

***Consolidated Financial Statements
for the year ended March 31, 2016***

***SWCC Showa Holdings Co., Ltd.
and Consolidated Subsidiaries***

CONSOLIDATED BALANCE SHEET

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 4)</i>
ASSETS			
Current assets:			
Cash and time deposits <i>(Notes 5 and 17)</i>	¥8,097	¥6,410	\$56,887
Trade notes and accounts receivable <i>(Note 17)</i>	45,526	42,345	375,799
Inventories <i>(Note 6)</i>	21,986	21,096	187,220
Deferred tax assets <i>(Note 16)</i>	542	445	3,949
Other	4,040	3,577	31,745
Allowance for doubtful accounts	(63)	(17)	(151)
Total current assets	<u>80,128</u>	<u>73,856</u>	<u>655,449</u>
Property, plant and equipment:			
Buildings and structures <i>(Notes 8 and 15)</i>	39,486	37,947	336,768
Machinery, equipment and tools <i>(Notes 8 and 15)</i>	72,455	70,485	625,532
Land <i>(Notes 8, 12 and 15)</i>	23,993	23,702	210,348
Other	1,937	1,430	12,691
Accumulated depreciation	(92,968)	(94,503)	(838,685)
Total property, plant and equipment	<u>44,903</u>	<u>39,061</u>	<u>346,654</u>
Intangible assets			
Other	1,973	1,838	16,312
Total intangible assets	<u>1,973</u>	<u>1,838</u>	<u>16,312</u>
Investments and other assets:			
Investment securities <i>(Notes 7, 8 and 17)</i>	7,360	6,759	59,984
Deferred tax assets <i>(Note 16)</i>	-	13	115
Other	1,470	1,293	11,475
Net defined benefit asset <i>(Note 10)</i>	2,416	399	3,541
Allowance for doubtful accounts	(227)	(150)	(1,331)
Total investments and other assets	<u>11,019</u>	<u>8,314</u>	<u>73,784</u>
Total assets	<u>¥138,023</u>	<u>¥123,069</u>	<u>\$1,092,199</u>

See Accompanying Notes to Consolidated Financial Statements.

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 4)</i>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt <i>(Notes 8 and 17)</i>	¥40,378	¥40,772	\$361,839
Trade notes and accounts payable <i>(Note 17)</i>	23,389	21,261	188,685
Accrued income taxes	306	283	2,512
Provision for loss on construction contracts	137	162	1,438
Provision for business structure improvement expenses	32	13	115
Reserve for surcharge	-	0	0
Other accounts payable	7,759	8,128	72,133
Other	3,742	3,779	33,537
Total current liabilities	<u>75,743</u>	<u>74,398</u>	<u>660,259</u>
Long-term liabilities:			
Long-term debt <i>(Notes 8 and 17)</i>	18,586	16,711	148,305
Net defined benefit liability <i>(Note 10)</i>	537	565	5,014
Accrued retirement benefits for directors and statutory auditors	108	103	914
Deferred tax liabilities <i>(Note 16)</i>	193	159	1,411
Deferred tax liabilities related to land revaluation <i>(Notes 12 and 16)</i>	4,424	4,227	37,513
Other	1,510	1,182	10,490
Total long-term liabilities	<u>25,358</u>	<u>22,947</u>	<u>203,647</u>
Total liabilities	<u>101,101</u>	<u>97,345</u>	<u>863,906</u>
Contingent liabilities <i>(Note 11)</i>			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized - 700,000,000 shares			
Issued - 308,268,611 shares <i>(Note 13)</i>	24,222	24,222	214,963
Capital surplus <i>(Note 13)</i>	5,915	5,537	49,139
Retained earnings <i>(Note 13)</i>	(395)	(9,168)	(81,363)
Treasury stock <i>(Note 13)</i>	(15)	(16)	(142)
Total shareholders' equity	<u>29,727</u>	<u>20,575</u>	<u>182,597</u>
Accumulated other comprehensive income:			
Unrealized holding gains on other securities	691	567	5,032
Deferred gains on hedges	-	(1)	(9)
Variance of land revaluation <i>(Note 12)</i>	5,346	5,543	49,192
Foreign currency translation adjustments	2,464	2,173	19,285
Remeasurements of defined benefit plans	(1,611)	(3,486)	(30,937)
Total accumulated other comprehensive income	<u>6,890</u>	<u>4,796</u>	<u>42,563</u>
Non-controlling interests	<u>305</u>	<u>353</u>	<u>3,133</u>
Total net assets	<u>36,922</u>	<u>25,724</u>	<u>228,293</u>
Total liabilities and net assets	<u>¥138,023</u>	<u>¥123,069</u>	<u>\$1,092,199</u>

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF OPERATIONS

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 4)</i>
Net sales	¥181,694	¥169,713	\$1,506,150
Cost of sales (Notes 6 and 14)	163,532	151,984	1,348,809
Gross profit	18,162	17,729	157,341
Selling, general and administrative expenses (Note 14)	16,925	16,778	148,900
Operating income	1,237	951	8,441
Other income (expenses):			
Interest income	57	67	595
Dividend income	152	64	568
Foreign currency exchange income (expenses)	260	(305)	(2,707)
Interest expense	(1,061)	(966)	(8,573)
Equity in losses of affiliates	(209)	(644)	(5,715)
Gain on sales of fixed assets	-	76	674
Gain on bargain purchase	-	31	275
State subsidy	103	70	621
Loss on impairment of fixed assets (Note 15)	(8)	(5,996)	(53,213)
Business structure improvement expenses	6	-	-
Compensation for product	(442)	(823)	(7,304)
Other, net	815	(1,145)	(10,162)
	(327)	(9,571)	(84,941)
Income (loss) before income taxes and non-controlling interests	910	(8,620)	(76,500)
Income taxes (Note 16)			
Current	525	392	3,478
Deferred	147	89	790
	672	481	4,268
Income (loss)	238	(9,101)	(80,768)
Income (loss) attributable to non-controlling interests	9	50	444
Income (loss) attributable to owners of the Company	¥229	¥(9,151)	\$(81,212)

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Income (Loss)	¥238	(¥9,101)	(\$80,768)
Other comprehensive income (Note 20)			
Unrealized holding gains (losses) on other securities	(122)	(127)	(1,128)
Deferred gains (losses) on hedges	-	(1)	(9)
Variance of land revaluation	452	197	1,748
Foreign currency translation adjustments	422	(46)	(408)
Remeasurements of defined benefit plans	1,791	(1,875)	(16,640)
Share of other comprehensive income of affiliates in equity method	433	(244)	(2,165)
Total other comprehensive income	<u>2,976</u>	<u>(2,096)</u>	<u>(18,602)</u>
Comprehensive income	<u>¥3,214</u>	<u>(¥11,197)</u>	<u>(\$99,370)</u>
Comprehensive income attributable to			
Owners of the Company	¥3,199	(¥11,245)	(\$99,796)
Non-controlling interests	15	48	426

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income					Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings (losses)	Treasury stock	Total shareholder's equity	Unrealized holding gains on securities	Deferred gains (losses) on hedges	Variance of land evaluation	Foreign currency translation adjustments	Remeasurements of defined benefit plans			
Balance at April 1, 2014	¥24,222	¥6,429	¥(1,276)	¥(14)	¥29,361	¥816	¥-	¥4,894	¥1,613	¥(3,402)	¥3,921	¥297	¥33,579
Adjustment on change of the accounting policy			138		138								138
Transfer to retained earnings from capital surplus		(514)	514		-								-
Net income (loss) for the year			229		229								229
Purchase of treasury stock				(1)	(1)								(1)
Changes other than shareholder's equity						(125)	-	452	851	1,791	2,969	8	2,977
Balance at March 31, 2015	¥24,222	¥5,915	¥(395)	¥(15)	¥29,727	¥691	¥-	¥5,346	¥2,464	¥(1,611)	¥6,890	¥305	¥36,922

