CONSOLIDATED FINANCIAL STATEMENTS
FURUKAWA ELECTRIC CO., LTD. AND
ITS SUBSIDIARIES
March 31, 2017 and 2016

CONSOLIDATED BALANCE SHEETS
FURUKAWA ELECTRIC CO., LTD. AND
ITS SUBSIDIARIES
At March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
ASSETS			
Current assets:			
Cash and bank deposits (Note 4)	¥ 47,165	¥ 52,504	$ 421,116
Marketable securities (Note 5)	54	15	482
Trade receivable	198,864	187,028	1,775,571
Inventories (Note 6)	104,355	93,168	931,741
Deferred income taxes (Note 14)	8,243	5,292	73,598
Other current assets	24,945	27,433	222,723
Allowance for doubtful accounts	(1,231)	(1,412)	(10,991)
Total current assets	382,398	364,030	3,414,268
Non-current assets:			
Investments and long-term loans (Notes 5, 7 and 9)	132,463	115,794	1,182,705
Property, plant and equipment, net of accumulated depreciation (Notes 8 and 9)	205,490	196,544	1,834,732
Deferred income taxes (Note 14)	4,013	6,855	35,830
Asset for retirement benefits (Notes 2g and 10)	4,884	4,660	43,607
Other non-current assets	22,287	20,364	198,991
Allowance for doubtful accounts	(1,410)	(2,522)	(12,589)
Total non-current assets	367,727	341,694	3,283,277
Total	¥ 750,126	¥ 705,725	$ 6,697,554

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt (Note 9)	¥ 90,310	¥ 113,081	$ 806,339
Current portion of bonds (Note 9)	10,000	10,000	89,286
Trade payable	108,087	100,398	965,063
Accrued income taxes	3,287	4,390	29,348
Deferred income taxes (Note 14)	8	53	71
Provision for product defect compensation (Note 2h)	15,971	3,008	142,598
Other current liabilities	65,698	68,408	586,589
Total current liabilities	293,364	299,341	2,619,321
Long-term liabilities :			
Bonds (Note 9)	20,000	20,000	178,571
Long-term debt (Note 9)	132,234	114,764	1,180,661
Liability for retirement benefits (Notes 2g and 10)	45,178	51,058	403,375
Provision for environmental costs (Note 2i)	10,322	10,345	92,161
Asset retirement obligations	502	543	4,482
Deferred income taxes (Note 14)	6,263	1,808	55,920
Other long-term liabilities	5,210	9,276	46,518
Total long-term liabilities	219,711	207,796	1,961,705
Contingent liabilities (Note 12)			
Net assets			
Shareholders' equity (Note 11)			
Common stock			
Authorized shares,			
250,000 thousand in 2017			
2,500,000 thousand in 2016			
Issued shares,			
70,666 thousand in 2017	69,395	69,395	619,598
706,669 thousand in 2016			
Capital surplus	21,562	21,466	192,518
Retained earnings	103,942	90,313	928,054
Common treasury stock, at cost			
48,062 in 2017			
462,657 in 2016	(633)	(280)	(5,652)
Total shareholders' equity	194,267	180,894	1,734,527
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities (Note 5)	26,622	14,070	237,696
Deferred gain (loss) on derivatives under hedge accounting (Note 2c)	717	(1,391)	6,402
Adjustments for retirement benefits	(8,138)	(13,917)	(72,661)
Foreign currency translation adjustments	(6,756)	(6,492)	(60,321)
Total accumulated other comprehensive income	12,445	(7,731)	111,116
Non-controlling interests	30,338	25,424	270,875
Total net assets	237,051	198,587	2,116,527
Total	¥ 750,126	¥ 705,725	$ 6,697,554

See accompanying notes to consolidated financial statements.

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

For the years ended March 31, 2017 and 2016

	Millions of yen				Thousands of U.S. dollars (Note 3)	
		2017		2016		2017
Net sales	¥	843,344	¥	874,879	$	7,529,857
Cost of sales (Note 13)		689,160		733,943		6,153,214
Gross profit		154,184		140,935		1,376,643
Selling, general and administrative expenses (Note 13)		115,560		113,819		1,031,786
Operating income		38,623		27,116		344,848
Other income (expenses):						
Interest and dividend income		2,088		2,435		18,643
Interest expense		(3,484)		(3,715)		(31,107)
Foreign exchange loss, net		(1,184)		(2,084)		(10,571)
Equity in income (loss) of non-consolidated subsidiaries and affiliates		102		(5,684)		911
Gain on disposal of property, plant and equipment		4,116		19,576		36,750
Loss on disposal of property, plant and equipment		(1,133)		(697)		(10,116)
Provision for product defect compensation (Note 2h)		(13,117)		(1,745)		(117,116)
Gain on sales of investment securities (Note 5)		2,487		1,680		22,205
Gain from negative goodwill (Note 18)		5,251		-		46,884
Other, net		(5,784)		(15,500)		(51,643)
Profit before income taxes		27,965		21,380		249,688
Income taxes (Note 14) :						
Current		6,747		7,659		60,241
Deferred		(1,212)		280		(10,821)
		5,534		7,939		49,411
Profit		22,430		13,440		200,268
attributable to non-controlling interests		4,860		3,433		43,393
attributable to owners of parent	¥	17,570	¥	10,007	$	156,875

	Yen				U.S. dollars	
		2017		2016		2017
Per common share (Notes 2o and 2p)						
Profit attributable to owners of parent(*)						
Basic	¥	249.17	¥	141.74	$	2.22
Diluted	¥	-	¥	-	$	-
Cash dividends	¥	55.00	¥	4.00	$	0.49

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

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHEMSIVE INCOME
FURUKAWA ELECTRIC CO., LTD. AND
ITS SUBSIDIARIES
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Profit	¥ 22,430	¥ 13,440	$ 200,268
Other comprehensive income			
Unrealized gain or loss on available-for-sale securities	12,247	(7,299)	109,348
Deferred gain or loss on derivatives under hedge accounting	1,969	(1,573)	17,580
Adjustments for retirement benefits (Notes 2g and 10)	6,054	(4,855)	54,054
Foreign currency translation adjustments	766	(8,674)	6,839
Share of other comprehensive income of affiliates accounted for by the equity method	(1,720)	(3,708)	(15,357)
Total other comprehensive income (Note 16)	19,319	(26,111)	172,491
Total comprehensive income	¥ 41,750	¥ (12,670)	$ 372,768
Attributable to :			
Owners of parent	¥ 36,759	¥ (14,483)	$ 328,205
Non-controlling interests	¥ 4,990	¥ 1,812	$ 44,554

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	-	-	-	-	-
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

