be applied to the accounting reporting period for the year ending March 31, 2019.

(3) Impact of adaption of implementation guidance

The effect amount is currently being evaluated in preparing its consolidated financial statements.

II. Accounting Standard for Revenue Recognition (ASBJ Statement No 29)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30)

(1) Overview

The International Accounting Standard Board (“IASB”) and the Financial Accounting Standard Board (“FASB”) jointly developed comprehensive accounting standard for revenue recognition and the Revenue from Contracts with Customers was issued in May 2014, (IFRS No.15 by IASB and Topic 606 by FASB).

IFRS No.15 was applied for annual reporting periods beginning on or after January 2018, Topic 606 was also applied from annual reporting periods beginning December 15, 2017. Based on such a situation, the ASBJ developed the comprehensive accounting standard for revenue recognition/ the implementation guidance and issued them together.

On the ASBJ’s basic policy for development of accounting standard for revenue recognition, the basic principles of IFRS No.15 were incorporated into the ASBJ Statement No.29 as a starting points, the Statement was set out, from the view point of comparability among financial statements, which is one of merits for consistency with IFRS No.15. If there are any items which should be considered in current practices in Japan, alternative treatments are added to the extent to not losing the comparability.

(2) Schedule date of adaption

It will be applied to the accounting reporting period for the year ending March 31, 2022.

(3) Impact of adaption of accounting standard and implementation guidance

The effect amount is currently being evaluated in preparing its consolidated financial statements.

r) Additional information

(Board Benefit Trust)

Based upon a resolution of the 194th Ordinary General Meeting of Shareholders on June 27, 2016, the Company has introduced a Performance-Linked Stock Compensation System (Board Benefit Trust, hereafter the “BBT”) to a part of remuneration for the Directors excluding the Outside Directors, and the Executive Officers other than the Directors and the Senior Fellow (collectively the “Directors, etc.”) in order to make stronger linkage to the Company’s business performance and contribute to higher corporate value on a medium - to long-term basis.

1) Overview of the transaction

In accordance with the Stock Benefit Regulations for Executives (the “Regulation”), previously set out by the Company, points are granted to the Directors, etc. under the BBT during their term in office and the number of shares equivalent to the

accumulated points that are granted at the time of their retirement, are provided after adjusting down points linked to the Company's business performance. If the Directors, etc., who receive the benefits, meet the requirements of the Regulation, money in an amount equivalent to a certain portion of those points granted to the Directors, etc. shall be provided to them instead of the Company's shares.

The shares to be provided to the Directors, etc. including the shares to be provided for their future services, have been acquired using monetary assets contributed previously by the Company to the BBT. Those shares are managed separately as an asset in BBT.

2) Accounting treatment

The Gross method has been applied in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30 issued on March 26, 2015).

3) The Company's shares remaining in the BBT

The Company's shares owned by the BBT are accounted for as treasury stock in the Net Assets section at book value recorded by the BBT (excluding acquisition-related costs). The book value and the number of shares on treasury stock are ¥323 million (\$3,047 thousand) and 120,800 shares at March 31, 2018 and ¥346 million and 129,500 shares at March 31, 2017, respectively.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥106=U.S. \$ 1, the approximate rate of exchange for the year ended March 31, 2018, has been used for the purpose of the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. Cash Flow Information

1) Cash and cash equivalents at March 31, 2018 and 2017 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and bank deposits	¥50,635	¥47,165	\$ 477,689
Less, time deposits with an original maturity of more than 3 months	(878)	(1,018)	(8,283)
Highly liquid securities	0	0	0
Cash and cash equivalents	¥49,758	¥46,147	\$ 469,415

- 2) The followings are the summary of assets and liabilities which were acquired due to business transfer from VISCAS Corporation in exchange of cash and cash equivalents, acquisition costs of the business and expenditures for the business of transfer.

(For the year ended March 31, 2017)

	Millions of yen
	<u>2017</u>
Current assets	¥ 3,432
Non-current assets	3,793
Current liabilities	(30)
Gain from negative goodwill	(5,251)
Acquisition costs of the business	<u>¥ 1,944</u>
Expenditures for the business transfer	<u>¥ 1,944</u>

5. Debt and Equity Securities

Investments in debt and equity securities that have a readily determinable fair value at March 31, 2018 and 2017 included in “Marketable securities” (Current assets) and in “Investments and long-term loans” (Non-current assets) are summarized as follows:

	Millions of yen			
	<u>2018</u>			
	<u>Cost</u>	<u>Fair value</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>
Held-to-maturity debt securities:				
Government bonds, municipal bonds and other	¥ —	¥ —	¥ —	¥ —
Other debt securities	99	102	2	—
Total held-to-maturity debt securities	<u>¥ 99</u>	<u>¥ 102</u>	<u>¥ 2</u>	<u>¥ —</u>
Available-for-sale securities:				
Marketable equity securities	¥ 15,784	¥ 57,714	¥ 41,935	¥ (5)
Other securities	0	0	—	—
Total available-for-sale securities	<u>¥ 15,785</u>	<u>¥ 57,715</u>	<u>¥ 41,935</u>	<u>¥(5)</u>

	Thousands of U.S. dollars			
	<u>2018</u>			
	<u>Cost</u>	<u>Fair value</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>
Held-to-maturity debt securities:				
Government bonds, municipal bonds and other	\$ —	\$ —	\$ —	\$ —

Other debt securities	934	962	19	—
Total held-to-maturity debt securities	<u>\$ 934</u>	<u>962</u>	<u>\$ 19</u>	<u>\$ —</u>
Available-for-sale securities:				
Marketable equity securities	\$ 148,906	\$ 544,472	\$ 395,613	\$ (47)
Other securities	0	0	—	—
Total available-for-sale securities	<u>\$ 148,915</u>	<u>\$ 544,481</u>	<u>\$ 395,613</u>	<u>\$ (47)</u>

	Millions of yen			
	2017			
	Cost	Fair value	Gross unrealized gain	Gross unrealized loss
Held-to-maturity debt securities:				
Government bonds, municipal bonds and other	¥ —	¥ —	¥—	¥ —
Other debt securities	153	157	3	—
Total held-to-maturity debt securities	<u>¥ 153</u>	<u>¥ 157</u>	<u>¥ 3</u>	<u>¥ —</u>
Available-for-sale securities:				
Marketable equity securities	¥ 15,811	¥ 51,604	¥ 35,829	¥ (35)
Other securities	0	0	—	—
Total available-for-sale securities	<u>¥ 15,812</u>	<u>¥ 51,605</u>	<u>¥ 35,829</u>	<u>¥(35)</u>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2018 and 2017 were ¥405 million (\$3,821 thousand) and ¥2,755 million, respectively. The gross realized gains on those sales for the years ended March 31, 2018 and 2017 were ¥221 million (\$2,085 thousand) and ¥2,393 million, respectively. There was no gross realized losses on those sales for the year ended March 31, 2018, and the gross realized losses on those sales for the years ended March 31, 2017 was ¥0 million. Impairment loss on available-for-sale securities with fair value for the years ended March 31, 2018 and 2017 amounted to ¥395 million (\$3,726 thousand) and ¥246 million, respectively.