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income					Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings (losses)	Treasury stock	Total shareholder's equity	Unrealized holding gains on securities	Deferred gains (losses) on hedges	Variance of land evaluation	Foreign currency translation adjustments	Remeasurements of defined benefit plans			
Balance at April 1, 2015	¥24,222	¥5,915	¥(395)	¥(15)	¥29,727	¥691	¥-	¥5,346	¥2,464	¥(1,611)	¥6,890	¥305	¥36,922
Adjustment on change of the accounting policy													
Transfer to retained earnings from capital surplus		(378)	378		-								-
Net income (loss) for the year			(9,151)		(9,151)								(9,151)
Purchase of treasury stock				(1)	(1)								(1)
Changes other than shareholder's equity						(124)	(1)	197	(291)	(1,875)	(2,094)	48	(2,046)
Balance at March 31, 2016	¥24,222	¥5,537	¥(9,168)	¥(16)	¥20,575	¥567	¥(1)	¥5,543	¥2,173	¥(3,486)	¥4,796	¥353	¥25,724

(Thousands of U.S. dollars) (Note 4)

	Shareholders' equity					Accumulated other comprehensive income					Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Common stock	Capital surplus	Retained earnings (losses)	Treasury stock	Total shareholder's equity	Unrealized holding gains on securities	Deferred gains (losses) on hedges	Variance of land evaluation	Foreign currency translation adjustments	Remeasurements of defined benefit plans			
Balance at April 1, 2015	\$214,963	\$52,494	\$(3,506)	\$(133)	\$263,818	\$6,132	\$-	\$47,444	\$21,867	\$(14,297)	\$61,146	\$2,707	\$327,671
Adjustment on change of the accounting policy													
Transfer to retained earnings from capital surplus		(3,355)	3,355		-								-
Net income (loss) for the year			(81,212)		(81,212)								(81,212)
Purchase of treasury stock				(9)	(9)								(9)
Changes other than shareholder's equity						(1,100)	(9)	1,748	(2,582)	(16,640)	(18,583)	426	(18,157)
Balance at March 31, 2016	\$214,963	\$49,139	\$(81,363)	\$(142)	\$182,597	\$5,032	\$(9)	\$49,192	\$19,285	\$(30,937)	\$42,563	\$3,133	\$228,293

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
 SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 4)</i>
Cash flows from operating activities:			
Income (loss) before income taxes and non-controlling interests	¥910	¥(8,620)	\$(76,500)
Depreciation and amortization	3,490	3,700	32,836
Loss on impairment of fixed assets	8	5,996	53,213
Compensation income	(215)	-	-
Gain on sales of investment securities	(897)	(12)	(106)
Gain on sales of property, plant and equipment	-	-	-
Loss on disposal of property, plant and equipment	45	-	-
Loss on devaluation in investment securities	-	5	44
Increase (decrease) in allowance for doubtful accounts	(207)	(123)	(1,092)
Increase (decrease) in reserve for construction loss	31	25	222
Increase (decrease) in accrued retirement benefits for employees	-	-	-
Increase (decrease) in provision for net defined benefit liability	(27)	28	248
Interest and dividend income	(208)	(131)	(1,163)
Interest expenses	1,061	966	8,573
Reserve for surcharge	-	-	-
Compensation for product	442	823	7,304
(Increase) decrease in trade notes and accounts receivable	3,089	3,180	28,222
(Increase) decrease in inventories	(513)	891	7,907
Increase (decrease) in trade notes and accounts payable	(856)	(1,840)	(16,329)
(Increase) decrease in other current assets	927	5	44
Increase (decrease) in other current liabilities	(195)	(411)	(3,647)
Repair work expense	-	-	-
Loss on sales of investments in subsidiaries and affiliates	-	-	-
Business structure improvement expenses	6	-	-
Other	720	1,134	10,064
Sub-total	<u>7,611</u>	<u>5,616</u>	<u>49,840</u>
Interest and dividends received	256	157	1,393
Interest paid	(1,039)	(965)	(8,564)
Settlement paid	(618)	-	-
Business structure improvement expenses paid	(152)	(16)	(142)
Income taxes paid	(433)	(246)	(2,183)
Net cash provided by (used in) operating activities	<u>5,625</u>	<u>4,546</u>	<u>40,344</u>
Cash flows from investing activities:			
Purchases of investment securities	(9)	(10)	(89)
Proceeds from sales of investment securities	1,845	19	169
Purchases of property, plant and equipment	(3,689)	(3,242)	(28,772)
Proceeds from sales of property, plant and equipment	41	243	2,157
Proceeds from sales of intangible assets	-	(482)	(4,278)
Expenditures for acquisition of investments in an affiliate	-	(439)	(3,896)
(Increase) decrease in short-term loans receivable	129	36	319
Other	(345)	29	258
Net cash provided by (used in) investing activities	<u>(2,028)</u>	<u>(3,846)</u>	<u>(34,132)</u>

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Cash flows from financing activities:			
Increase (decrease) in short-term bank borrowings	(5,754)	322	2,858
Proceeds from long-term debt	11,110	7,900	70,110
Repayment of long-term debt	(8,690)	(9,723)	(86,289)
Cash dividends paid to non-controlling interests	(7)	(4)	(35)
Other	(152)	(785)	(6,967)
Net cash provided by (used in) financing activities	<u>(3,493)</u>	<u>(2,290)</u>	<u>(20,323)</u>
Effect of exchange rate changes on cash and cash equivalents	259	(96)	(852)
Net increase (decrease) in cash and cash equivalents	363	(1,686)	(14,963)
Cash and cash equivalents at beginning of year	<u>7,605</u>	<u>7,968</u>	<u>70,714</u>
Cash and cash equivalents at end of year (Note 5)	<u>¥7,968</u>	<u>¥6,282</u>	<u>¥55,751</u>

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

1. Basis of Presentation

The accompanying consolidated financial statements of SWCC SHOWA HOLDINGS CO., LTD. (the "Company") and its consolidated subsidiaries (collectively the "Companies") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. In preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits or losses among the Companies have been eliminated. In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the consolidated subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Differences between the cost of the investments in consolidated subsidiaries and the underlying equity at fair value of dates of acquisition have been amortized by the straight-line method over a period of five years.

The equity method of accounting has been adopted for investments in the major affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies.

The total assets, retained earnings, net sales and net income (loss) of the unconsolidated subsidiaries and affiliated companies which are not accounted for by the equity method in the aggregate were not significant in relation to the corresponding consolidated balances of the Companies.

The number of the consolidated subsidiaries at March 31, 2016 is 23, listed as follows:

Name	Percentage of equity ownership	Paid-in capital
		(Millions)
SWCC Showa Cable Systems Co., Ltd.	100.0 %	¥10,000
SWCC Showa Device Technology Co., Ltd.	100.0	3,500
Unimac Ltd.	55.0	480
Fuji Electric Cable Co., Ltd.	100.0	318
Daiji Co., Ltd.	100.0	480
AXIO Corporation	100.0	310
SWCC Showa Business Solutions Co., Ltd.	100.0	100
SDS Corporation	100.0	100
Logis-Works Co., Ltd.	100.0	95
Aomori Showa Electric Cable Co., Ltd.	100.0	80
Tamagawa Magnet Wire Co., Ltd.	100.0	46
Showa Recycle Co., Ltd.	100.0	20
Showa Technical Corporation	100.0	20
Shoukou Equipment Industry Co., Ltd.	100.0	80
Tianjin Showa Enamelled Wire Co., Ltd.	54.8	US\$17.0
Fuqing Showa Precision Electronics Co., Ltd.	100.0	US\$3.4
SWCC Showa (VIETNAM) Co., Ltd.	100.0	US\$7.0
SWCC Showa (ShangHai) Co., Ltd.	100.0	US\$5.2
Jiaxing Showa Interconnect Products Co., Ltd.	95.2	US\$3.2
SWCC Showa (H.K.) Co., Ltd.	100.0	HK\$84.3
Dongguan Showa Interconnect Products Co., Ltd.	100.0	US\$1.7
HangZhou FuTong Showa Interconnect Products Co., Ltd.	100.0	CNY \$12
Showa Science Co., Ltd.	70.0	40

The number of affiliates, in which investments are accounted for by the equity method, is 5 listed as follows:

	Percentage of equity ownership	Paid-in capital
		(Millions)
Hua Ho Engineering Co., Ltd.	50.0 %	NT\$35
Showa-TBEA (Shan Dong) Cable Accessories Co., Ltd	49.0	US\$14
HangZhou FuTong-Showa Electric Wire Cable Material R&D Co., Ltd	49.0	CNY¥10
FuTong-Showa Electric Wire & Cable (HangZhou) Co., Ltd	49.0	CNY¥374
FuTong-Showa Electric Wire & Cable (TianJin) Co., Ltd	49.0	CNY¥100

EXSYM Corporation has been excluded from the scope of the consolidated subsidiaries since it was merged with SWCC Showa Cable Systems Co., Ltd. on October 1, 2015.