	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, 2016	$ 619,598	$ 191,661	$ 806,366	$ (2,500)	$ 1,615,125
Cash dividends paid	-	-	(25,214)	-	(25,214)
Profit attributable to owners of parent	-	-	156,875	-	156,875
Net effect of increase in consolidated subsidiaries	-	-	(7,929)	-	(7,929)
Net effect of decrease in consolidated subsidiaries	-	-	(2,027)	-	(2,027)
Acquisition of treasury stock	-	-	-	(3,152)	(3,152)
Disposal of treasury stock	-	(0)	-	0	0
Net effect of change in parent's equity due to transaction with non-controlling interests	-	848	-	-	848
Net change in items other than those in shareholders' equity	-	-	-	-	-
Net change during the year	-	848	121,688	(3,143)	119,393
Balance at March 31, 2017	$ 619,598	$ 192,518	$ 928,054	$ (5,652)	$ 1,734,527

	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, 2016	$ 125,625	$ (12,420)	$ (124,259)	$ (57,964)	$ (69,027)	$ 227,000	$ 1,773,098
Cash dividends paid	-	-	-	-	-	-	(25,214)
Profit attributable to owners of parent	-	-	-	-	-	-	156,875
Net effect of increase in consolidated subsidiaries	-	-	-	-	-	-	(7,929)
Net effect of decrease in consolidated subsidiaries	-	-	-	-	-	-	(2,027)
Acquisition of treasury stock	-	-	-	-	-	-	(3,152)
Disposal of treasury stock	-	-	-	-	-	-	0
Net effect of change in parent's equity due to transaction with non-controlling interests	-	-	-	-	-	-	848
Net change in items other than those in shareholders' equity	112,063	18,830	51,598	(2,348)	180,152	43,875	224,027
Net change during the year	112,063	18,830	51,598	(2,348)	180,152	43,875	343,420
Balance at March 31, 2017	$ 237,696	$ 6,402	$ (72,661)	$ (60,321)	$ 111,116	$ 270,875	$ 2,116,527

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, 2016)

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Common treasury stock	Total shareholders' equity
Balance at March 31, 2015	¥ 69,395	¥ 21,467	¥ 83,265	¥ (278)	¥ 173,849
Cash dividends paid	-	-	(2,118)	-	(2,118)
Profit attributable to owners of parent	-	-	10,007	-	10,007
Net effect of increase in consolidated subsidiaries	-	-	243	-	243
Net effect of decrease in consolidated subsidiaries	-	-	(994)	-	(994)
Net effect of decrease of non-consolidated subsidiaries and affiliates	-	-	(90)	-	(90)
Acquisition of treasury stock	-	-	-	(1)	(1)
Disposal of treasury stock	-	-	-	-	-
Net effect of change in parent's equity due to transaction with non-controlling interests	-	(0)	-	-	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-
Net change during the year	-	(0)	7,047	(1)	7,045
Balance at March 31, 2016	¥ 69,395	¥ 21,466	¥ 90,313	¥ (280)	¥ 180,894

	Millions of yen						
	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Deferred (loss) gain 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, 2015	¥ 21,590	¥ 516	¥ (9,293)	¥ 4,078	¥ 16,892	¥ 24,001	¥ 214,743
Cash dividends paid	-	-	-	-	-	-	(2,118)
Profit attributable to owners of parent	-	-	-	-	-	-	10,007
Net effect of increase in consolidated subsidiaries	-	-	-	-	-	-	243
Net effect of decrease in consolidated subsidiaries	-	-	-	-	-	-	(994)
Net effect of decrease of non-consolidated subsidiaries and affiliates	-	-	-	-	-	-	(90)
Acquisition of treasury stock	-	-	-	-	-	-	(1)
Disposal of treasury stock	-	-	-	-	-	-	-
Net effect of change in parent's equity due to transaction with non-controlling interests	-	-	-	-	-	-	(0)
Net change in items other than those in shareholders' equity	(7,520)	(1,907)	(4,624)	(10,571)	(24,624)	1,422	(23,201)
Net change during the year	(7,520)	(1,907)	(4,624)	(10,571)	(24,624)	1,422	(16,155)
Balance at March 31, 2016	¥ 14,070	¥ (1,391)	¥ (13,917)	¥ (6,492)	¥ (7,731)	¥ 25,424	¥ 198,587

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 27,965	¥ 21,380	$ 249,688
Adjustments for:			
Depreciation	23,370	23,235	208,661
Equity in (income) loss of non-consolidated subsidiaries and affiliates	(102)	5,684	(911)
Gain on sales of marketable securities and investment securities, net	(2,487)	(1,395)	(22,205)
Loss on write-down of investment securities	246	923	2,196
Gain on disposal of property, plant and equipment, net	(2,982)	(18,879)	(26,625)
Impairment loss	192	995	1,714
Loss on write-down of inventories	928	624	8,286
Interest and dividend income	(2,088)	(2,435)	(18,643)
Interest expense	3,484	3,715	31,107
Foreign exchange loss, net	559	168	4,991
Increase in trade receivable	(10,935)	(1,537)	(97,634)
(Increase) decrease in inventories	(7,457)	5,572	(66,580)
Decrease (increase) in trade payable	7,278	(7,660)	64,982
Gain from negative goodwill (Note 18)	(5,251)	-	(46,884)
Decrease in provision for loss on disaster	-	(114)	-
Increase in liability for retirement benefits	1,563	1,093	13,955
Decrease (increase) in provision for environmental costs	1,220	(157)	10,893
Increase in provision for product defect compensation (Note 2h)	12,963	1,451	115,741
Increase in provision for loss on litigation	-	7,123	-
Other, net	7,018	6,063	62,661
Subtotal	55,486	45,855	495,411
Interest and dividend income received	3,346	3,460	29,875
Interest expense paid	(3,587)	(3,763)	(32,027)
Income taxes paid	(7,719)	(3,982)	(68,920)
Loss on litigation paid	(7,123)	-	(63,598)
Net cash provided by operating activities	40,402	41,569	360,732
Cash flows from investing activities:			
Proceeds from subsidies	-	2,850	-
Increase in time deposits, net	(152)	(383)	(1,357)
Purchases of investment securities	(4,148)	(2,033)	(37,036)
Proceeds from sales of investment securities	2,992	3,043	26,714
Purchases of property, plant and equipment	(28,443)	(25,646)	(253,955)
Purchases of intangible assets	(2,539)	(824)	(22,670)
Proceeds from sales of non-current assets	6,031	22,571	53,848
Payments for business transfer	(1,944)	-	(17,357)
(Increase) decrease in short-term loans, net	(7,984)	3,134	(71,286)
Other	(172)	(766)	(1,536)
Net cash (used in) provided by investing activities	(36,361)	1,947	(324,652)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash flows from financing activities:			
Decrease in short-term debt, net	(3,140)	(3,510)	(28,036)
Proceeds from long-term debt	35,822	14,434	319,839
Repayments of long-term debt	(38,297)	(18,540)	(341,938)
Proceeds from issue of bonds	10,000	-	89,286
Repayments of redemption of bonds	(10,000)	(10,000)	(89,286)
Payments for purchase of common treasury stock	(352)	(0)	(3,143)
Payments for purchase of common treasury stock by subsidiaries	(161)	(1)	(1,438)
Cash dividends paid	(2,823)	(2,112)	(25,205)
Cash dividends paid to non-controlling shareholders	(701)	(547)	(6,259)
Proceeds from sales and leaseback of property, plant and equipment	-	377	-
Other	(724)	(1,043)	(6,464)
Net cash used in financing activities	(10,378)	(20,942)	(92,661)
Effect of exchange rate changes on cash and cash equivalents	(314)	(1,422)	(2,804)
Net (decrease) increase in cash and cash equivalents	(6,652)	21,151	(59,393)
Cash and cash equivalents at beginning of year	51,659	29,488	461,241
Cash and cash equivalents of newly consolidated subsidiaries	1,529	1,019	13,652
Cash and cash equivalents of de-consolidated subsidiaries	(416)	-	-
Net increase in cash and cash equivalents from mergers	27	-	-
Cash and cash equivalents at end of year (Note 4)	¥ 46,147	¥ 51,659	$ 412,027