6. Inventories

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished goods	¥ 36,814	¥ 32,967	\$ 347,302
Work in process	32,273	31,273	304,462
Raw materials and supplies	44,703	40,114	421,726
	<u>¥ 113,792</u>	<u>¥ 104,355</u>	<u>\$ 1,073,509</u>

The amounts of inventories for normal sales be written down due to a decrease of profitability are ¥1,297 million (\$12,236 thousand), and ¥928 million for the years ended March 31, 2018 and 2017, respectively, and are charged to cost of sales.

7. Investments and Long-term Loans

Investments and long-term loans at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Non-consolidated subsidiaries and affiliates	¥ 78,383	¥ 76,917	\$ 739,462
Other	62,873	55,546	593,142
	<u>¥ 141,256</u>	<u>¥ 132,463</u>	<u>\$ 1,332,604</u>

8. Property, Plant and Equipment

Property, plant and equipment at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Land	¥ 39,981	¥ 38,348	\$ 377,179
Buildings	218,385	215,304	2,060,236
Machinery and equipment	535,863	528,373	5,055,311
Leased assets	3,808	4,952	35,925
Construction in progress	20,484	15,495	193,245
	818,523	802,474	7,721,915
Accumulated depreciation	(601,794)	(596,983)	(5,677,302)
	<u>¥ 216,728</u>	<u>¥ 205,490</u>	<u>\$ 2,044,604</u>

9. Short-term Debt, Long-term Debt and Bonds

Short-term debt represents notes payable to banks, most of which are unsecured, bank overdrafts and commercial papers issued by the Company, and to which the annual weighted average interest rates applicable at March 31, 2018 and 2017 are 2.1% and 2.0%, respectively.

Bonds and long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
0.74% unsecured bonds due 2017	¥ —	¥ 10,000	\$ —
0.79% unsecured bonds due 2018	10,000	10,000	94,340
0.43% unsecured bonds due 2026	10,000	10,000	94,340
0.53% unsecured bonds due 2027	10,000	—	94,340

Loans, principally from banks and insurance companies, due from 2019 to 2028 with interest rates ranging from 0.8% to 1.9% and predominantly collateralized

	154,254	149,738	1,455,226
	184,254	179,738	1,738,245
Less: portion due within one year	(42,027)	(27,504)	(396,481)
	<u>¥ 142,227</u>	<u>¥ 152,234</u>	<u>\$ 1,341,764</u>

At March 31, 2018, the following assets were pledged as collateral for short-term debt of ¥1,190 million (\$11,226 thousand), long-term debt of ¥668 million (\$6,302 thousand), and others of ¥382 million (\$3,604 thousand):

	Millions of yen	Thousands of U.S. dollars
	2018	2018
Property, plant and equipment	¥ 1,992	\$ 18,792
Investments in securities	562	5,302
	<u>¥ 2,554</u>	<u>\$ 24,094</u>

At March 31, 2017, the following assets were pledged as collateral for short-term debt of ¥1,993 million, long-term debt of ¥308 million, and others of ¥433 million:

	Millions of yen
	2017
Property, plant and equipment	¥ 4,006
Investments in securities	652
	<u>¥ 4,658</u>

The aggregate annual maturities of the non-current portion of long-term debt and bonds at March 31, 2018 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 25,975	\$ 245,047
2020	27,054	255,226
2021	25,290	238,585
2022	9,330	88,019
2023 and thereafter	54,576	514,868
	<u>¥ 142,227</u>	<u>\$ 1,341,764</u>

10. Severance and Retirement Plans

The Company and its consolidated subsidiaries have funded and/or unfunded defined benefit pension plans and/or defined contribution plans. The defined benefit plans consist of Employees' Pension Fund Plan, defined benefit corporation pension plan and lump-sum severance indemnity plan.

There are cases where additional retirement benefits are paid at the time of retirement of employees. The Company has established an employees' retirement benefit trust and certain consolidated subsidiaries have joined multi-employer employees' pension fund.

The plans, which are not possible to reasonably compute the amounts of plan assets corresponding to their own contribution amounts, are accounted for in the same way as the defined contribution plan.

Liability for retirement benefits and net periodic benefit costs are, however, calculated by the simplified method under the defined benefit corporation pension plans and the lump-sum severance indemnity plans set up by a part of consolidated subsidiaries.

(For the years ended March 31, 2018 and 2017)

1. Defined benefit plans

The changes in defined benefit obligation for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 101,673	¥ 103,466	\$ 959,179
Current service cost	4,876	3,964	46,000
Interest cost	1,213	1,116	11,443
Actuarial gain and loss	2,410	39	22,736
Benefits paid	(6,678)	(5,660)	(63,000)
Foreign currency transaction adjustments	264	(1,252)	2,491
Balance at end of year	¥ 103,760	¥ 101,673	\$ 978,868

The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 63,690	¥ 59,508	\$ 600,849
Expected return on plan assets	1,853	1,736	17,481
Actuarial gain and loss	2,119	4,909	19,991
Contributions from the Company	2,832	1,967	26,717
Benefits paid	(3,376)	(3,397)	(31,849)
Foreign currency transaction adjustments	659	(1,034)	6,217
Balance at end of year	¥ 67,779	¥ 63,690	\$ 639,425

The changes in net liability for retirement benefits using a simplified method for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 2,309	¥ 2,443	\$ 21,783
Retirement benefit expenses	633	581	5,972
Benefits paid	(213)	(418)	(2,009)
Contributions to fund	(250)	(292)	(2,358)

Net effect resulting in change in scope of consolidation	(431)	-	(4,066)
Other	-	(4)	-
Balance at end of year	<u>¥ 2,049</u>	<u>¥ 2,309</u>	<u>\$ 19,330</u>

Reconciliation between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded defined benefit obligation	¥ 98,944	¥ 97,815	\$ 933,434
Plan assets	(71,943)	(68,094)	(678,708)
	27,000	29,720	254,717
Unfunded defined benefit obligation	11,029	10,572	104,047
Net liability for defined benefit obligation	<u>38,030</u>	<u>40,293</u>	<u>358,774</u>
Liability for retirement benefits	43,174	45,178	407,302
Asset for retirement benefits	(5,143)	(4,884)	(48,519)
Net liability for defined benefit obligation	<u>¥ 38,030</u>	<u>¥ 40,293</u>	<u>\$ 358,774</u>

Note: The above items include the part used a simplified method.

The components of retirement benefit expenses for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 4,876	¥ 3,964	\$ 46,000
Interest cost	1,213	1,116	11,443
Expected return on plan assets	(1,853)	(1,736)	(17,481)
Amortization of actuarial gain and loss	1,790	2,272	16,887
Amortization of prior service cost	110	147	1,038
Retirement benefit expenses calculated on a simplified method	633	581	5,972
Total retirement benefit expenses	<u>¥ 6,770</u>	<u>¥ 6,346</u>	<u>\$ 63,868</u>

The components of adjustments for retirement benefits in other comprehensive income (before tax effects) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	¥ 111	¥ 44	\$ 1,047
Actuarial gain and loss	1,715	7,503	16,179
Total	<u>¥ 1,826</u>	<u>¥ 7,548</u>	<u>\$ 17,226</u>

The components of adjustments for retirement benefits in accumulated other comprehensive income (before tax effects) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service cost	¥ 162	¥ 274	\$ 1,528
Unrecognized actuarial gain and loss	7,329	9,044	69,142
Total	¥ 7,491	¥ 9,318	\$ 70,670

Plan assets as of March 31, 2018 and 2017.

a) Components of plan assets

Plan assets consisted of the followings:

	2018	2017
Equity investments	47%	46%
Debt investments	22%	25%
Assets in a life-insurer's general account	17%	17%
Cash and deposits	3%	2%
Others	11%	10%
Total*	100%	100%

(*): The above plan assets included 17% and 16% of assets held by the retirement benefit trust set up for the retirement benefit plan as of March 31, 2018 and 2017, respectively.

b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from the various components of the plan assets.