(b) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at applicable exchange rates at the balance sheet date, and differences resulting from the translation are included in other income or other expenses in the consolidated statements of income.

The assets and liabilities of foreign consolidated subsidiaries and affiliates that operate in local currency are translated into Japanese yen at the applicable exchange rates at the balance sheet date, except for the components of net assets excluding minority interests which are translated at their historical exchange rates. Income and expense accounts are also translated at the applicable exchange rates at the balance sheet date. Differences arising from the translation are presented as translation adjustments and minority interests in accumulated other comprehensive income of its consolidated financial statements.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which is readily available and short-term investments with maturities of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Inventories are primarily stated at the lower of cost determined by the average method or net realizable value. Inventories of certain consolidated subsidiaries are stated at the lower of cost determined by the moving average method or by the specific identification method or net realizable value. When the costs exceed the net realizable values, inventories are written down to the net realizable value.

(e) Investment Securities

Marketable securities classified as "other securities" are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as "other securities," which have no fair values, are carried at cost determined by the moving average method. Cost of securities sold is determined by the moving average method.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful lives. The main estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	31 years (3 - 50 years)
Machinery and vehicles	10 years (2 - 14 years)
Equipment and tools	5 years (2 - 15 years)

(g) Intangible Assets

Intangible assets are amortized by the straight-line method over each of their estimated useful lives. Especially, computer software for internal use is amortized by the straight-line method over its estimated useful lives of 5 years.

(h) Leases

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

Finance leases, the agreements of which do not include the transfer of ownership, are accounted for in the same manner as ordinary purchase transactions of fixed assets and are depreciated by straight-line method over the respective lease terms with a zero residential value. While, finance leases, the agreements of which do not include the transfer of ownership and started on or before March 31, 2008, are accounted for as operating leases.

(i) Allowance for Doubtful Accounts Receivable

The allowance for doubtful accounts receivable is provided based on historical default rates and additional estimated uncollectible amounts to cover specific doubtful accounts receivable.

(j) Retirement Benefits

(1) Method of attributing benefits to periods of service

When calculating retirement benefit obligations, the straight-line basis is used for attributing expected retirement benefits to periods of service.

(2) Method of expenses for actuarial gains and losses and past service costs

Past service cost is amortized on a straight-line basis over certain periods within the average remaining service lives of employees (mainly 13 years) from the year in which it arises.

Actuarial gains and losses are amortized on a straight-line basis over certain periods within the average remaining service lives of employees (mainly 13 years) from the year following that in which they arise.

(k) Provision for Retirement Benefits for Directors and Statutory Auditors

To provide for the future benefit payment for directors and statutory auditors, the Companies have provided accrued retirement benefits based on their internal regulations.

(l) Provision for Loss on Construction Contracts

Provision for loss on construction contract is provided at the estimated amount for anticipated losses on the construction contracts in progress.

(m) Provision for business structure improvement Expenses

Provision for business structure improvement is proved based on an estimate of business structure improvement expenses.

(n) Revenue and Cost of Construction Contracts

The Company recognized revenue and cost of construction contracts under the percentage-of-completion method if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the Company recognized revenue and cost upon completed-contract method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost.

(o) Derivative

The Companies use foreign currency forward exchange contracts and interest rate swap agreements to hedge the risk of fluctuations in foreign currency exchange rates and interest rates, respectively. Gain or loss on changes in the fair market values of the derivative financial instruments which meet certain criteria as hedges is deferred on the balance sheet until gain or loss on the hedged items are recognized.

However, foreign currency forward exchange contracts, which meet certain conditions, are accounted for as a part of translating foreign currency monetary assets and liabilities in the consolidated balance sheets.

In case where interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the contract is added to or deduced from the interest on the assets or liabilities for which the swap contract is executed.

Since commencement of hedge contracts, the Companies have assessed the effectiveness of each hedge contract by comparing the total cash flow fluctuation or market fluctuation of hedging instruments and hedged items.

(p) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(q) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The companies in Japan file the consolidated tax return. Overseas consolidated subsidiaries are subject to income taxes in the countries in which they operate.

3. Accounting Change

Application of accounting standard for corporate combination

Effective from the fiscal year ended March 31, 2016, the Company has applied the Accounting Standard for Corporate Combination (ASBJ Statement No. 21 issued on September 13, 2013; hereinafter the "Corporate Combination Accounting Standard"), the Accounting standard for Consolidated Financial statements (ASBJ Statement No. 22 issued on September 13, 2013, hereinafter the "Consolidated Financial Statements Standard") and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013; hereinafter the "Business Divestitures Accounting Standard"). As a result, if the Company continues to control the

subsidiaries, the difference caused by changes in ownership interests in subsidiaries is recorded as a capital surplus and the acquisition-related cost incurred are recorded in the same fiscal year. For the corporate combinations which take place on and after the beginning of the fiscal year, the revision of purchase price allocation of temporary accounting treatment should be recorded in the same fiscal year of corporate combination. In addition, the presentation of "Net income" has been changed, and the presentation of "Minority interests" has been changed to "Non-controlling interests". The consolidated financial statements for the previous fiscal year have been revised to reflect these changes in presentation.

The Corporate Combination Accounting Standard, etc., in accordance with the transitional treatment specified in item 58-2(4) of the Corporate Combination Accounting Standard, item 44-5(4) of the Consolidated Financial Statements Standard and item 57-4(4) of the Business Separation Accounting Standard, are applied from the beginning of the fiscal year.

The impact on the financial statements of the fiscal year under review is not significant.

The impact on per share information is shown in the pertinent section.

4. U.S. Dollar Amounts

For the convenience of the readers outside Japan, the accompanying consolidated financial statements are presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥112.68= US\$1.00 prevailing on March 31, 2016. This translation should not be construed as a representation that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollar amounts at the above or any other rate.

5. Cash and Time Deposits

Information regarding cash and time deposits at March 31, 2015 and 2016 was as follows:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and time deposits due within 3 months	¥7,968	¥6,282	\$55,751
Time deposits due over 3 months	129	128	1,136
Total	¥8,097	¥6,410	\$56,887

6. Inventories

The breakdown of Inventories at March 31, 2015 and 2016 was as follows:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished goods	¥9,782	¥9,425	\$83,643
Work in process	7,720	7,454	66,152
Raw materials and supplies	4,484	4,217	37,425
	¥21,986	¥21,096	\$187,220

Inventories were revalued at the lower of cost or net realizable value with devaluation losses, which were included in Cost of Sales, for the years ended March 31, 2015 and 2016 in the amounts of ¥78 million and ¥61 million (US\$541 thousand), respectively.