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 107 major subsidiaries in 2017. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in its 13 major affiliates in 2017 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 48 subsidiaries' fiscal year-ends differ from that of the Company due to local statutory requirements. Those 48 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 17.

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 yearend.

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

Noncancellable 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, which 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) Profit attributable to owners of parent per common share

The consolidated statements of income include "basic" and "diluted" per share information. Basic per share income 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 used in the calculation of basic profit per common share was 70,517 thousand and 70,604 thousand for the years ended March 31, 2017 and 2016, respectively. Diluted profit per share has not been presented for the years ended March 31, 2017 and 2016, since the Company has issued no dilutive potential shares.

The Company carried out a 10-to-1 share consolidation of its common stock effective October 1, 2016. Net income per share is calculated assuming that consolidation of shares were performed at the beginning of the prior year.
The denominator for computing Net income per share is "Average outstanding shares of common stock" minus "Average outstanding shares of treasury stock. Such "Average outstanding shares of treasury stock" considers the shares held in Board Benefit Trust (See in Note 2.(r) 2) below).
The number of Average outstanding shares of treasury stock in computing Net income per share for this fiscal year is 86,333 shares (after consolidation of shares).

q) 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.

r) Additional information

1) Adoption of "Revised Implementation Guidance on Recoverability of Deferred Tax Assets"

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) (hereinafter, the "Recoverability Implementation Guidance") from the beginning of the fiscal year ended March 31, 2017 and partially revised the accounting method for assessing the recoverability of deferred tax assets.

2) 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= the"BBT") to a part of compensations of the Directors excluding Outside Directors, and the Executive Officers and the Senior Fellow ("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.

a) Overview of the transaction
In accordance with the Stock Benefit Regulations for Executives (the "Regulation"), previously set out by the Company, the BBT grants points to Directors, etc. during the term in their office and provides the number of shares equivalent to points granted to the Directors, etc. at the time of their retirement from those positions 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 the Directors, etc. in stead of the Company's shares.
The shares to be provided to the Directors, etc. including those to be provided for the 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.

b) 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).

c) The Company's shares remaining in the BBT
Trust & Custody Service Bank acquired 1,295,000 Company's shares due to the introduction of the BBT in this fiscal year.
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 is ¥346 million ($3,089 thousand) and 129,500 shares, respectively.
The Company carried out a 10-to-1 share consolidation of its common stock effective October 1, 2016.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥112 =U.S. $ 1, the approximate rate of exchange for the year ended March

31, 2017, 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, 2017 and 2016 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and bank deposits	¥47,165	¥52,504	$ 421,116
Less, time deposits with an original maturity of more than 3 months	(1,018)	(845)	(9,089)
Highly liquid securities	0	0	0
Cash and cash equivalents	¥46,147	¥51,659	$ 412,027

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	Thousands of U.S. dollars
	2017	2017
Current assets	¥ 3,432	$ 30,643
Non-current assets	3,793	33,866
Current liabilities	(30)	(268)
Gain from negative goodwill	(5,251)	(46,884)
Acquisition costs of the business transfer	¥ 1,944	$ 17,357
Payments for the business transfer	¥ 1,944	$ 17,357

5. Debt and Equity Securities

Investments in debt and equity securities that have a readily determinable fair value at March 31, 2017 and 2016 included in "Marketable securities" (Current assets) and in "Investments and long-term loans" (Non-current assets) are summarized as follows:

	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	¥ 153	¥ 157	¥ 3	¥ —
Available-for-sale securities:				
Marketable equity securities	¥ 15,811	¥ 51,604	¥ 35,829	¥ (35)
Other securities	0	0	—	—
Total available-for-sale securities	¥ 15,812	¥ 51,605	¥ 35,829	¥(35)

	Thousands of U.S. dollars			
	2017			
	Cost	Fair value	Gross unrealized gain	Gross unrealized loss
Held-to-maturity debt securities:				
Government bonds, municipal bonds and other	$ —	$ —	$ —	$ —
Other debt securities	1,366	1,402	27	—
Total held-to-maturity debt securities	$ 1,366	1,402	$ 27	$ —
Available-for-sale securities:				
Marketable equity securities	$ 141,170	$ 460,750	$ 319,902	$ (313)
Other securities	0	0	—	—
Total available-for-sale securities	$ 141,179	$ 460,759	$ 319,902	$ (313)

	Millions of yen			
	2016			
	Cost	Fair value	Gross unrealized gain	Gross unrealized loss
Held-to-maturity debt securities:				
Government bonds, municipal bonds and other	¥ —	¥ —	¥—	¥ —
Other debt securities	114	118	4	—
Total held-to-maturity debt securities	¥114	¥118	¥ 4	¥ —
Available-for-sale securities:				
Marketable equity securities	¥ 14,553	¥ 34,660	¥20,991	¥ (885)

Other securities	7	7	0	—
Total available-for-sale securities	¥ 14,560	¥34,667	¥20,991	¥(885)

Proceeds from sales of available-for-sale securities for the years ended March 31, 2017 and 2016 were ¥2,755 million ($24,598 thousand) and ¥2,206 million, respectively. The gross realized gains on those sales for the years ended March 31, 2017 and 2016 were ¥2,393 million ($21,366 thousand) and ¥1,678 million, respectively. The gross realized losses on those sales for the years ended March 31, 2017 was ¥0 million ($ 0 thousand) and, there was no gross realized losses on those sales for the year ended March 31, 2016.
Impairment loss on available-for-sale securities with fair value for the years ended March 31, 2017 and 2016 amounted to ¥246 million ($2,196 thousand) and ¥923 million, respectively.