Assumptions used for the years ended March 31, 2018 and 2017 were set forth as follows:

	2018	2017
Discount rate	0.1-5.6%	0.0-8.3%
Expected rate of return on plan assets	1.0-5.8%	1.0-7.0%

2. Defined contribution plans

Required contributions for defined contribution plans for the years ended March 31, 2018 and 2017 were ¥666 million (\$6,283 thousand) and ¥1,151 million, respectively.

11. Shareholders' Equity

Under the Corporate Law of Japan, cash dividends may be paid at any time during the fiscal year with certain conditions. An amount equal to 10% of dividends is required to be appropriated as additional paid-in capital (a component of "Capital surplus") or legal reserve (a component of "Retained earnings") until the amount of additional paid-in capital and legal reserve equals 25% of common stock. The cash dividends paid out of additional paid-in capital and/or legal reserve are recorded in the financial year in which the proposed appropriation of retained earnings is approved by the board of directors and/or the shareholders. The maximum amount that the Company can distribute as cash

dividends is calculated based on the non-consolidated financial statements of the Company.

(Dividends)

Dividends whose record date is attributable to the year ended March 31, 2018 but to be effective in the following year.

1) Dividend payment

Approvals by shareholders' meeting held on June 22, 2017 are as follows:

Type of shares	Common stock
Total amount of dividends	¥3,884 million (\$36,642 thousand)
Funds for dividends	Retained earnings
Dividends per share	¥55.00 (\$0.52)
Record date	March 31, 2017
Effective date	June 23, 2017

(Note) Total amount of dividend payments includes dividends of ¥7 million (\$66 thousand) paid for the Company's shares held in BBT.

2) Dividends whose record date is attributable to the year ended March 31, 2018 but to be effective in the following year.

Approvals by shareholders' meeting held on June 22, 2018 are as follows:

Type of shares	Common stock
Total amount of dividends	¥5,649 million (\$53,292 thousand)
Funds for dividends	Retained earnings
Dividends per share	¥80.00 (\$0.75)
Record date	March 31, 2018
Effective date	June 25, 2018

(Note) Total amount of dividend payments includes dividends of ¥9 million (\$85 thousand) paid for the Company's shares held in BBT.

12. Contingent Liabilities

1) Contingent liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
			2018
Loans guaranteed (principally for non-consolidated subsidiaries and affiliates)	¥ 6,993	¥ 11,327	\$ 65,972
Repurchase obligation of the securitization of receivables	6,463	4,620	60,972
Total	¥ 13,456	¥ 15,947	\$ 126,943

2) Other

a) The Company and its related companies are now negotiating compensations for

damage with a part of automobile manufacturers in connection with violation of the Competition Act by automobile wire harness cartels.

- b) In reference to the automotive parts manufactured by its consolidated subsidiaries, vehicles in which such parts have been incorporated were being recalled, the Company and its consolidated subsidiaries were requested to compensate a part of such costs by TOKAI RIKA Co., LTD. (“TOKAI”), a purchaser of such parts, and had carried on negotiations, but have not yet reached an agreement.

In terms of the above case, American Furukawa, Inc., a consolidated subsidiary of the Company, is the subject of litigation filed by TRAM, Inc. and TRMI, Inc., subsidiaries of TOKAI, with the Michigan court of justice in the U.S. (Delivery date of legal complaint; June 15, 2017 (local time))

Separately from the above, automobiles incorporated parts that are manufactured by consolidated subsidiaries, are being recalled, the Company and its consolidated subsidiaries are requested to compensate a part of such costs by the purchaser of those parts.

Compensation costs have reasonably been estimated and provided, however, as the result of continued negotiations and the case progresses etc., those may be effected to the consolidated results of the Company. At present, it is impossible to estimate reasonably such additional amount.

13. Selling, General and Administrative Expenses

The components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Freightage and packing expenses	¥ 20,824	¥ 19,171	\$ 196,453
Sales commissions	2,538	2,444	23,943
Salaries and wages	44,198	43,168	416,962
Retirement benefit expenses	2,810	2,562	26,509
Depreciation	2,589	2,474	24,425
Other	48,155	45,738	454,292
Total	¥ 121,117	¥ 115,560	\$ 1,142,613

Research and development costs charged to “Selling, general and administrative expenses” and manufacturing costs for the years ended March 31, 2018 and 2017 amounted to ¥19,533 million (\$184,274 thousand) and ¥17,454 million, respectively.

14. Impairment Loss

(For the year ended March 31, 2018)

The Group has recognized impairment loss of the following asset groups in this fiscal year. The Group classifies property, plant and equipment into groups by company, business or business unit, each of which is deemed to generate independent cash flows, and idle properties into individual independent groups.

Impairment loss by type of assets for the year ended March 31, 2018 consisted of the following:

Location	Usage	Type of asset	Millions of yen	Thousands of U.S. dollars
Liaoning Sheng, the People's Republic of China	Fixed assets for business use	Building, Machinery and equipment and others	¥ 2,492	\$ 23,509
Tanba-city, Hyogo prefecture	Fixed assets for business use	Land, Building and equipment	341	3,217
Hakui-county, Ishikawa prefecture	Fixed assets for business use	Land, Building and equipment	280	2,642
Other	Fixed assets for business use	Building and others	8	75
Total			¥ 3,122	\$ 29,453

It has been decided that recoverable amounts of fixed assets for business use in the People's Republic of China, Ishikawa prefecture and other, were less than their carrying amounts due to continuing negative cash flow generated from operating activities and the likelihood of the carrying amount not being recoverable by future cash flows. Accordingly, the carrying amounts of such assets were reduced to the recoverable amounts. The recoverable amounts of the asset groups were mainly evaluated based on the appraisal value.

The carrying amounts of fixed assets for business use in Hyogo prefecture were reduced to the recoverable amounts, of which assets had no chance for future use because the factory was shut down.

15. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' tax and enterprise tax, which in the aggregate would result in a statutory income tax rate of approximately 30.9% for the years ended March 31, 2018 and 2017. Overseas consolidated subsidiaries are subject to income taxes in the countries in which they operate.