7. Investment Securities

(a) Information regarding marketable other securities at March 31, 2015 and 2016 was as follows:

	2015			2016			2016		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
	<i>(Millions of yen)</i>						<i>(Thousands of U.S. dollars)</i>		
Securities whose carrying value exceeds their acquisition cost:									
Stocks	¥1,517	¥2,573	¥1,056	¥862	¥1,937	¥1,075	\$7,650	\$17,190	\$9,540
Securities whose acquisition cost exceeds their carrying value:									
Stocks	220	172	(48)	877	667	(210)	7,783	5,919	(1,864)
Total	¥1,737	¥2,745	¥1,008	¥1,739	¥2,604	¥865	\$15,433	\$23,109	\$7,676

(b) Sales of other securities

Information regarding other securities which have been sold out by March 31, 2015 and 2016 was as follows:

	2015		2016		2016	
	Amount of the sale	Income of the sale	Amount of the sale	Income of the sale	Amount of the sale	Income of the sale
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
Stocks	¥1,845	¥897	¥7	¥12	\$62	\$106

8. Short-term and Long-term Debts

Short-term debt composes short-term borrowings and current portion of long-term borrowings, finance lease obligations. The weighted average interest rates for short-term borrowings and current portion of long-term borrowings at March 31, 2016 were 1.495% and 1.713%, respectively.

Short-term borrowings and long-term borrowings at March 31, 2015 and 2016 consisted of the following:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term borrowings			
Unsecured	¥12,085	¥11,436	\$101,491
Secured	18,585	19,556	173,553
	<u>¥30,670</u>	<u>¥30,992</u>	<u>\$275,044</u>
Long-term borrowings			
Unsecured	¥14,823	¥15,292	\$135,712
Secured	11,657	9,365	83,111
	<u>¥26,480</u>	<u>¥24,657</u>	<u>\$218,823</u>

Long-term debt at March 31, 2015 and 2016 consisted of the following:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loans principally from banks and insurance companies due serially to 2023 and predominantly collateralized, with a weighted average interest of 1.568%	¥26,480	¥24,657	\$218,824
Finance lease obligations due 2023	1,813	1,833	16,267
Less: portion due within one year	(9,707)	(9,779)	(86,786)
	<u>¥18,586</u>	<u>¥16,711</u>	<u>\$148,305</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2016 were as follows:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2017	¥7,031	\$62,398
2018	5,243	46,530
2019	3,010	26,713
2020 and thereafter	1,427	12,664
	<u>¥16,711</u>	<u>\$148,305</u>

At March 31, 2015 and 2016, the following assets were pledged as collateral for certain of the above debts:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Investment securities	¥1,775	¥892	\$7,916
Property, plant and equipment, at net book value:			
Buildings and structures	6,030	4,038	35,836
Machinery, equipment and tools	1,737	586	5,201
Land	18,153	18,152	161,093
Other	133	67	595
	<u>¥27,828</u>	<u>¥23,735</u>	<u>\$210,641</u>

9. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of finance leases, the agreements of which do not include the transfer of ownership and started on or before March 31, 2008, as of March 31, 2015 and 2016, which would have been reflected in the consolidated balance sheets if the leases had been accounted for in the same manner as ordinary purchase transactions of fixed assets:

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs	¥518	¥169	\$1,500
Accumulated depreciation	467	162	1,438
Net book value	¥51	¥7	\$62

Note: Assumed acquisition costs include the capitalized interest thereon, as the proportion of future minimum lease payments to total property, plant and equipment at fiscal year-end is immaterial.

Future minimum lease payments subsequent to March 31, 2015 and 2016, for finance leases, the agreements of which do not include the transfer of ownership and started on or before March 31, 2008, are summarized as follows:

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Within one year	¥44	¥7	\$62
Over one year	7	-	-
Total	¥51	¥7	\$62

Note: Assumed future minimum lease payments for finance leases include the capitalized interest thereon, as the proportion of future minimum lease payments to total property, plant and equipment at fiscal year-end is immaterial.

Lease payments under such leases for the years ended March 31, 2015 and 2016, were ¥59 million and ¥44 million (US\$390 thousand), respectively. These lease payments were equal to the depreciation of leased assets computed by the straight-line method over the respective lease terms with a zero residential value.

In addition, the future minimum payment for operating leases subsequent to March 31, 2015 and 2016 are summarized as follows:

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Within one year	¥89	¥64	\$568
Over one year	592	528	4,686
Total	¥681	¥592	\$5,254

10. Retirement Benefits for Employees

Parent company and domestic consolidated subsidiaries are providing welfare pension fund, defined benefit corporate pension plans as defined benefit plans and lump-sum retirement benefit plans and defined contribution pension plans. In addition, the parent company and certain consolidated subsidiaries set the employee retirement benefit trust.

Pension benefit corporate pension plan and lump sum retirement benefit plan with certain subsidiaries calculated defined benefit liabilities and retirement benefit costs by the simplified method.

Also, certain overseas consolidated subsidiaries have defined benefit plans. Multi-employer welfare pension funds in which certain consolidated subsidiaries participated were dissolved during the year.

(a) Defined benefit plans (excluding plans applying the simplified method)

(1) Movements in retirement benefit obligations

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Beginning balance	¥11,786	¥12,516	\$111,076
Adjustment amounts in relation to the accounting policy changes	(188)	-	-
Service cost	447	486	4,313
Interest cost	130	102	905
Actuarial gains and losses	934	1,310	11,626
Benefits paid	(593)	(640)	(5,680)
Ending balance	¥12,516	¥13,774	\$122,240

(2) Movements in plan assets

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Beginning balance	¥13,212	¥14,791	\$131,266
Expected return on plan assets	462	518	4,597
Actuarial gains and losses	1,379	(902)	(8,005)
Contributions paid by the employer	331	257	2,281
Benefits paid	(593)	(640)	(5,680)
Ending balance	¥14,791	¥14,024	\$124,459

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liabilities (assets) in the consolidated balance sheets

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligations	¥12,516	¥13,774	\$122,240
Plan assets	(14,791)	(14,024)	(124,459)
Total net defined benefit liabilities (assets)	¥(2,275)	¥(250)	\$(2,219)
Net defined benefit liabilities	¥(2,275)	¥(250)	\$(2,219)
Total net defined benefit liabilities (assets)	¥(2,275)	¥(250)	\$(2,219)

(4) Retirement benefit costs

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥447	¥486	\$4,313
Interest cost	130	102	905
Expected return on plan assets	(462)	(518)	(4,597)
Amortization of actuarial gains and losses	641	315	2,796
Total retirement benefit costs	¥756	¥385	\$3,417

(5) Remeasurements of defined benefit plans (before tax)

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Actuarial gains and losses	¥1,086	¥(1,897)	\$(16,835)
Total	¥1,086	¥(1,897)	\$(16,835)

(6) Accumulated remeasurements of defined benefit plans (before tax)

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized actuarial gains and losses	¥2,316	¥4,213	\$37,389
Total	¥2,316	¥4,213	\$37,389

(7) Plan assets

1) Plan assets at March 31, 2015 and 2016 comprise the following :

	2015	2016
Life insurance company general accounts	23.4%	27.0%
Domestic bonds	11.1%	12.5%
Domestic equity securities	34.5%	31.6%
Foreign bonds	6.1%	7.2%
Foreign equity securities	9.6%	8.4%
Other assets	15.3%	13.3%
Total	100%	100%

Note: In the above plan assets, the percentage of the retirement benefit trust for the years ended March 31, 2015 and 2016 was 25.6% and 22.7%, respectively.

2) Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2015 and 2016 are as follows:

	2015	2016
Discount rate	0.8%	0.2%
Long-term expected rate of return	3.5%	3.5%
Assumed salary increase rate	2.6~3.4%	2.7~3.4%

(b) Defined benefit plans applying the simplified method

(1) Movements in defined benefit liabilities applying the simplified method

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Beginning balance	¥478	¥396	\$3,514
Retirement benefit costs	198	333	2,955
Benefits paid	(161)	(125)	(1,109)
Contributions paid by the employer	(121)	(186)	(1,650)
Foreign currency translation adjustments	2	(1)	(9)
Ending balance	¥396	¥417	\$3,701

(2) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liabilities (assets) applying the simplified method in the consolidated balance sheets

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligations	¥1,183	¥1,250	\$11,093
Plan assets	(1,080)	(1,134)	(10,064)
Unfunded retirement benefit obligations	293	301	2,672
Total net defined benefit liabilities (assets)	¥396	¥417	\$3,701
Net defined benefit liabilities	¥537	¥565	\$5,014
Net defined benefit assets	(141)	(148)	(1,313)
Total net defined benefit liabilities (assets)	¥396	¥417	\$3,701

(3) Retirement benefit cost calculated by the simplified method

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Retirement benefit cost	¥198	¥333	\$2,955

(c) Defined contribution plans

The amount of contributions to the defined contribution plans of the Company and its consolidated subsidiaries at March 31, 2015 and 2016 were ¥194million and ¥200 (US\$1,775 thousand), respectively.

11. Contingent Liabilities

At March 31, 2015 and 2016, the Companies were contingently liable for the following items:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Discounted and endorsed trade notes receivable	¥1,825	¥2,043	\$18,131
Guarantees of indebtedness of employees	5	5	44
	¥1,830	¥2,048	\$18,175

12. Land Revaluation

In accordance with the Law Concerning Revaluation of Land enacted on March 31, 1998 and the Law which

revises a part of Law Concerning Revaluation of Land enacted on March 31, 2001, land owned by the Company used for business was revalued, and the unrealized gain on the revaluation of land, net of deferred tax, was reported as "Variance of land revaluation" within net assets, and the relevant deferred tax was included in liabilities as "Deferred taxes related to land revaluation" at March 31, 2002.

The fair value of the land at March 31, 2015 and 2016 was lower than its carrying amount by ¥8,950 million and ¥8,933 million (US\$79,278 thousand), respectively.

13. Net Assets

The Japanese Corporate Law (the "Law") provides that amounts from capital surplus and retained earnings may be distributed to the shareholders at any time by resolution of the shareholders or by the Board of Directors if certain provisions are met subject to the extent of applicable sources of such distributions.

The Law further provides that amounts equal to 10% of such distributions be transferred to the capital reserve included in capital surplus or the legal reserve included in retained earnings based on the applicable sources of such distributions until the sum of the capital reserve and the legal reserve equals 25% of common stock.

Information regarding changes in net assets for the years ended March 31, 2015 and 2016 was as follows:

(a) Shares issued and treasury stock

For the year ended March 31, 2015

Types of shares	Number of shares at April 1, 2014	Increase	Decrease	Number of shares at March 31, 2015
<i>Thousands of shares</i>				
Share issued:				
Common stock	308,269	-	-	308,269
Treasury stock:				
Common stock	118	8	-	126

Note: Increase of 8 thousand shares in treasury stock is due to purchases of shares less than standard unit.

For the year ended March 31, 2016

Types of shares	Number of shares at April 1, 2015	Increase	Decrease	Number of shares at March 31, 2016
<i>Thousands of shares</i>				
Share issued:				
Common stock	308,269	-	-	308,269
Treasury stock:				
Common stock	126	7	-	133

Note: Increase of 7 thousand shares in treasury stock is due to purchases of shares less than standard unit.

(b) Dividends

There were no dividends paid to owners of the Company for the years ended March 31, 2015 and 2016.

14. Selling, General and Administrative Expenses

The breakdown of "Selling, General and Administrative Expenses" for the years ended March 31, 2015 and 2016 was as follows:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Shipping charges	¥1,354	¥1,345	\$11,936
Other selling expenses	603	448	3,977
Salaries and other allowances for employees	6,581	6,844	60,738
Retirement benefits expenses for employees	722	472	4,189
Retirement benefits expenses for directors and statutory auditors	26	28	248
Allowance for doubtful accounts	(144)	(47)	(417)
Depreciation and amortization cost	965	1,037	9,203
Other	6,818	6,651	59,026
	<u>¥16,925</u>	<u>¥16,778</u>	<u>\$148,900</u>

Research and development expensed included in "Selling, general and administrative expenses" and manufacture costs for the year ended March 31, 2015 and 2016 amounted to ¥993 million and ¥245 million, ¥830 million (US\$7,366 thousand) and ¥216 million (US\$1,917 thousand), respectively.

15. Impairment of Fixed Assets

For assessment of impairment of fixed assets, the Companies group idle assets and leased assets based on an individual asset, and other assets based on the categories used in the company's managerial accounting, where gain or loss is periodically monitored.

In relation to the leased assets, their market value has remarkably fallen against their carrying amount and the book value of the assets was reduced to the recoverable amount.

In relation to idle assets, since sale of the assets has been decided, or their market value has remarkably fallen against their carrying amount, the book value of the idle assets was reduced to the recoverable amount.

In relation to seismic isolation device manufacturing equipment, overhead transmission line manufacturing equipment, communication cable manufacturing equipment, electric power cable manufacturing equipment, wire harness manufacturing equipment, rubber coated wire manufacturing equipment and winding wire manufacturing equipment, the profitability from the business has been worsened and the book value of these assets was reduced to the recoverable amount.

The recoverable amounts are determined at their net selling prices based on the published land price as for leased assets and on the estimated selling prices or published land price for idle assets. For the communication cable manufacturing equipment, the recoverable amount is the value in use, which is equal to net future cash flow discounted at 2.34%. For the seismic isolation device manufacturing equipment, overhead transmission line manufacturing equipment, electric power cable manufacturing equipment, wire harness manufacturing equipment, rubber coated wire manufacturing equipment and winding wire manufacturing equipment, the recoverable amounts are the net selling prices, which are stated at the fair market value.

The amounts written down were recorded as losses on impairment of fixed assets. The breakdown of losses on impairment of fixed assets was as follows:

			2015	2016	2016
			(Millions of yen)	(Thousands of U.S. dollars)	
Buildings and structures			¥-	¥2,357	\$20,918
Machinery, equipment and vehicles			-	2,643	23,456
Tools, furniture and fixtures			-	95	843
Land			8	253	2,245
Lease assets			-	553	4,908
Other			-	95	843
			<u>¥8</u>	<u>¥5,996</u>	<u>\$53,213</u>

Location	Asset Group	Fixed Assets	2015	2016	2016
			(Millions of yen)	(Thousands of U.S. dollars)	
Hokkaido	Lease assets	Land	¥8	¥-	\$-
Kanagawa	Seismic isolation device manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, lease assets and others	-	1,650	14,644
	Overhead transmission line manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, lease assets and others	-	1,069	9,487
Miyagi	Communication cable manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, lease assets and others	-	1,040	9,230
Aichi	Electric power cable manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and lease assets	-	853	7,570
	Wire harness manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, land, tools, furniture and fixtures, lease assets and others	-	520	4,615
Kanagawa	Rubber coated wire manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and others	-	476	4,224
Tianjin China	Winding wire manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and lease assets	-	336	2,982
Aichi	Idle assets	Buildings and structures, land	-	52	461
	Total:		<u>¥8</u>	<u>¥5,996</u>	<u>\$53,213</u>

16. Income Taxes

Significant components of deferred taxes at March 31, 2015 and 2016 were as follows:

	2015	2016	2016
		(Millions of yen)	(Thousands of U.S. dollars)
Deferred tax assets:			
Loss carry-forwards	¥6,379	¥2,601	\$23,083
Unrealized gain on real estate	621	621	5,511
Accrued bonuses	485	464	4,118
Depreciation	944	2,655	23,562
Other	1,664	2,401	21,309
Subtotal deferred tax assets	10,093	8,742	77,583
Valuation allowance	(8,954)	(7,619)	(67,616)
Total deferred tax assets	1,139	1,123	9,967
Deferred tax liabilities:			
Net defined benefit asset	(46)	(46)	(408)
Unrealized holding gains on securities	(318)	(300)	(2,662)
Profit and loss adjustment of the connection corporation interval business	(157)	(149)	(1,322)
Other	(269)	(329)	(2,922)
Total deferred tax liabilities	(790)	(824)	(7,314)
Net deferred tax assets (liabilities):	¥349	¥299	\$2,653
Deferred tax assets related to land revaluation:	1,268	1,212	10,756
Valuation allowance	(1,268)	(1,212)	(10,756)
Total deferred tax assets related to land revaluation			
Deferred tax liabilities related to land revaluation:	(4,424)	(4,227)	(37,513)
Total deferred tax assets (liabilities) related to land revaluation	(4,424)	(4,227)	(37,513)
Net deferred tax liabilities related to land revaluation:	¥(4,424)	¥(4,227)	\$(37,513)