6. Inventories

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods	¥ 32,967	¥ 29,561	$ 294,348
Work in process	31,273	29,027	279,223
Raw materials and supplies	40,114	34,578	358,161
	¥ 104,355	¥ 93,168	$ 931,741

The amounts of inventories for normal sales be written down due to a decrease of profitability are ¥928 million ($8,286 thousand), and ¥624 million for the years ended March 31, 2017 and 2016, respectively, and are charged to cost of sales.

7. Investments and Long-term Loans

Investments and long-term loans at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Non-consolidated subsidiaries and affiliates	¥ 76,917	¥ 77,298	$ 686,759
Other	55,546	38,496	495,946
	¥ 132,463	¥ 115,794	$ 1,182,705

8. Property, Plant and Equipment

Property, plant and equipment at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Land	¥ 38,348	¥ 37,490	$ 342,393
Buildings	215,304	215,242	1,922,357
Machinery and equipment	528,373	519,580	4,717,616
Leased assets	4,952	4,765	44,214
Construction in progress	15,495	12,088	138,348
	802,474	789,168	7,164,946
Accumulated depreciation	(596,983)	(592,623)	(5,330,205)
	¥ 205,490	¥ 196,544	$ 1,834,732

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, 2017 and 2016 are 2% and 1.4%, respectively.

Bonds and long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
0.77% unsecured bonds due 2017	¥ —	¥ 10,000	$ —
0.74% unsecured bonds due 2017	10,000	10,000	89,286
0.79% unsecured bonds due 2018	10,000	10,000	89,286
0.43% unsecured bonds due 2026	10,000	—	89,286
Loans, principally from banks and insurance companies, due from 2018 to 2026 with interest rates ranging from 0.001% to 10.200% and predominantly collateralized	149,738	152,044	1,336,946
	179,738	182,044	1,604,804
Less: portion due within one year	(27,504)	(47,280)	(245,571)
	¥ 152,234	¥ 134,764	$ 1,359,232

At March 31, 2017, the following assets were pledged as collateral for short-term debt of ¥1,993 million ($17,794 thousand), long-term debt of ¥308 million ($2,750 thousand), and others of ¥433 million ($3,866 thousand):

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Property, plant and equipment	¥ 4,006	$ 35,768
Investments in securities	652	5,821
	¥ 4,658	$ 41,589

At March 31, 2016, the following assets were pledged as collateral for short-term debt of ¥1,835 million, long-term debt of ¥855 million, and others of ¥533 million:

	Millions of yen
	2016
Property, plant and equipment	¥3,653
Investments in securities	624
	¥ 4,277

The aggregate annual maturities of the non-current portion of long-term debt and bonds at March 31, 2017 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 27,504	$ 245,571
2019	39,285	350,759
2020	23,681	211,438
2021	24,243	216,455
2022 and thereafter	65,024	580,571
	¥ 179,738	$ 1,604,804

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, 2017 and 2016)

1. Defined benefit plans

The changes in defined benefit obligation for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 103,466	¥ 103,559	$ 923,804
Current service cost	3,964	4,164	35,393
Interest cost	1,116	1,297	9,964
Actuarial gain and loss	39	397	348
Prior service cost	-	169	-
Benefits paid	(5,660)	(5,351)	(50,538)
Foreign currency transaction adjustments	(1,252)	(768)	(11,179)
Balance at end of year	¥101,673	¥ 103,466	$ 907,795

The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 59,508	¥ 66,676	$ 531,321
Expected return on plan assets	1,736	1,966	15,500
Actuarial gain and loss	4,909	(6,812)	43,830
Contributions from the Company	1,967	1,289	17,563
Benefits paid	(3,397)	(2,701)	(30,330)
Foreign currency transaction adjustments	(1,034)	(910)	(9,232)
Balance at end of year	¥63,690	¥ 59,508	$ 568,661

The changes in net liability for retirement benefits using a simplified method for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 2,443	¥ 2,379	$ 21,813
Retirement benefit expenses	581	681	5,188
Benefits paid	(418)	(338)	(3,732)
Contributions to fund	(292)	(277)	(2,607)
Other	(4)	-	(36)
Balance at end of year	¥ 2,309	¥2,443	$ 20,616

Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 97,815	¥ 99,621	$ 873,348
Plan assets	(68,094)	(63,547)	(607,982)
	29,720	36,073	265,357
Unfunded defined benefit obligation	10,572	10,324	94,393
Net liability for defined benefit obligation	40,293	46,398	359,759
Liability for retirement benefits	45,178	51,058	403,375
Asset for retirement benefits	(4,884)	(4,660)	(43,607)
Net liability for defined benefit obligation	¥ 40,293	¥ 46,398	$ 359,759

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

The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 3,964	¥ 4,164	$ 35,393
Interest cost	1,116	1,297	9,964
Expected return on plan assets	(1,736)	(1,966)	(15,500)
Amortization of actuarial gain and loss	2,272	1,637	20,286
Amortization of prior service cost	147	141	1,313
Retirement benefit expenses calculated on a simplified method	581	681	5,188
Others	-	619	-
Net periodic benefit costs	¥ 6,346	¥ 6,575	$ 56,661

The components of adjustments for retirement benefits in other comprehensive income (before tax effects) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ 44	¥ 68	$ 393
Actuarial gain and loss	7,503	(6,254)	66,991
Total	¥ 7,548	¥ (6,186)	$ 67,393

The components of adjustments for retirement benefits in accumulated other comprehensive income (before tax effects) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 274	¥ 318	$ 2,446
Unrecognized actuarial gain and loss	9,044	16,548	80,750
Total	¥ 9,318	¥ 16,867	$ 83,196

Plan assets as of March 31, 2017 and 2016.

a) Components of plan assets

Plan assets consisted of the followings:

	2017	2016
Equity investments	46%	46%
Debt investments	25%	24%
Assets in a life-insurer's general account	17%	17%
Cash and deposits	2%	2%
Others	10%	10%
Total*	100%	100%

(*): The above plan assets included 16% and 12% of assets held by the retirement benefit trust set up for the retirement benefit plan as of March 31, 2017 and 2016, 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, 2017 and 2016 were set forth as follows:

	2017	2016
Discount rate	0.0-8.3%	0.4-9.0%
Expected rate of return on plan assets	1.0-7.0%	1.0-7.3%

2. Defined contribution plans

Payments for defined contribution plans for the years ended March 31, 2017 and 2016 were ¥1,151 million ($10,277 thousand) and ¥1,020 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 fiscal statements of the Company.