Summarized below is a reconciliation of the statutory income tax rate and the effective income tax rate for the years ended March 31, 2018 and 2017:

	2018	2017
Japanese statutory income tax rate	30.9%	30.9%
Entertainment expense and other	1.6	2.6
Dividend income non-taxable	(1.5)	(1.7)

Equity in income (loss) of non-consolidated subsidiaries and affiliates	(3.3)	(0.1)
Valuation allowance	(1.4)	6.9
Difference of applicable tax rate of overseas consolidated subsidiaries	(3.2)	(3.4)
Utilization of loss carried forward	(16.0)	(19.6)
Amortization of goodwill	0.4	0.6
Undistributed earnings of overseas consolidated subsidiaries	8.6	2.5
Other, net	3.9	1.2
Effective income tax rate	<u>20.1%</u>	<u>19.8%</u>

Deferred tax assets (liabilities) at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liability for retirement benefits	¥ 15,341	¥ 14,129	\$ 144,726
Provision for environmental costs	3,209	3,533	30,274
Loss carried forwards	39,209	102,526	369,896
Accrued bonus	3,227	3,036	30,443
Depreciation	2,837	3,077	26,764
Provision for product defect compensation	6,408	5,030	60,453
Impairment loss	6,963	12,166	65,689
Other	7,264	7,817	68,528
Gross deferred tax assets	85,361	151,318	805,292
Valuation allowance	(54,238)	(124,913)	(511,679)
Total deferred tax assets	31,123	26,405	293,613
Unrealized gain on available-for-sale securities	(12,089)	(9,502)	(114,047)
Undistributed earnings of overseas consolidated subsidiaries	(9,197)	(5,702)	(86,764)
Revaluation difference on land	(499)	(553)	(4,708)
Other	(5,304)	(4,661)	(50,038)
Total deferred tax liabilities	(27,090)	(20,420)	(255,566)
Net deferred tax assets	¥ 4,032	¥ 5,985	\$ 38,038

16. Other Comprehensive Income

(For the year ended March 31, 2018)

- 1) The following table presents components of recycled amounts of other comprehensive income for the year ended March 31, 2018:

	Millions of yen	
Unrealized gain or loss on available-for-sale securities		
Amount arising during the year	¥ 6,357	
Reclassification adjustments for gains and losses included in profit	(220)	¥ 6,136
Deferred gain or loss on derivatives under hedge accounting		
Amount arising during the year	(1,693)	
Reclassification adjustments for gains and losses included in profit	97	
Adjustments for amounts transferred to assets' acquisition costs	(180)	(1,777)
Adjustments for retirement benefits		
Amount arising during the year	(73)	
Reclassification adjustments for gains and losses included in profit	1,900	1,826
Foreign currency translation adjustments		
Amount arising during the year	703	703
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the year	488	
Reclassification adjustments for gains and losses included in profit	(71)	
Adjustments for amounts transferred to assets' acquisition costs	¥ 106	524
Subtotal before tax effects		7,413
Tax effects		(2,044)
Total other comprehensive income		¥ 5,369

	Thousands of U.S. dollars	
Unrealized gain or loss on available-for-sale securities		
Amount arising during the year	\$ 59,972	
Reclassification adjustments for gains and losses included in profit	(2,075)	\$ 57,887
Deferred gain or loss on derivatives under hedge accounting		
Amount arising during the year	(15,972)	
Reclassification adjustments for gains and losses included in profit	915	
Adjustments for amounts transferred to assets' acquisition costs	(1,698)	(16,764)
Adjustments for retirement benefits		
Amount arising during the year	(689)	
Reclassification adjustments for gains and losses included in profit	17,925	17,226

Foreign currency translation adjustments

Amount arising during the year	6,632	6,632
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the year	4,604	
Reclassification adjustments for gains and losses included in profit	(670)	
Adjustments for amounts transferred to assets' acquisition costs	1,000	4,943
Subtotal before tax effects		69,934
Tax effects		(19,283)
Total other comprehensive income		<u>\$ 50,651</u>

2) Deferred tax of other comprehensive income for the year ended March 31, 2018:

	Millions of yen		
	Before-tax amounts	Tax (expense) benefits	Net-of-tax amounts
Unrealized gain or loss on available-for-sale securities	¥ 6,136	¥ (2,575)	¥ 3,561
Deferred gain or loss on derivatives under hedge accounting	(1,777)	571	(1,205)
Adjustments for retirement benefits	1,826	(40)	1,786
Foreign currency translation adjustments	703	-	703
Share of other comprehensive income of affiliates accounted for by the equity method	524	-	524
Total other comprehensive income	¥ 7,413	¥ (2,044)	¥5,369

	Thousands of U.S. dollars		
	Before-tax amounts	Tax benefits (expense)	Net-of-tax amounts
Unrealized gain or loss on available-for-sale securities	\$ 57,887	\$ (24,292)	33,594
Deferred gain or loss on derivatives under hedge accounting	(16,764)	5,387	(11,368)
Adjustments for retirement benefits	17,226	(377)	16,849
Foreign currency translation adjustments	6,632	-	6,632
Share of other comprehensive income of affiliates accounted for by the equity method	4,943	-	4,943
Total other comprehensive income	\$ 69,934	\$ (19,283)	\$ 50,651

(For the year ended March 31, 2017)

- 1) The following table presents components of recycled amounts of other comprehensive income for the year ended March 31, 2017:

	<u>Millions of yen</u>
Unrealized gain or loss on available-for-sale securities	

Amount arising during the year	¥ 16,952	
Reclassification adjustments for gains and losses included in profit	(1,351)	¥ 15,601
Deferred gain or loss on derivatives under hedge accounting		
Amount arising during the year	3,093	
Adjustments for amounts transferred to assets' acquisition costs	(240)	2,852
Adjustments for retirement benefits		
Amount arising during the year	5,127	
Reclassification adjustments for gains and losses included in profit	2,420	7,548
Foreign currency translation adjustments		
Amount arising during the year	766	
Reclassification adjustments for gains and losses included in profit	-	766
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the year	(1,521)	
Reclassification adjustments for gains and losses included in profit	(293)	
Adjustments for amounts transferred to assets' acquisition costs	¥ 95	(1,720)
Subtotal before tax effects		25,048
Tax effects		(5,729)
Total other comprehensive income		¥ 19,319

2) Deferred tax of other comprehensive income for the year ended March 31, 2017:

	Millions of yen		
	Before-tax amounts	Tax (expense) benefits	Net-of-tax amounts
Unrealized gain or loss on available-for-sale securities	¥ 15,601	¥ (3,353)	¥ 12,247
Deferred gain or loss on derivatives under hedge accounting	2,852	(882)	1,969
Adjustments for retirement benefits	7,548	(1,493)	6,054
Foreign currency translation adjustments	766	-	766
Share of other comprehensive income of affiliates accounted for by the equity method	(1,720)	-	(1,720)
Total other comprehensive income	¥ 25,048	¥ (5,729)	¥ 19,319

17. Amount Per Share

	Yen		U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent per share:			
Basic	¥ 405.05	¥ 249.17	\$ 3.62
Diluted	¥ -	¥ -	\$ -

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥ 3,355.77	¥ 2,933.21	\$ 31.66

Basic profit attributable to owners of parent per common stock (the “Basic profit per share”) is calculated by dividing profit attributable to owners of parent by the weighted average number of shares of common stock outstanding during the respective years (the “Weighted average number of shares”), adjusted for treasury stock held.

Diluted profit attributable to owners of parent per common stock has not been presented for the years ended March 31, 2018 and 2017, since the Company has issued no dilutive potential shares.