The “Act for Partial Revision of the Income Tax Act etc.” (Act. No. 15 of 2016) and “Act for Partial Revision of the Local Tax Act etc.” (Act. No.13 of 2016) were officially enacted in the Diet and, accordingly, the corporate tax applicable to the Company and its domestic subsidiaries will be decreased effective from April 1, 2016. Corresponding to this change, the statutory tax rates applied in calculating deferred income taxes are reduced from 33.1% to 30.9% for the years beginning April 1, 2016 and April 1, 2017. For the year on or after April 1, 2018, the statutory tax rate will be reduced to 30.6%.

As a result of this tax rate change, deferred tax liabilities decreased by ¥65 million (US\$577 thousand), and income tax-deferred decreased by ¥48 million (US\$426 thousand). The variance of investment securities revaluations increased by ¥16 million (US\$142 thousand). Meanwhile, deferred tax liabilities related to revaluation decreased by ¥197 million (US\$1,748 thousand), and the variance of land revaluation increased by ¥197 million (US\$1,748 thousand).

17. Financial Instruments

(a) Policy for financial instruments

According to the fund management policy of the Company, temporary surplus funds will be invested into the highly secured financial assets, and fund procurement is primarily made by bank loans. Derivative transactions are only used for hedging risk of the significant fluctuations in interest rates and foreign currency exchange rates, not for speculative purpose.

(b) Financial instruments and accompanying risks

Trade notes and accounts receivable are exposed to customer credit risk. Trade receivables in foreign currencies and foreign-currency loans among the Companies are exposed to exchange rate fluctuation risk, which is hedged through foreign currency forward exchange contracts. Investment securities are composed primarily of equity securities of customers and exposed to the market value fluctuation risk.

Trade notes and accounts payable normally have payment terms of less than one year. Although part of the above trade payables and foreign-currency borrowings are exposed to the risk of exchange rate fluctuation, they are constantly controlled within the amount of foreign-currency trade receivables. Long-term debts, which have maturity dates within seven years, are primarily utilized to secure financing for equipment. Borrowings which are based on variable interest rates are exposed to interest rate fluctuation risk. However, they are hedged through derivative transactions, i.e. interest rate swap agreements.

Derivative transactions consist mainly of foreign currency forward exchange contracts which are used for hedging the risk of exchange rate fluctuations in trade receivables and payables denominated in foreign currency, and interest rate swap contracts which are used for hedging the risk of interest rate fluctuations in borrowings. As hedging policy, appropriate hedge instruments shall be selected per risk category. Evaluation of hedge effectiveness is performed by comparing cumulative fluctuation of market value of hedged items or of cash flows with that of market value of hedging instruments or of cash flows.

(c) Risk management system associated with financial instruments

1) Credit risk management (Risk of default on payment by counterparts, etc.)

The Companies manage payment term and payment balance by customer in order to control and mitigate credit risks for financial difficulties in accordance with the Companies' credit management policy.

When dealing with the derivative transactions, the Companies only trade with highly rated financial institutions to minimize the counterparty's credit risks.

2) Market risk management (Risk of exchange rate and interest rate fluctuation, etc.)

The Company utilizes foreign currency forward exchange contracts to hedge the risk of exchange rate fluctuation. Depending on the situation of foreign currency exchange market, the Companies use foreign forward exchange contracts for trade receivables denominated in foreign currency. On the other hand, interest rate swap agreements are utilized to hedge the interest rate fluctuation risk associated with corporate bonds and borrowings.

The Company periodically reviews the fair values of financial instruments, such as marketable securities and investment securities, and the financial position of the issuers. Based on this information and relationship with the issuers, the Company evaluates whether the securities should be maintained or not.

Derivative transactions are performed and managed in accordance with the Companies' credit management policy.

3) Liquidity risk management on financing activities (Risk of inability to repay on due date)

The Company, as parent company, manages fund of the group companies. The finance department prepares and updates financing plans periodically based on the group companies' necessity and keeps a certain amount of cash in hand for the purpose of liquidity risk management.

(d) Other supplementary in the fair value of financial instruments

The fair values of financial instruments are determined at the markets prices or reasonable estimated fair values when the fair values are not available. The estimated fair values will fluctuate due to variety of factors and assumptions.

Information regarding non-marketable other securities, for which it is extremely difficult to determine the fair value at March 31, 2015 and 2016 is shown as follows:

	2015	2016	2016
	Carrying amounts		
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Stocks and investments in unlisted companies	¥4,615	¥4,155	\$36,874
	¥4,615	¥4,155	\$36,874

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2015 and 2016 are summarized as follows:

	2015			2016			2016		
	Carrying amounts	Fair Values	Differences	Carrying amounts	Fair Values	Differences	Carrying amounts	Fair Values	Differences
	(Millions of yen)			(Thousands of U.S. dollars)					
(1) Cash and time deposits	¥8,097	¥8,097	¥ -	¥6,410	¥6,410	¥ -	\$56,887	\$56,887	\$ -
(2) Trade notes and accounts receivable	45,526	-	-	42,345	-	-	375,799	-	-
Allowance for doubtful accounts	(51)	-	-	(15)	-	-	(133)	-	-
	45,475	45,472	(3)	42,330	42,326	(4)	375,666	375,630	(36)
(3) Investment securities and other securities	2,745	2,745	-	2,604	2,604	-	23,110	23,110	-
(4) Trade notes and accounts payable	(23,389)	(23,389)	-	(21,261)	(21,261)	-	(188,685)	(188,685)	-

(5) Short-term borrowings	(30,670)	(30,670)	-	(30,992)	(30,992)	-	(275,044)	(275,044)	-
(6) Long-term borrowings	(26,480)	(26,564)	84	(24,657)	(24,546)	(111)	(218,823)	(217,838)	(985)
(7) Derivative transactions									
(i) Hedge accounting not applicable	(0)	(0)	-	(10)	(10)	-	(89)	(89)	-
(ii) Hedge accounting applicable	-	-	-	1	1	-	9	9	-

Notes:

- (1) *Cash and time deposits*
The carrying amount approximates fair value due to the short maturity of these instruments.
- (2) *Trade notes and accounts receivable*
The fair value of trade notes and accounts receivable is based on the present value using appropriate current discount rate decided upon the recovery term and the credit risk.
- (3) *Investment securities and other securities*
The fair value of investment securities is based on quoted market price.
- (4) *Trade notes and accounts payable*
The fair value of trade notes and accounts payable is estimated based on the present value of future cash flows using appropriate current discount rate which is decided upon recovery term and credit risk too.
- (5) *Short-term borrowings*
The carrying amount approximates fair value due to the short maturity of these instruments. Long-term borrowings within one year are recorded in long-term borrowings.
- (6) *Long-term borrowings*
The fair value of corporate bonds and long-term borrowings are based on the current discounted interest rates which are borrowed with the same conditions. Corporate bonds and long-term borrowings with the maturity term within one year are involved.