(Dividends)

Dividends whose record date is attributable to the year ended March 31, 2017 but to be effective in the following year.

1) Dividend payment

Approvals by shareholders' meeting held on June 27, 2016 are as follows:

Type of shares	Common stock
Total amount of dividends	¥2,824 million
Dividends per share	¥4.0
Record date	March 31, 2016
Effective date	June 28, 2016

(Note) The Company carried out a 10-to-1 share consolidation of its common stock effective October 1, 2016. The dividend per share for the year ended March 31, 2016 presents actual dividend payments before the share consolidation.

2) Dividends whose record date is attributable to the year ended March 31, 2017 but to be effective in the following year.

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

Type of shares	Common stock
Total amount of dividends	¥3,884 million ($34,679 thousand)
Funds for dividends	Retained earnings
Dividends per share	¥55.0 ($0.49)
Record date	March 31, 2017
Effective date	June 23, 2017

(Note) Total amount of dividend payments includes dividends of ¥7 million ($63 thousand) paid for the Company's shares held in BBT.

12. Contingent Liabilities

1) Contingent liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans guaranteed (principally for non-consolidated subsidiaries and affiliates)	¥ 11,327	¥ 22,023	$ 101,134
Repurchase obligation of the securitization of receivables	4,620	4,378	41,250
Total	¥ 15,947	¥ 26,401	$ 142,384

2) Other

a) In terms of violation of the Competition Act by automotive wire harness cartels, there are several class actions taken in the United States of America and Canada to seek compensation for damages made by series of automotive parts cartels which are subject to the investigations by authorities. The Company and its consolidated subsidiaries are defendants in these lawsuits for cartels related to wire harness and other automotive parts. Besides, the Company and its consolidated subsidiaries are in negotiations with certain carmakers on compensations for damages made by the automotive wire harness cartels.

b) In reference to the automotive parts manufactured by its consolidated subsidiaries, vehicles in which such parts have been incorporated are being recalled, the Company and its consolidated subsidiaries are possibly required to compensate a part of costs by our customers for such parts. Based on the negotiations with our customers, provision for product defect compensation is accounted as of March 31, 2017, which amount is able to be estimated reasonably.

Although consolidated operating result will be affected depending on these future negotiations, it is difficult to be estimated reasonably at the present time.

13. Research and Development Expenses

Research and development costs charged to income for the years ended March 31, 2017 and 2016 amounted to ¥17,454 million ($155,839 thousand) and ¥16,845 million, respectively.

14. 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 statutory income tax rates of approximately 30.9% and 33.0% for the years ended March 31, 2017 and 2016, respectively. 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, 2017 and 2016:

	2017	2016
Japanese statutory income tax rate	30.9%	33.0%
Entertainment expense and other	2.6	4.9
Dividend income non- taxable	(1.7)	(2.8)
Equity in income (loss) of non-consolidated subsidiaries and affiliates	(0.1)	8.7
Valuation allowance	6.9	10.8
Difference of applicable tax rate of overseas consolidated subsidiaries	(3.4)	(5.8)
Utilization of loss carried forward	(19.6)	(17.9)
Amortization of goodwill	0.6	0.9
Undistributed earnings of overseas consolidated subsidiaries	2.5	5.6
Effect of effective statutory tax rate change	-	(1.1)
Other, net	1.2	0.6
Effective income tax rate	19.8%	37.1%

Deferred tax assets (liabilities) at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liability for retirement benefits	¥ 14,129	¥ 15,100	$ 126,152
Provision for environmental costs	3,533	3,144	31,545
Loss carried forwards	102,526	104,617	915,411
Accrued bonus	3,036	2,796	27,107
Depreciation	3,077	3,132	27,473
Provision for product defect compensation	5,030	955	44,911
Impairment loss	12,166	13,870	108,625
Other	7,817	10,260	69,795
Gross deferred tax assets	151,318	153,876	1,351,054
Valuation allowance	(124,913)	(128,878)	(1,115,295)
Total deferred tax assets	26,405	24,997	235,759
Unrealized gain on available-for-sale securities	(9,502)	(6,153)	(84,839)
Undistributed earnings of overseas consolidated subsidiaries	(5,702)	(5,017)	(50,911)
Revaluation difference on land	(553)	(545)	(4,938)
Other	(4,661)	(2,998)	(41,616)
Total deferred tax liabilities	(20,420)	(14,712)	(182,321)
Net deferred tax assets	¥ 5,985	¥ 10,284	$ 53,437

15. Other Comprehensive Income

(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:

	Millions of yen	
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

	Thousands of U.S. dollars	
Unrealized gain or loss on available-for-sale securities		
Amount arising during the year	$ 151,357	
Reclassification adjustments for gains and losses included in profit	(12,063)	$ 139,295
Deferred gain or loss on derivatives under hedge accounting		
Amount arising during the year	27,616	
Adjustments for amounts transferred to assets' acquisition costs	(2,143)	25,464
Adjustments for retirement benefits		
Amount arising during the year	45,777	
Reclassification adjustments for gains and losses included in profit	21,607	67,393
Foreign currency translation adjustments		
Amount arising during the year	6,839	
Reclassification adjustments for gains and losses included in profit	-	6,839
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the year	(13,580)	
Reclassification adjustments for gains and losses included in profit	(2,616)	
Adjustments for amounts transferred to assets' acquisition costs	848	(15,347)
Subtotal before tax effects		223,643
Tax effects		(51,152)
Total other comprehensive income		$ 172,491

	Thousands of U.S. dollars		
	Before-tax amounts	Tax benefits (expense)	Net-of-tax amounts
Unrealized gain or loss on available-for-sale securities	$ 139,295	$ (29,938)	$ 109,348
Deferred gain or loss on derivatives under hedge accounting	25,464	(7,875)	17,580
Adjustments for retirement benefits	67,393	(13,330)	54,054
Foreign currency translation adjustments	6,839	-	6,839
Share of other comprehensive income of affiliates accounted for by the equity method	(15,357)	-	(15,357)
Total other comprehensive income	$ 223,643	$ (51,152)	$ 172,491

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

(For the year ended March 31, 2016)

1) The following table presents components of recycled amounts of other comprehensive income for the year ended March 31, 2016:

	Millions of yen	
Unrealized gain or loss on available-for-sale securities		
Amount arising during the year	¥ (9,678)	
Reclassification adjustments for gains and losses included in profit	(1,593)	¥ (11,271)
Deferred gain or loss on derivatives under hedge accounting		
Amount arising during the year	(5,144)	
Adjustments for amounts transferred to assets' acquisition costs	2,859	(2,285)
Adjustments for retirement benefits		
Amount arising during the year	(7,969)	
Reclassification adjustments for gains and losses included in profit	1,783	(6,186)
Foreign currency translation adjustments		

Amount arising during the year	(8,679)	
Reclassification adjustments for gains and losses included in profit	4	(8,674)
Share of other comprehensive income of affiliates accounted for by the equity method		
Amount arising during the year	(3,871)	
Reclassification adjustments for gains and losses included in profit	(74)	
Adjustments for amounts transferred to assets' acquisition costs	¥ 238	(3,708)
Subtotal before tax effects		(32,127)
Tax effects		6,016
Total other comprehensive income		¥ (26,111)

2) Deferred tax of other comprehensive income for the year ended March 31, 2016:

	Millions of yen		
	Before-tax amounts	Tax (expense) benefits	Net-of-tax amounts
Unrealized gain or loss on available-for-sale securities	¥ (11,271)	¥ 3,972	¥ (7,299)
Deferred gain or loss on derivatives under hedge accounting	(2,285)	712	(1,573)
Adjustments for retirement benefits	(6,186)	1,331	(4,855)
Foreign currency translation adjustments	(8,674)	-	(8,674)
Share of other comprehensive income of affiliates accounted for by the equity method	(3,708)	-	(3,708)
Total other comprehensive income	¥ (32,127)	¥ 6,016	¥ (26,111)

16. 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, 2017 and 2016 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, 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	¥ -

	Thousands of U.S. dollars		
	Carrying amount (*1)	Fair value (*1)	Difference
(1) Cash and bank deposits	$ 421,116	$ 421,116	$ -
(2) Trade receivable	1,775,571	1,775,571	-
(3) Marketable securities and investments securities			
a. Held-to-maturity debt securities	1,366	1,402	27
b. Available-for-sale securities	460,759	460,759	-
c. Unconsolidated subsidiaries and affiliated companies	510,813	409,786	(101,027)
Total of assets	3,169,652	3,068,652	(100,991)
(1) Trade payable	(965,063)	(965,063)	-
(2) Short-term debt	(806,339)	(806,339)	-
(3) Bonds (including current portion)	(267,857)	(266,920)	929
(4) Long-term debt	(1,180,661)	(1,186,920)	(6,259)
Total of liabilities	(3,219,929)	(3,225,250)	(5,321)

Derivative transactions (*2)			
(1) Derivative transactions for which hedge accounting does not apply	1,348	1,348	-
(2) Derivative transactions for which hedge accounting apply	12,098	12,098	-
Total of derivative transactions	$ 13,455	$ 13,455	$ -

(*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, 2016)

	Millions of yen		
	Carrying amount (*1)	Fair value (*1)	Difference
(1) Cash and bank deposits	¥ 52,504	¥ 52,504	¥ -
(2) Trade receivable	187,028	187,028	-
(3) Marketable securities and investments securities			
a. Held-to-maturity debt securities	114	118	4
b. Available-for-sale securities	34,667	34,667	-
c. Unconsolidated subsidiaries and affiliated companies	57,762	37,784	(19,977)
Total of assets	332,077	312,104	(19,972)
(1) Trade payable	(100,398)	(100,398)	-
(2) Short-term debt	(113,081)	(113,081)	-
(3) Bonds (including current portion)	(30,000)	(30,209)	(209)
(4) Long-term debt	(114,764)	(116,750)	(1,986)
Total of liabilities	(358,243)	(360,439)	(2,195)
Derivative transactions (*2)			
(1) Derivative transactions for which hedge accounting does not apply	208	208	-
(2) Derivative transactions for which hedge accounting apply	(1,534)	(1,534)	-
Total of derivative transactions	¥ (1,326)	¥ (1,326)	¥ -

(*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 17. 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 ¥16,311 million ($145,634 thousand) and ¥16,500 million as of March 31, 2017 and 2016 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, 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	¥ -	¥ -

	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	$ 407,991	$ -	$ -	$ -
Trade receivable	1,775,571	-	-	-
Marketable securities and investments securities Held-to-maturity debt securities: Other debt securities	473	884	-	-
Total	$ 2,184,054	$ 884	$ -	$ -

(At March 31, 2016)

	Millions of yen			
	Within 1 year	Over 1 year to 5 years	Over 5 year to 10 years	Over 10 years
Bank deposits	¥ 51,700	¥ -	¥ -	¥ -
Trade receivable	187,028	-	-	-
Marketable securities and investments securities Held-to-maturity debt securities: Other debt securities	15	99	-	-
Total	¥ 238,744	¥ 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".

17. Additional Information on Derivatives

1. At March 31, 2017

1) Derivative transactions for which hedge accounting does not apply

a) Foreign currency related transactions

	Millions of yen				Thousands of U.S. dollars			
	2017				2017			
	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	¥7,051	¥ -	¥12	¥12	$ 62,955	$ -	$ 107	$ 107
Buy	4,206	567	(4)	(4)	37,554	5,063	(36)	(36)
Total	¥11,259	567	¥7	¥7	$ 100,527	$ 5,063	$ 63	$ 63

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

b) Commodity related transactions

	Millions of yen				Thousands of U.S. dollars			
	2017				2017			
	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain
Market transaction								
Forward contracts:								
Sell	¥9,403	¥ 956	¥9	¥9	$ 83,955	$ 8,536	$ 80	$ 80
Buy	4,836	33	135	135	43,179	295	1,205	1,205
Total	¥14,239	¥989	¥144	¥144	$127,134	$8,830	$1,286	$1,286

(*) 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		
	2017					2017		
	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	¥14,819	¥ -	¥(84)	Forward rate of Foreign currency	$ 132,313	$ -	$ (750)

Buy	Trade payable	12,899	-	248	Forward rate of Foreign currency	115,170	-	2,214
Assignment accounting (special treatment for foreign exchange forward contracts)								
Foreign currency:								
Sell	Trade receivable	8,359	-	-	-	74,634	-	-
Buy	Trade payable	728	-	-	-	6,500	-	-
Currency swap								
	Long-term debt	10,478	10,478	-	-	93,554	93,554	-
	Total	¥47,289	¥10,478	¥164		$ 422,223	$ 93,554	$ 1,464

(*) 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		
	2017				2017		
	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	¥ 930	232	-	$ 8,304	$2,071	-
Receiving floating rates and paying fixed rates	Long-term debt	63,376	63,246	-	565,857	564,696	-
	Total	¥64,307	¥63,479	-	$ 574,170	$ 566,777	-