Net assets per share are computed based on the net assets excluding non-controlling interests, and the number of shares of common stock outstanding at the year end.

The Company carried out a 10-to-1 share consolidation of its common stock effective October 1, 2016. Basic profit per share is calculated assuming that consolidation of shares were performed at the beginning of the prior year.

The Company’s shares held in Board Benefit Trust (See in Note 2. (r)), which are treated as treasury stock, are deducted from the number of shares at the end of the fiscal year, used in the calculation of the net asset per share, and also deducted from the weighted average number of shares used in the calculation of basic profit per share.

The number of shares of the above treasury stock deducted as of March 31, 2018 and 2017 are 120,800 and 129,500 shares, respectively. The weighted average number of shares of the above treasury stock deducted during the fiscal year ended March 31, 2018 and 2017 are 122,975 and 86,333 shares, respectively.

The bases for “Amount Per Share” calculation are as follows:

- 1) Basic profit attributable to owners of parent per share

	Thousands of shares	
	2018	2017
Weighted average number of shares of common stock during the fiscal year	70,479	70,517

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent	¥ 28,547	¥ 17,570	\$ 269,311
Profit not attributable to owners of parent	-	-	-
Profit attributable to owners of parent related to common stock	¥ 28,547	¥ 17,570	\$ 269,311

2) Net assets per share

	Thousands of shares	
	2018	2017
Number of shares of common stock at the end of the fiscal year	70,481	70,473

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total net assets	¥ 272,071	¥ 237,051	\$ 2,566,708
Amounts deducted from total net assets:			
Non-controlling interests	¥ 35,552	¥ 30,338	\$ 335,396
Net assets attributable to shares of common stock	¥ 236,518	¥ 206,712	\$ 2,231,302

18. Financial Instruments

1. Conditions of Financial instruments

1) Policy for financial instruments

The fund management policy of the Group (the Company and its consolidated subsidiaries) has been set up to put its operating funds in deposits or investments that are assured of no impairment in the principal and the necessary fund is obtained through borrowings from banks and other financial institutions and bond issuances.

Derivative transactions are not entered into for speculative purposes.

2) Details of financial instruments and associated risks and risk management system

Trade notes and accounts receivable arising from operation are exposed to credit risk of customers. The Group carries out the practice of keeping track of due dates and outstanding balances of each customer under the credit management rules, as well as monitoring major customers' credit status on a regular basis in order to minimize credit

risk.

Marketable securities and investment securities are mainly equity securities and exposed to the risk of changes in market value. These securities are primarily the shares of companies with which the Group has business relationship, and the fair value of these securities are evaluated on a regular basis.

Trade notes and accounts payable arising from operations normally have payment terms of less than one year.

Short-term and long-term debt are mainly utilized for working capital and capital investments. The interest rate risk of a certain portion of those loans payable is hedged using interest rate swaps as hedging instruments.

On derivative transactions, foreign exchange forward contracts are used for hedge of foreign currency risk associated with receivables and payables arising from operations and denominated in foreign currency, interest rate swaps are used for hedge of interest rate risk associated with loans payable, metal forward contracts are used for hedge of price risk of raw materials and work in process. Execution and management of derivative transactions are subject to related internal rules.

In relation to accounting for hedge transactions, hedging instruments and hedged items, hedging policy, and effectiveness of hedge transactions are set out in the Company's internal rules.

Although trade payable and short-term and long-term debt are exposed to liquidity risk, these payables are managed by such means as cash flow projections prepared on a timely manner.

3) Supplementary information on the fair value of financial instruments

The fair value of financial instruments is based upon the market prices or reasonable estimates of fair value of these instruments if these fair values are not available. The estimated fair values would not be fixed due to variety of factors and assumptions. In addition, the contractual amounts of the derivative transactions set out in "2. Fair value of financial instruments" as below are not an indicator of the market risk associated with derivative transactions.

2. Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and differences as of March 31, 2018 and 2017 are as follows. In addition, financial instruments, of which it is extremely difficult to measure the fair value, are not included in the following table. (Please see "Financial instruments of which the fair value is extremely difficult to measure")

(At March 31, 2018)

	Millions of yen		
	Carrying amount (*1)	Fair value (*1)	Difference
(1) Cash and bank deposits	¥ 50,635	¥ 50,635	¥ -
(2) Trade receivable	224,335	224,335	-
(3) Marketable securities and investments securities			
a. Held-to-maturity debt securities	99	102	2
b. Available-for-sale securities	57,715	57,715	-

c. Unconsolidated subsidiaries and affiliated companies	60,695	46,396	(14,298)
Total of assets	393,480	379,184	(14,295)
(1) Trade payable	(124,387)	(124,387)	-
(2) Short-term debt	(106,279)	(106,279)	-
(3) Bonds (including current portion)	(30,000)	(30,018)	(18)
(4) Long-term debt	(122,227)	(122,659)	(432)
Total of liabilities	(382,893)	(383,345)	(451)
Derivative transactions (*2)			
(1) Derivative transactions for which hedge accounting does not apply	61	61	-
(2) Derivative transactions for which hedge accounting apply	(459)	(459)	-
Total of derivative transactions	¥ (398)	¥ (398)	¥ -

	Thousands of U.S. dollars		
	Carrying amount (*1)	Fair value (*1)	Difference
(1) Cash and bank deposits	\$ 477,689	\$477,689	\$ -
(2) Trade receivable	2,116,368	2,116,368	-
(3) Marketable securities and investments securities			
a. Held-to-maturity debt securities	934	962	19
b. Available-for-sale securities	544,481	544,481	-
c. Unconsolidated subsidiaries and affiliated companies	572,594	437,698	(134,887)
Total of assets	3,712,075	3,577,208	(134,858)
(1) Trade payable	(1,173,462)	(1,173,462)	-
(2) Short-term debt	(1,002,632)	(1,002,632)	-
(3) Bonds (including current portion)	(283,019)	(283,189)	(170)
(4) Long-term debt	(1,153,085)	(1,157,160)	(4,075)
Total of liabilities	(3,612,198)	(3,616,462)	(4,255)
Derivative transactions (*2)			
(1) Derivative transactions for which hedge accounting does not apply	575	575	-
(2) Derivative transactions for which hedge accounting apply	(4,330)	(4,330)	-
Total of derivative transactions	\$ (3,755)	\$ (3,755)	\$ -

(*1); Liabilities are included in parentheses.

(*2); Assets and liabilities arising from derivative transactions are presented on a net basis and net liabilities are included in parentheses.

(At March 31, 2017)

	Millions of yen		
	Carrying amount (*1)	Fair value (*1)	Difference
(1) Cash and bank deposits	¥ 47,165	¥ 47,165	¥ -
(2) Trade receivable	198,864	198,864	-
(3) Marketable securities and investments securities			
a. Held-to-maturity debt securities	153	157	3
b. Available-for-sale securities	51,605	51,605	-
c. Unconsolidated subsidiaries and affiliated companies	57,211	45,896	(11,315)
Total of assets	355,001	343,689	(11,311)
(1) Trade payable	(108,087)	(108,087)	-
(2) Short-term debt	(90,310)	(90,310)	-
(3) Bonds (including current portion)	(30,000)	(29,895)	104
(4) Long-term debt	(132,234)	(132,935)	(701)
Total of liabilities	(360,632)	(361,228)	(596)
Derivative transactions (*2)			
(1) Derivative transactions for which hedge accounting does not apply	151	151	-
(2) Derivative transactions for which hedge accounting apply	1,355	1,355	-
Total of derivative transactions	¥ 1,507	¥ 1,507	¥ -

(*1); Liabilities are included in parentheses.