Redemption schedules for cash and trade receivables after March 31, 2015 and 2016 are summarized as follows:

	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years
	(Millions of yen)			(Thousands of U.S. dollars)		
2015						
Cash and time deposits	¥8,097	¥-	¥-			
Trade notes and accounts receivable	43,460	2,066	-			
Total of the amounts	¥51,557	¥2,066	¥-			
2016						
Cash and time deposits	¥6,410	¥-	¥-	\$56,887	\$-	\$-
Trade notes and accounts receivable	40,685	1,660	-	361,067	14,732	-
Total of the amounts	¥47,095	¥1,660	¥-	\$417,954	\$14,732	\$-

Redemption schedules for trade payables, long-term borrowings after March 31, 2015 and 2016 are summarized as follows:

	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years
	(Millions of yen)			(Thousands of U.S. dollars)		
2015						
Trade notes and accounts payable	¥23,389	¥-	¥-			
Short-term borrowings	30,670	-	-			
Long-term borrowings	9,246	17,173	61			
Total of the amounts	¥63,305	¥17,173	¥61			
2016						
Trade notes and accounts payable	¥21,261	¥-	¥-	\$188,685	\$-	\$-
Short-term borrowings	30,992	-	-	275,044	-	-
Long-term borrowings	9,269	15,301	87	82,259	135,792	772
Total of the amounts	¥61,522	¥15,301	¥87	\$545,988	\$135,792	\$772

18. Derivatives

The following is a summary of the derivative contracts which do not meet the criteria for hedge accounting:
Currency-related Transactions

	2015			2016			2016		
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)
	<i>(Millions of yen)</i>						<i>(Thousands of U.S. dollars)</i>		
Forward foreign exchange contracts									
(Sell-USD)	¥217	¥1	¥1	¥145	¥10	¥10	\$1,287	\$ 89	\$89
(Sell-QAR)	321	(2)	(2)	-	-	-	-	-	-

Note: Fair value is based on the quoted market values provided by financial institutions.

The following is a summary of the derivative contracts which meet the criteria for hedge accounting:

(a) Currency-related Transactions

	2015			2016			2016		
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Recognized gain (loss)
	<i>(Millions of yen)</i>						<i>(Thousands of U.S. dollars)</i>		
Forward foreign exchange contracts									
(Buy-EUR)	¥-	¥-	¥-	¥38	¥(1)	¥(1)	\$337	\$(9)	\$(9)

Note: Fair value is based on the quoted market values provided by financial institutions.

(b) Interest-related Transactions

	2015			2016			2016		
	Contracted amount	Contracted amount over 1 year	Fair value	Contracted amount	Contracted amount over 1 year	Fair value	Contracted amount	Contracted amount over 1 year	Fair value
	<i>(Millions of yen)</i>						<i>(Thousands of U.S. dollars)</i>		
Interest rate swaps									
Pay/fixed and Receive/floating									
Long-term debt	¥13,005	¥8,875	¥-	¥13,965	¥9,436	¥-	\$123,935	\$83,742	\$-

Note: Fair value of the interest rate swaps transaction is included in the fair value of the long-term debts.

19. Per Share Information

Income (loss) and net assets per share for the years ended March 31, 2015 and 2016 were as follows:

	2015	2016	2016
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Income (loss) attributable to owner of the Company per share	¥ 0.74	¥(29.7)	\$(0.264)
Net assets per share	¥118.83	¥ 82.34	\$0.731

Income (loss) attributable to owner of the Company per share is calculated based on the income (loss) attributable to owner of the Company and the weighted average number of shares outstanding during each year. Net assets per share are calculated based on the net assets excluding the non-controlling interests and the number of shares outstanding at the year end.

The basis for calculation of basic net income per share was as follows:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Income (loss) attributable to owner of the Company	¥229	¥(9,151)	\$(81,212)
Income (loss) attributable to shares of common stock	¥229	¥(9,151)	\$(81,212)
	<i>(Thousands of shares)</i>		
Weighted average number of shares for basic net income	308,146	308,139	

20. Other Comprehensive Income

Reclassification adjustments and tax benefit included in other comprehensive income are shown as follows:

	2015	2016	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Net unrealized holding gains (losses) on other securities			
Increase (decrease) during the year	¥276	¥(133)	\$(1,180)
Reclassification adjustments	(499)	(11)	(98)
Subtotal before tax	(223)	(144)	(1,278)
Tax effect	101	17	150
Net unrealized holding gains (losses) on other securities	(122)	(127)	(1,128)
Deferred gains (losses) on hedges			
Increase (decrease) during the year	-	(1)	(9)
Net deferred gains (losses) on hedges	-	(1)	(9)
Variance of land revaluation			
Tax effect	452	197	1,748
Foreign currency translation adjustments			
Increase (decrease) during the year	422	(46)	(408)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	445	(2,212)	(19,631)
Reclassification adjustments	641	315	2,796
Subtotal before tax	1,086	(1,897)	(16,835)
Tax effect	705	22	195
Net remeasurements of defined benefit plans	1,791	(1,875)	(16,640)
Share of other comprehensive income of affiliates in equity method			
Increase (decrease) during the year	433	(244)	(2,165)
Total other comprehensive income	<u>¥2,976</u>	<u>¥(2,096)</u>	<u>\$(18,602)</u>

21. Segment Information

Business Segments

The businesses of the Companies are divided based on the similarity in products and service categories into five classifications whose financial information is separately available for the management to make decisions regarding management resources allocation and evaluate each business segment results regularly.

The Companies primarily operate in the following five reportable business segments:

(1) Electric Wire operations:

Bare conductors, rubber, plastic insulated wires, power distribution equipment, bus, overhead transmission line

(2) Power System operations:

Electric power cables, electric power appliance, power cable constructions

(3) Magnet Wire operations:

Magnet wires

(4) Communication System operations:

Optical fiber cables, communication cables, communication accessories, optical components, connector, communication cable construction, network solution system

(5) Device operations:

Wire harnesses, seismic isolation, vibration controlling and noise controlling devices, copier and printer device

Since EXSYM Corporation was merged with SWCC Showa Cable Systems Co., Ltd. on October 1, 2015, power distribution equipment, bus, overhead transmission line which were included in power system operations before have been transferred into electric wire operations from this fiscal year. Under the new business segments, the business segment information for the year ended March 31, 2015 has also been changed.

The business segment "Others" which is not stated as reportable business segment, includes the businesses of superconducting wires, logistics and other operations.

Reportable segment income (loss) is evaluated based on operating income or loss. The intersegment sales and transfers between segments are made at arm's length prices.

The business segment information for the Companies for the year ended March 31, 2015 is summarized as follows:

2015	Reportable Business Segments					Others	Total	Adjustments	Consolidated
Segment Information	Electric Wire	Power System	Magnet Wire	Communication System	Device				
(Millions of yen)									
Net sales									
Outside customers	¥86,772	¥23,596	¥22,708	¥21,640	¥25,006	¥1,972	¥181,694	¥-	¥181,694
Inter segment	21,596	183	686	978	183	10,406	34,032	(34,032)	-
Total	¥108,368	¥23,779	¥23,394	¥22,618	¥25,189	¥12,378	¥215,726	¥(34,032)	¥181,694
Segment income (loss)	¥1,075	¥(881)	¥(48)	¥457	¥990	¥(344)	¥1,249	¥(12)	¥1,237
Segment assets	¥49,465	¥29,590	¥14,143	¥18,305	¥16,163	¥10,922	¥138,588	¥(565)	¥138,023
Depreciation	741	455	359	536	667	851	3,608	(119)	3,490
Investments in equity									
method affiliates	2,894	991	-	-	-	120	4,006	-	4,006
Increase in fix assets	1,382	562	705	616	629	1,172	5,066	(68)	4,998

Notes:

- (1) Segment income (loss) included in Adjustments of ¥12 million, mainly consisted of unrealized gain of ¥18 million.
- (2) Segment assets included in Adjustments amounted to ¥565 million, mainly consisted of the common assets not allocated to any segment of ¥11,464 million, elimination of inter-segment transactions of ¥9,875 million and unrealized gain of ¥2,153 million. The common assets not allocated to any segment mainly consisted of cash, time deposits and investment securities.
- (3) Depreciation in Adjustments corresponds to unrealized gain.
- (4) Increase in fixed assets in Adjustments corresponds to unrealized gain.
- (5) Segment income (loss) corresponds to consolidated operating income.