(*) 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		
	2017				2017		
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	¥1,769	¥ -	¥(103)	Forward rate of metal material	$ 15,795	$ -	$ (920)
Buy and work in process	12,883	569	1,294		115,027	5,080	11,554
Total	¥14,652	¥569	¥1,191		$130,821	$ 5,080	$ 10,634

2. At March 31, 2016

1) Derivative transactions for which hedge accounting does not apply

a) Foreign currency related transactions

	Millions of yen			
	2016			
	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain
Non-market transaction				
Foreign currency:				
Sell	¥2,360	¥ -	¥ 54	¥ 54
Buy	4,808	173	104	104
Total	¥7,168	¥ 173	¥158	¥158

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

b) Commodity related transactions

	Millions of yen			
	2016			
	Notional Amount	Portion over 1 year	Fair value (*)	Unrealized gain(loss)
Market transaction				
Forward contracts:				
Sell	¥7,081	¥ -	¥ 7	¥ 7
Buy	4,497	1,034	42	42
Total	¥11,578	¥ 1,034	¥ 50	¥ 50

(*)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				
		2016				
	Hedged item	Notional Amount	Portion over 1 year	Fair value (*)	Calculation method of fair value
Normal accounting method					
Foreign currency:					
Sell	Trade receivable	¥ 3,235	¥ -	¥175	Forward rate of Foreign currency
Buy	Trade payable	17,934	-	(1,045)	Forward rate of Foreign currency
Assignment accounting (special treatment for foreign exchange forward contracts)*					
Foreign currency:					
Sell	Trade receivable	7,253	-	-	-
Buy	Trade payable	332	-	-	-
Currency swap					
	Long-term debt	10,478	10,478	-	-
Total		¥39,233	¥10,478	¥(870)	

*) 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			
	2016			
	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	¥ 2,099	¥ 933	

Receiving floating rates and paying fixed rates	Long-term debt	83,621	63,471	
	Total	¥85,721	¥64,404	-

(*) The fair value of interest rate swaps subject to special treatment is accounted for together with the underlying trade receivable or trade payable or long-term debt subject to hedging.

c) Commodity related transactions

		Millions of yen			
		2016			
	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	¥1,302	¥ -	¥ (184)	Forward rate of metal material
Buy		9,455	204	(480)	
	Total	¥10,757	¥ 204	¥(664)	

18. Business Combination

Business combination through acquisition

1. Overview of the business combination
1) Name of the acquired company and its business

Name of the acquired company	VISCAS Corporation ("VISCAS")
Contents of the business acquired	Business related to underground and undersea power transmission line

2) Objective of the business combination
The acquisition of the business from VISCAS was carried out in line with the Group's strategy for its power business. The succession of the business will further enhance and cultivate the Group's competitiveness in the power infrastructure industry that is expected to grow in the mid or long term by leveraging the world best technological advantage and rich experience of the Group in the industry.

3) Date of business combination
October 1, 2016

4) Legal form of the business combination
Purchase of the curved-out business

2. Period of the acquired company's financial results in its consolidated financial statements

From October 1, 2016 through March 31, 2017

3. Consideration transferred for the acquisition and its breakdown

Consideration for acquisition	Cash and bank deposits	¥1,944 million ($17,357 thousand)
Acquisition cost		¥1,944 million ($17,357 thousand)

4. Contents of major acquisition-related costs and

Advisory fees of ¥1 million ($9 thousand)

5. Amount of gain from negative goodwill and its cause

1) Amount of gain from negative goodwill

5,251 million yen ($46,884 thousand)

2) Cause of negative goodwill

The negative goodwill was recognized as the net assets of the acquired business exceeded the acquisition cost.

6. Amount of assets acquired and liabilities assumed at the date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,432	$ 30,643
Fixed assets	3,793	33,866
Total assets	7,226	64,518
Current liabilities	30	268
Total liabilities	¥ 30	$ 268

7. Approximate amounts of impact on the consolidated statement of income for the year ended March 31, 2017, assuming that the business combination had been completed on the commencement date of the fiscal year

No amounts are disclosed due to difficulty to estimate approximate amounts for the fiscal year.

19. Subsequent event

Filing of a lawsuit

American Furukawa, Inc. ("AFI"), a consolidated subsidiary, was suited by TRAM, Inc. ("TRAM") and TRMI, Inc. (TRMI"), which are subsidiaries of TOKAI RIKA Co., Ltd., on June 13, 2017 (local time) in the state court in Michigan, United States.

Outline of the lawsuit is as follows. No specific claim amount is described in a petition.

1. Reason for the lawsuit and details to reach the filing
Automobile manufacturers conducted a recall of products TRAM and TRMI had delivered to them with some possible defects. Those products had been originally delivered from AFI to TRAM and TRMI. After that, TRAM and TRMI filed the lawsuit against AFI to compensate a part of costs of the recall.

2. Outline of the companies who filed the lawsuit

(1) Name: TRAM
Address: Michigan, U.S
.
(2) Name: TRMI
Address: Michigan, U.S.

3. Future outlook
There would be some impacts on the Company's consolidated results depending on the transition of the lawsuit. However, it is not possible to make a reasonable estimate of any costs at this stage.

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.

The reportable segments of the Group were previously classified 5, such as "Telecommunications", "Energy and Industrial products", "Electronics and automotive systems", "Materials", and "Services, development and other". However, this 5 classifications has been changed to 4, such as "Infrastructure", "Electronics & Automotive Systems", "Functional Products" and "Service and Development, etc." due to establishment of integrated organization crossing over a number of divisions from the viewpoint of relations on targeted markets and aggregation of common functions based upon the strategy of the medium – long management plan "Furukawa G Plan 2020" since April 2016. The "Furukawa G Plan 2020" has been prepared for the period starting from this fiscal year. This change was made to disclose proper substance of the Group's management.

The segment information of last fiscal year is reported under new classifications of the reportable segments.

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, perimeter monitoring radar, 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, information processing service /software development, real-estate leasing, hydraulic power generation, R&D, etc.