(*2); Assets and liabilities arising from derivative transactions are presented on a net basis and net liabilities are included in parentheses.

I. Fair value of financial instruments

Assets

(1) Cash and deposits

The carrying amount approximates fair value due to the short maturity of these instruments.

(2) Trade receivable

The carrying amount approximates fair value due to the short maturity of these instruments.

A part of trade receivable is treated as receivable denominated in Japanese yen due to applying the special treatment of foreign currency exchange contracts and the carrying amount approximates fair value.

(3) Marketable securities and investment securities

The fair value of equity securities is based on quoted market price, if available. The fair value of debt securities is based on quoted market price or provided price by financial institutions. Marketable securities and investment securities by

holding purpose are set out in “Note 5. Debt and Equity Securities”.

Liabilities

(1) Trade payable

The carrying amount approximates fair value because of the short maturity of these instruments.

A part of trade payable is treated as payable denominated in Japanese yen due to applying the special treatment of foreign currency exchange contracts and the carrying amount approximates fair value.

(2) Short-term debt

The carrying amount approximates fair value because of the short maturity of these instruments.

(3) Bonds

Fair value of bonds is based on quoted market price, if available. If not, the fair value is based on present value by discounting total cash flows of principal and interest to be paid at the rate considering remaining periods of those bonds and the related credit risk.

(4) Long-term debt

Fair value of long-term debts is based on the price provided by financial institutions or the present value of future cash flows discounted using the current interest rate for similar debt of a comparable maturity. Interest rate swaps subject to special treatment are used for long-term floating rate debt. Principal and interest of the interest in which these interest rate swaps are embedded, are discounted using the current interest rate, which is estimated reasonably for similar debt of a comparable maturity.

Derivative Transactions

Notional amount, fair value, unrealized gain or loss, and others are described in “Note 19. Additional Information on Derivatives”.

II. Financial instruments of which the fair value is extremely difficult to measure

Unlisted investment securities of unconsolidated subsidiaries and affiliated companies amounted to ¥13,761 million (\$129,821 thousand) and ¥16,311 million as of March 31, 2018 and 2017 are not included in (3) Marketable securities and investments securities a. Held-to-maturity debt securities and c. Unconsolidated subsidiaries and affiliated companies above, because market value is not available and their future cash flow are difficult to estimate, accordingly it is not practicable to estimate the fair value.

III. The redemption schedule for money claim and held-to-maturity debt securities with maturity date subsequent to the consolidated balance sheets date:

(At March 31, 2018)

	Millions of yen			
	Within 1 year	Over 1 year to 5 years	Over 5 year to 10 years	Over 10 years

Bank deposits	¥ 49,810	¥ -	¥ -	¥ -
Trade receivable	224,335	-	-	-
Marketable securities and investments securities				
Held-to-maturity debt securities:				
Other debt securities	-	99	-	-
Total	¥ 274,145	¥ 99	¥ -	¥ -

	Thousands of U.S. dollars			
	Within 1 year	Over 1 year to 5 years	Over 5 year to 10 years	Over 10 years
Bank deposits	\$ 469,906	\$ -	\$ -	\$ -
Trade receivable	2,116,368	-	-	-
Marketable securities and investments securities				
Held-to-maturity debt securities:				
Other debt securities	-	934	-	-
Total	\$ 2,586,274	\$ 934	\$ -	\$ -

(At March 31, 2017)

	Millions of yen			
	Within 1 year	Over 1 year to 5 years	Over 5 year to 10 years	Over 10 years
Bank deposits	¥ 45,695	¥ -	¥ -	¥ -
Trade receivable	198,864	-	-	-
Marketable securities and investments securities				
Held-to-maturity debt securities:				
Other debt securities	53	99	-	-
Total	¥ 244,614	¥ 99	¥ -	¥ -

IV. The redemption schedule for long-term debt and other interest bearing debt with maturity date subsequent to the consolidated balance sheets date are described in "Note 9. Short-term Debt, Long-term Debt and Bonds".

19. Additional Information on Derivatives

1. At March 31, 2018

1) Derivative transactions for which hedge accounting does not apply

a) Foreign currency related transactions

Millions of yen				Thousands of U.S. dollars			
2018				2018			
Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)

Non-market transaction

Foreign currency:								
Sell	¥ 6,562	¥ -	¥ 68	¥ 68	\$ 61,905	\$ -	\$ 642	\$ 642
Buy	3,812	186	(32)	(32)	35,962	1,755	(302)	(302)
Total	¥10,375	186	¥ 36	¥ 36	\$ 97,877	\$ 1,755	\$ 340	\$ 340

(*) Fair value is determined by prices obtained from foreign exchange market.

b) Commodity related transactions

Millions of yen				Thousands of U.S. dollars				
2018				2018				
Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)	
Market transaction								
Forward contracts:								
Sell	¥ 8,790	¥ -	¥ 157	¥ 157	\$ 82,924	\$ -	\$ 1,481	\$ 1,481
Buy	8,491	-	(132)	(132)	80,104	-	(1,245)	(1,245)
Total	¥ 17,281	¥ -	¥ 25	¥ 25	\$ 163,028	\$ -	\$ 236	\$ 236

(*) Fair value is determined by prices obtained from commodity exchange market.

2) Derivative transactions for which hedge accounting apply

a) Foreign currency related transactions

Millions of yen					Thousands of U.S. dollars			
2018					2018			
Hedged item	Notional Amount	Portion over 1 year	Fair value (*)	Calculation method of fair value	Notional Amount	Portion over 1 year	Fair value (*)	
Normal accounting method								
Foreign currency:								
Sell	Trade receivable	¥ 11,243	¥ 79	¥ 319	Forward rate of Foreign currency	\$106,066	\$ 745	\$3,009
Buy	Trade payable	14,341	-	(583)	Forward rate of Foreign currency	135,292	-	(5,500)

Assignment accounting (special treatment for foreign exchange forward contracts)

Foreign currency:

Sell	Trade receivable	6,401	-	-	60,387	-	-
Buy	Trade payable	875	-	-	8,255	-	-

Currency swap

Long-term debt	2,000	2,000	-	18,868	18,868	-
Total	¥ 34,862	¥ 2,079	¥ (263)	\$ 328,887	\$ 19,613	\$(2,481)

(*) The fair value of foreign currency related transactions subject to assignment accounting (special treatment for foreign exchange forward contract) is accounted for together with the underlying trade receivable or trade payable or long-term debt subject to hedging.