The business segment information for the Companies for the year ended March 31, 2016 is summarized as follows:

2016	Reportable Business Segments					Others	Total	Adjustments	Consolidated
Segment Information	Electric Wire	Power System	Magnet Wire	Communication System	Device				
(Millions of yen)									
Net sales									
Outside customers	¥80,053	¥22,778	¥21,959	¥21,713	¥21,224	¥1,986	¥169,713	¥-	¥169,713
Inter segment	18,030	140	1,266	936	276	10,119	30,767	(30,767)	-
Total	¥98,083	¥22,918	¥23,225	¥22,649	¥21,500	¥12,105	¥200,480	¥(30,767)	¥169,713
Segment income (loss)	¥1,057	¥(472)	¥15	¥751	¥(68)	¥(432)	¥851	¥100	¥951
Segment assets	¥46,964	¥23,982	¥12,903	¥17,052	¥12,433	¥10,962	¥124,296	¥(1,227)	¥123,069
Depreciation	747	431	449	565	671	954	3,817	(117)	3,700
Investments in equity									
method affiliates	2,458	985	-	-	-	105	3,548	-	3,548
Increase in fix assets	865	326	357	524	499	1,505	4,076	(93)	3,983

2016	Reportable Business Segments					Others	Total	Adjustments	Consolidated
Segment Information	Electric Wire	Power System	Magnet Wire	Communication System	Device				
(Thousands of U.S. dollars)									
Net sales									
Outside customers	\$710,446	\$202,148	\$194,879	\$192,696	\$188,356	\$17,625	\$1,506,150	\$-	\$1,506,150
Inter segment	160,011	1,242	11,235	8,307	2,449	89,804	273,048	(273,048)	-
Total	\$870,457	\$203,390	\$206,114	\$201,003	\$190,805	\$107,429	\$1,779,198	\$(273,048)	\$1,506,150
Segment income (loss)	\$9,381	\$(4,189)	\$133	\$6,665	\$(603)	\$(3,835)	\$7,552	\$889	\$8,441
Segment assets	\$416,791	\$212,833	\$114,510	\$151,331	\$110,339	\$97,284	\$1,103,088	\$(10,889)	\$1,092,199
Depreciation	6,629	3,825	3,985	5,014	5,955	8,466	33,874	(1,038)	32,836
Investments in equity									
method affiliates	21,814	8,742	-	-	-	931	31,487	-	31,487
Increase in fix assets	7,677	2,893	3,168	4,650	4,428	13,357	36,173	(825)	35,348

Notes:

- (1) Segment income (loss) included in Adjustments of ¥99 million (US\$879 thousand), mainly consisted of unrealized gain of ¥82 million (US\$728 thousand).
- (2) Segment assets included in Adjustments amounted to ¥1,227 million (US\$10,889 thousand), mainly consisted of the common assets not allocated to any segment of ¥9,471 million (US\$84,052 thousand), elimination of inter-segment transactions of

- ¥8,555 million (US\$75,923 thousand) and unrealized gain of ¥2,143 million (US\$19,018 thousand). The common assets not allocated to any segment mainly consisted of cash, time deposits and investment securities.
- (3) Depreciation in Adjustments corresponds to unrealized gain.
- (4) Increase in fixed assets in Adjustments corresponds to unrealized gain.
- (5) Segment income (loss) corresponds to consolidated operating income.

The consolidated company of SWCC Showa Cable Systems Co., Ltd. additionally increased capital of affiliated company accounted for by the equity-method of FuTong-Showa Electric Wire & Cable (HangZhou) Co., Ltd for the year ended March 31, 2016. As a result of this acquisition, gain on bargain purchase of ¥31 million was recognized.

Geographical Segments

Geographical segment sales for the years ended March 31, 2015 and 2016 are summarized as follows:

Year ended March 31, 2015	Japan	Asia	Other	Total
<i>(Millions of yen)</i>				
Sales	¥157,390	¥23,960	¥344	¥181,694

Year ended March 31, 2016	Japan	Asia	Other	Total
<i>(Millions of yen)</i>				
Sales	¥150,729	¥18,700	¥284	¥169,713

Year ended March 31, 2016	Japan	Asia	Other	Total
<i>(Thousands of U.S. dollars)</i>				
Sales	\$1,337,673	\$165,957	\$2,520	\$1,506,150

Note: Countries and area are segmented based on the customers' geographical locations.

Major Customer Information

2015		
Major customer	Sales <i>(Millions of yen)</i>	Segments
SENSHU ELECTRIC CO.,LTD.	¥23,766	Electric Wire and Communication System

2016		
Major customer	Sales <i>(Millions of yen)</i>	Segments
SENSHU ELECTRIC CO.,LTD.	¥17,254	Electric Wire and Communication System

2016		
Major customer	Sales <i>(Thousands of U.S. dollars)</i>	Segments
SENSHU ELECTRIC CO.,LTD.	\$153,124	Electric Wire and Communication System

Segment information on impairment losses on fixed assets for the years ended March 31, 2015 and 2016 are summarized as follows:

Year ended March 31, 2015	Reportable Business Segments					Others	Eliminations	Total
	Electric Wire	Power System	Magnet Wire	Communication System	Device			
<i>(Millions of yen)</i>								
Impairment losses of fixed assets	-	-	-	-	-	¥8	-	¥8

Year ended March 31, 2016	Reportable Business Segments					Others	Eliminations	Total
	Electric Wire	Power System	Magnet Wire	Communication System	Device			
<i>(Millions of yen)</i>								
Impairment losses of fixed assets	¥1,545	¥854	¥336	¥1,040	¥2,186	¥52	¥(17)	¥5,996

Year ended March 31, 2016	Reportable Business Segments					Others	Eliminations	Total
	Electric Wire	Power System	Magnet Wire	Communication System	Device			
<i>(Thousands of U.S. dollars)</i>								
Impairment losses of fixed assets	\$13,711	\$7,579	\$2,982	\$9,230	\$19,400	\$461	\$(150)	\$53,213

Note: Impairment losses of fixed assets in other segment is related to the idled assets which are owned by the company engaged in administrative management business.

22. Corporate Combination

Transactions under common control

(1) Overview of transactions

(i) Name and description of business involved in combination

Name of merging company: SWCC Showa Cable Systems Co., Ltd.

Description of business: Manufacture and sales of electric wires, cables, optical fiber cables

Name of merged company: EXSYM Corporation

Description of business: Manufacture and sales of electric wires, cables

(ii) Date of corporate combination

October 1, 2015

(iii) Legal form of corporate combination

Absorption-type company merger in which SWCC Showa Cable Systems Co., Ltd. becomes a succeeding company and EXSYM Corporation becomes a merged company.

(iv) Name of company after combination

SWCC Showa Cable Systems Co., Ltd.

(v) Others

Under the severe business environment due to electric power company's reduce of investment in plant and equipment, in order to respond to the market changes, such as liberalization of retail electricity sales, separation of electrical power production from power distribution and transmission, redevelopment of Tokyo region, electric infrastructure demand increases in Asian area and etc., in a timely manner, this business combination is intended to realize the conversion to becoming an effective organization.

(2) Outline of accounting treatment applied

The transaction was treated as transaction under common control in accordance with the "Accounting Standard for Corporate Combination" (ASBJ Statement No. 21 issued on September 13, 2013) and "Guidance on Accounting Standard for Corporate Combination and Business Divestitures" (ASBJ Guidance No. 10 issued on September 13, 2013).



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Independent Auditor's Report

The Board of Directors
SWCC SHOWA HOLDINGS CO., LTD.

We have audited the accompanying consolidated financial statements of SWCC SHOWA HOLDINGS CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016 and the consolidated statements of operations, 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 SWCC SHOWA HOLDINGS CO., LTD. and its consolidated subsidiaries as at March 31, 2016 and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 24, 2016
Tokyo, Japan