2. Segment information on sales and income (loss), identifiable assets and other items by business for the years ended March 31, 2017 and 2016 is summarized as follows:

(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, 2016)

	Millions of yen						
	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustments*	Total
Net sales							
Outside customers	¥ 245,410	¥ 462,311	¥ 130,416	¥ 36,740	¥ 874,879	¥ -	¥ 874,879
Inter-segment sales	7,260	28,783	5,901	14,765	56,711	(56,711)	—
Total	252,671	491,095	136,318	51,505	931,591	(56,711)	874,879
Segment income	¥ 7,717	¥ 10,468	¥ 8,457	¥ 413	¥ 27,057	¥ 59	¥ 27,116
Assets	¥ 196,272	¥ 284,299	¥ 98,643	¥ 149,035	¥ 728,250	¥ (22,524)	¥ 705,725
Others							
Depreciation	¥ 6,274	¥ 10,592	¥ 3,955	¥ 1,312	¥ 22,135	¥ 1,100	¥ 23,235
Amortization of goodwill	¥ 96	¥ 41	¥ 121	¥ 345	¥ 605	¥ -	¥ 605
Investments in affiliates accounted for by the equity method	¥ 7,241	¥ 7,020	¥ 6,771	¥ 47,497	¥ 68,531	¥ -	¥ 68,531
Tangible/intangible fixed assets increased	¥ 7,075	¥ 11,069	¥ 4,014	¥ 2,423	¥ 24,582	¥ 1,104	¥ 25,687

(For the year ended March 31, 2017)

	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development, etc.	Sub-total	Adjustments*	Total
Net sales							
Outside customers	$ 2,298,330	$ 3,824,089	$ 1,110,652	$ 296,768	$ 7,529,857	$ -	$ 7,529,857
Inter-segment sales	56,589	242,482	63,321	146,554	508,955	(508,955)	-
Total	2,354,920	4,066,580	1,173,973	443,330	8,038,821	(508,955)	7,529,857
Segment income(loss)	$ 128,027	$ 114,223	$ 104,313	$ (1,321)	$ 345,250	$ (402)	$ 344,848
Assets	$ 2,069,848	$ 2,695,313	$ 959,598	$ 1,225,330	$ 6,950,098	$ (252,536)	$ 6,697,554
Others							
Depreciation	$ 54,348	$ 99,259	$ 34,804	$ 10,348	$ 198,777	$ 9,875	$ 208,661
Amortization of goodwill	$ 1,277	$ 143	$ 1,018	$ 3,080	$ 5,527	$ -	$ 5,527
Investments in affiliates accounted for by the equity method	$ 57,723	$ 59,527	$ 59,063	$ 418,232	$ 594,563	$ -	$ 594,563
Tangible/intangible fixed assets increased	$ 95,027	$ 103,652	$ 43,348	$ 21,080	$ 263,116	$ 18,875	$ 282,000

* 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, 2017)

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

	Millions of yen			
	Japan	Asia	Other	Total
Property, plant and equipment, net of accumulated depreciation	¥ 126,500	¥ 53,513	¥ 25,476	¥ 205,490

	Thousands of U.S. dollars (Note 3)					
	Japan	China	Other asian areas	North middle	Other	Total
Net sales	$ 4,047,473	$ 732,491	$ 1,392,705	$ 734,839	$ 622,330	$ 7,529,857

	Thousands of U.S. dollars (Note 3)			
	Japan	Asia	Other	Total
Property, plant and equipment, net of accumulated depreciation	$ 1,129,464	$ 477,795	$ 227,464	$ 1,834,732

(For the year ended March 31, 2016)

	Millions of yen					
	Japan	China	Other asian areas	North middle	Other	Total
Net sales	¥ 469,617	¥ 90,336	¥ 166,516	¥ 73,980	¥ 74,429	¥ 874,879

	Millions of yen			
	Japan	Asia	Other	Total
Property, plant and equipment, net of accumulated depreciation	¥ 119,200	¥ 55,131	¥ 22,213	¥ 196,544

<Information of impairment loss by reportable segments>

(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	¥ 162	¥ 30	¥ -	¥ -	¥ 192	¥ -	¥ 192
	Thousands of U.S. dollars (Note 3)						
Impairment loss	$ 1,446	$ 268	$ -	$ -	$ 1,714	$ -	$ 1,714

(For the year ended March 31, 2016)

	Millions of yen						
	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development. etc.	Sub-total	Adjustment	Total
Impairment loss	¥ 25	¥ 960	¥ 9	¥ -	¥ 995	¥ -	¥ 995

<Information of goodwill by reportable segments>

(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	¥ 143	¥ 16	¥ 114	¥ 345	¥ 619	¥ -	¥ 619
Goodwill as of March 31	¥ 420	¥ 23	¥ 487	¥ 2,217	¥ 3,149	¥ -	¥ 3,149
	Thousands of U.S. dollars (Note 3)						
Amortization of goodwill	$ 1,277	$ 143	$ 1,018	$ 3,080	$ 5,527	$ -	$ 5,527
Goodwill as of March 31	$ 3,750	$ 205	$ 4,348	$ 19,795	$ 28,116	$ -	$ 28,116

(For the year ended March 31, 2016)

	Millions of yen						
	Infrastructure	Electronics & Automotive Systems	Functional products	Service and Development. etc.	Sub-total	Adjustment	Total
Amortization of goodwill	¥ 96	¥ 41	¥ 121	¥ 345	¥ 605	¥ -	¥ 605
Goodwill as of March 31	¥ 526	¥ 51	¥ 627	¥ 2,562	¥ 3,768	¥ -	¥ 3,768

22. Related Party Transactions

1. Transactions of the Company with related companies

(For the year ended March 31, 2017)

Type of Related Party	Affiliate
Name	VISCAS Corporation.
Address	Shinagawa-ku Tokyo
Capital	¥10 million ($89 thousand)
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 ($97,286
Accounts	Short-term loans receivable
Year-end balances	¥8,071 million ($72,063 thousand)
2) Description of transactions	Business transfer
Amounts of transactions Total assets Total liabilities Acquisition costs	 ¥7,226 million ($64,518 thousand) ¥30 million ($268 thousand) ¥1,944 million ($17,357 thousand)

(For the year ended March 31, 2016)

Type of Related Party	Affiliate
Name	VISCAS Corporation.
Address	Shinagawa-ku Tokyo
Capital	¥13,600 million
Type of business	Infrastructure
Voting right share owing (share owned)	Direct 50.0%
Business relationship	Sale of material, purchase of finished goods, lease contracts of real estate, interlocking director to other companies and providing financial support.
Description of transactions	Loans guaranteed
Amounts of transactions	¥10,061 million
Accounts	—
Year-end balances	—

2. Information on the parent company and significant affiliate companies

(For the years ended March 31, 2017 and 2016)

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)
	2017	2016	2017
Total current assets	¥305,563	¥263,409	$2,728,241
Total non-current assets	¥419,880	¥399,135	$3,748,929
Total current liabilities	¥237,650	¥249,784	$2,121,875
Total non-current liabilities	¥289,433	¥234,177	$2,584,223
Net assets	¥198,360	¥178,582	$1,771,071
Sales	¥568,316	¥575,735	$5,074,250
Profit before income taxes	¥18,281	¥13,976	$163,223
Profit to attributable to owners of parent	¥8,715	¥5,105	$77,813

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Building a better working world

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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, 2017, 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, 2017, 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, 2017