b) Interest-rate related transactions

		Millions of yen			Thousands of U.S. dollars		
		2018			2018		
Hedged item	Notional Amount	Portion over 1 year	Fair value (*)	Notional Amount	Portion over 1 year	Fair value (*)	
Special treatment interest rate swap:							
Receiving fixed rates and paying floating rates	Long-term debt	¥ 220	¥ -	-	\$ 2,075	\$ -	-
Receiving floating rates and paying fixed rates	Long-term debt	59,988	46,988	-	565,925	443,283	-
Total		¥ 60,209	¥ 46,988	-	\$ 568,009	\$ 443,283	-

(*) The fair value of interest rate swaps subject to special treatment embeds in long-term debt subject to hedging included in the fair value of the corresponding long-term debt.

c) Commodity related transactions

		Millions of yen			Thousands of U.S. dollars		
		2018			2018		
Hedged item	Notional Amount	Portion over 1 year	Fair value	Calculation method of fair value	Notional Amount	Portion over 1 year	Fair value
Normal accounting method:							
Forward contracts for metal materials:							
Sell Raw materials and work	¥ 2,768	¥ -	¥(20)	Forward rate of metal material	\$ 26,113	\$ -	\$ (189)
Buy in process	14,678	375	(175)		138,472	3,538	(1,651)
Total	¥ 17,446	¥ 375	¥ (195)		\$ 164,585	\$ 3,538	\$(1,840)

2. At March 31, 2017

1) Derivative transactions for which hedge accounting does not apply

a) Foreign currency related transactions

Millions of yen				
2017				
	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)
Non-market transaction				
Foreign currency:				
Sell	¥7,051	¥ -	¥12	¥12
Buy	4,206	567	(4)	(4)
Total	¥11,259	567	¥7	¥7

(*) Fair value is determined by prices obtained from foreign exchange market.

b) Commodity related transactions

Millions of yen				
2017				
	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)
Market transaction				
Forward contracts:				
Sell	¥9,403	¥ 956	¥9	¥9
Buy	4,836	33	135	135
Total	¥14,239	¥989	¥144	¥144

(*) Fair value is determined by prices obtained from commodity exchange market.

2) Derivative transactions for which hedge accounting apply

a) Foreign currency related transactions

Millions of yen					
2017					
	Hedged item	Notional Amount	Portion over 1 year	Fair value (*)	Calculation method of fair value
Normal accounting method					
Foreign currency:					
Sell	Trade receivable	¥14,819	¥ -	¥(84)	Forward rate of Foreign currency
Buy	Trade payable	12,899	-	248	Forward rate of Foreign currency

Assignment accounting (special treatment for foreign exchange

forward contracts)					
Foreign currency:					
Sell	Trade receivable	8,359	-	-	-
Buy	Trade payable	728	-	-	-
Currency swap					
	Long-term debt	10,478	10,478	-	-
Total		¥47,289	¥10,478	¥164	-

(*) The fair value of foreign currency related transactions subject to assignment accounting (special treatment for foreign exchange forward contract) is accounted for together with the underlying trade receivable or trade payable or long-term debt subject to hedging.

b) Interest-rate related transactions

Millions of yen				
2017				
	Hedged item	Notional Amount	Portion over 1 year	Fair value (*)
Special treatment interest rate swap:				
Receiving fixed rates and paying floating rates				
	Long-term debt	¥ 930	232	-
Receiving floating rates and paying fixed rates				
	Long-term debt	63,376	63,246	-
Total		¥64,307	¥63,479	-

(*) The fair value of interest rate swaps subject to special treatment embeds in long-term debt subject to hedging included in the fair value of the corresponding long-term debt.

c) Commodity related transactions

Millions of yen					
2017					
	Hedged item	Notional Amount	Portion over 1 year	Fair value	Calculation method of fair value
Normal accounting method:					
Forward contracts for metal materials:					
Sell	Raw materials and work in process	¥1,769	¥ -	¥(103)	Forward rate of metal material
Buy		12,883	569	1,294	
Total		¥14,652	¥569	¥1,191	

20. Segment Information

1. Outline of reportable segments

The reportable segments of the Company are components for which the financial information can be obtained separately from its other components, and the Board of Directors reviews such reportable segments on a regular basis in order to decide allocations of managerial resources and evaluate business performance.

The Group establishes divisions by type of product and service, and each division draws up their comprehensive strategy on the products sold and services performed in domestic and overseas market.

Products and services of main business on each segment are as follows:

(1) Infrastructure

Optical fiber, optical fiber cable, optical components, semiconductor optical devices, material communication cable, fusion splicer, network equipment, CATV system, radio products, power transmission cable, power transmission cable accessories and insulations, insulated wires, electrical insulation tape, electronic material products, etc.

(2) Electronics & Automotive Systems

Automotive components (wire harness, steering roll connector, battery state sensor, perimeter monitoring radar, etc.), automatic batteries/batteries for industrial use, copper/aluminum wires, magnet wires, copper and copper alloy products, functional surface products (plating), processed products for electronic parts (leading frame, etc.), superconducting products, special metal materials (shape-memory/super-elastic alloys), etc.

(3) Functional Products

Cable conduits, water-feeding pipe materials, foaming products, UV tapes for semiconductor manufacturing, electronic components materials, heat-dissipation products, hard disc drive (HDD) aluminum substrates, electrodeposited copper foils, etc.

(4) Service and Development, etc.

Logistics, supporting service for each business of the Group as business in trust etc., real-estate leasing, hydraulic power generation, driving of R&D for new products, etc.

From October 1, 2017, FITEC Corporation is treated as an affiliated company applied to equity method after the Company sold a part of its shares to FUJITSU LIMITED. This company builds up, operates and maintains information system in the Group.

2. Segment information on sales and income (loss), identifiable assets and other items by business for the years ended March 31, 2018 and 2017 is summarized as follows:

(For the year ended March 31, 2018)

Millions of yen							
	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustments*	Total
Net sales							
Outside customers	¥ 284,113	¥ 502,521	¥ 144,198	¥ 36,501	¥ 967,333	¥ -	¥ 967,333
Inter-segment sales	7,673	31,269	8,867	16,444	64,254	(64,254)	-
Total	291,786	533,790	153,065	52,945	1,031,588	(64,254)	967,333
Segment income(loss)	¥ 12,752	¥ 18,210	¥ 13,992	¥ (209)	¥ 44,746	¥ 58	¥ 44,804
Assets	¥ 250,189	¥ 332,932	¥ 114,197	¥ 136,221	¥ 833,541	¥ (17,719)	¥ 815,822
Others							
Depreciation	¥ 6,788	¥ 11,722	¥ 4,289	¥ 1,201	¥ 24,001	¥ 1,105	¥ 25,106
Amortization of goodwill	¥ 129	¥ 6	¥ 117	¥ 345	¥ 599	¥ -	¥ 599
Investments in affiliates accounted for by the equity method	¥ 6,673	¥ 7,214	¥ 7,243	¥ 49,441	¥ 70,573	¥ -	¥ 70,573
Tangible/intangible fixed assets increased	¥ 17,788	¥ 12,070	¥ 3,645	¥ 2,122	¥ 35,627	¥ 2,916	¥ 38,543

(For the year ended March 31, 2017)

Millions of yen							
	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustments*	Total
Net sales							
Outside customers	¥ 257,413	¥ 428,298	¥ 124,393	¥ 33,238	¥ 843,344	¥ -	¥ 843,344
Inter-segment sales	6,338	27,158	7,092	16,414	57,003	(57,003)	-
Total	263,751	455,457	131,485	49,653	900,348	(57,003)	843,344
Segment income(loss)	¥ 14,339	¥ 12,793	¥ 11,683	¥ (148)	¥ 38,668	¥ (45)	¥ 38,623
Assets	¥ 231,823	¥ 301,875	¥ 107,475	¥ 137,237	¥ 778,411	¥ (28,284)	¥ 750,126
Others							
Depreciation	¥ 6,087	¥ 11,117	¥ 3,898	¥ 1,159	¥ 22,263	¥ 1,106	¥ 23,370
Amortization of goodwill	¥ 143	¥ 16	¥ 114	¥ 345	¥ 619	¥ -	¥ 619
Investments in affiliates accounted for by the equity method	¥ 6,465	¥ 6,667	¥ 6,615	¥ 46,842	¥ 66,591	¥ -	¥ 66,591
Tangible/intangible fixed assets increased	¥ 10,643	¥ 11,609	¥ 4,855	¥ 2,361	¥ 29,469	¥ 2,114	¥ 31,584

(For the year ended March 31, 2018)

Thousands of U.S. dollars (Note 3)							
	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustments*	Total
Net sales							
Outside customers	\$ 2,680,311	\$ 4,740,764	\$ 1,360,358	\$ 344,349	\$ 9,125,783	\$ -	\$ 9,125,783
Inter-segment sales	72,387	294,991	83,651	155,132	606,170	(606,170)	-
Total	2,752,698	5,035,755	1,444,009	499,481	9,731,962	(606,170)	9,125,783
Segment income(loss)	\$ 120,302	\$ 171,792	\$ 132,000	\$ (1,972)	\$ 422,132	\$ 547	\$ 422,679
Assets	\$ 2,360,274	\$ 3,140,868	\$ 1,077,330	\$ 1,285,104	\$ 7,863,594	\$ (167,160)	\$ 7,696,434
Others							
Depreciation	\$ 64,648	\$ 111,638	\$ 40,848	\$ 11,438	\$ 228,581	\$ 10,524	\$ 239,105
Amortization of goodwill	\$ 1,229	\$ 57	\$ 1,114	\$ 3,286	\$ 5,705	\$ -	\$ 5,705
Investments in affiliates accounted for by the equity method	\$ 63,552	\$ 68,705	\$ 68,981	\$ 470,867	\$ 672,124	\$ -	\$ 672,124
Tangible/intangible fixed assets increased	\$ 169,410	\$ 114,952	\$ 34,714	\$ 20,210	\$ 339,305	\$ 27,771	\$ 367,076

* Inter-segment transactions are eliminated from the consolidated financial statements. Corporate assets are included in the consolidated financial statements. Adjustments include increase of tangible/intangible fixed assets and depreciation related to the corporate assets.

<Related information>
Information by regions

(For the year ended March 31, 2018)

		Millions of yen					
		Japan	China	Other asian areas	North middle	Other	Total
Net sales	Y	510,663	96,911	199,059	84,746	81,952	967,333

		Millions of yen				
		Japan	Asia	North middle america	Other	Total
Property, plant and equipment, net of accumulated depreciation	Y	128,724	55,076	23,835	9,092	216,728

		Thousands of U.S. dollars (Note 3)					
		Japan	China	Other asian areas	North middle	Other	Total
Net sales	\$	4,817,675	914,255	1,821,311	799,491	773,132	9,125,783

		Thousands of U.S. dollars (Note 3)				
		Japan	Asia	North middle america	Other	Total
Property, plant and equipment, net of accumulated depreciation	\$	1,214,377	519,585	224,858	85,774	2,044,604

(For the year ended March 31, 2017)

		Millions of yen					
		Japan	China	Other asian areas	North middle	Other	Total
Net sales	Y	453,317	82,039	155,983	82,302	69,701	843,344

		Millions of yen				
		Japan	Asia	North middle america	Other	Total
Property, plant and equipment, net of accumulated depreciation	Y	126,500	53,513	17,257	8,219	205,490

<Information of impairment loss by reportable segments>

(For the year ended March 31, 2018)

		Millions of yen						
		Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustment	Total
Impairment loss	Y	2,774	942	5	-	3,122	-	3,122

		Thousands of U.S. dollars (Note 3)						
		Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustment	Total
Impairment loss	\$	26,170	3,226	47	-	29,453	-	29,453

(For the year ended March 31, 2017)

		Millions of yen						
		Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustment	Total
Impairment loss	Y	162	30	-	-	192	-	192

<Information of goodwill by reportable segments>

(For the year ended March 31, 2018)

		Millions of yen						
		Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustment	Total
Amortization of goodwill	Y	129	6	117	345	599	-	599
Goodwill as of March 31	Y	264	14	392	1,871	2,542	-	2,542

		Thousands of U.S. dollars (Note 3)						
		Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustment	Total
Amortization of goodwill	\$	1,217	57	1,104	3,255	5,651	-	5,651
Goodwill as of March 31	\$	2,491	132	3,698	17,651	23,981	-	23,981

(For the year ended March 31, 2017)

		Millions of yen						
		Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustment	Total
Amortization of goodwill	Y	143	16	114	345	619	-	619
Goodwill as of March 31	Y	420	23	487	2,217	3,149	-	3,149

22. Related Party Transactions

1. Transactions of the Company with related companies

(For the year ended March 31, 2018)

None.

(For the year ended March 31, 2017)

Type of Related Party	Affiliate
Name	VISCAS Corporation.
Address	Shinagawa-ku Tokyo
Capital	¥10 million
Type of business	Infrastructure
Voting right share owing (share owned)	Direct 50.0%
Business relationship	Interlocking director, financial support and other
1) Description of transactions	Loans
Amounts of transactions	¥10,896 million
Accounts	Short-term loans receivable
Year-end balances	¥8,071 million
2) Description of transactions	Business transfer
Amounts of transactions	
Total assets	¥7,226 million
Total liabilities	¥30 million
Acquisition costs	¥1,944 million

2. Information on the parent company and significant affiliate companies

(For the years ended March 31, 2018 and 2017)

1) Information on the parent company

None.

2) Financial statements of a significant affiliate company

A significant affiliate company is UACJ Corporation (hereafter "UACJ").

Summarized aggregate financial statement data of UACJ is as follows.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Total current assets	¥324,318	¥305,563	\$3,059,604
Total non-current assets	¥449,873	¥419,880	\$4,244,085
Total current liabilities	¥273,157	¥237,650	\$2,576,953
Total non-current liabilities	¥292,638	¥289,433	\$2,760,736
Net assets	¥208,396	¥198,360	\$1,966,000
Sales	¥624,270	¥568,316	\$5,889,340
Profit before income taxes	¥19,692	¥18,281	\$185,774
Profit attributable to owners of parent	¥12,253	¥8,715	\$115,594



Building a better
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Independent Auditor's Report

The Board of Directors
Furukawa Electric Co., Ltd.

We have audited the accompanying consolidated financial statements of Furukawa Electric Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, 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 Furukawa Electric Co., Ltd. and its consolidated subsidiaries as at March 31, 2018, 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 3.

Ernst & Young ShinNihon LLC

June 22, 2018