

***Consolidated Financial Statements  
for the year ended March 31, 2018***

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

**CONSOLIDATED BALANCE SHEET**

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

At March 31

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 3)</i>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits <i>(Notes 4 and 16)</i>	¥5,321	¥4,682	\$44,070
Trade notes and accounts receivable <i>(Note 16)</i>	41,453	39,730	373,965
Inventories <i>(Note 5)</i>	19,117	21,899	206,128
Deferred tax assets <i>(Note 15)</i>	753	1,404	13,215
Other	3,220	4,637	43,646
Allowance for doubtful accounts	(10)	(12)	(113)
<b>Total current assets</b>	<u>69,854</u>	<u>72,340</u>	<u>680,911</u>
<b>Property, plant and equipment:</b>			
Buildings and structures <i>(Notes 7 and 14)</i>	37,850	38,230	359,846
Machinery, equipment and tools <i>(Notes 7 and 14)</i>	70,196	70,966	667,978
Land <i>(Notes 7, 11 and 14)</i>	23,604	23,604	222,176
Other	1,588	1,514	14,251
Accumulated depreciation	(94,285)	(94,750)	(891,849)
<b>Total property, plant and equipment</b>	<u>38,953</u>	<u>39,564</u>	<u>372,402</u>
<b>Intangible assets</b>			
Other	1,638	1,500	14,119
<b>Total intangible assets</b>	<u>1,638</u>	<u>1,500</u>	<u>14,119</u>
<b>Investments and other assets:</b>			
Investment securities <i>(Notes 6, 7 and 16)</i>	6,207	5,441	51,214
Deferred tax assets <i>(Note 15)</i>	54	40	377
Other	1,201	1,493	14,053
Net defined benefit asset <i>(Note 9)</i>	1,773	3,657	34,422
Allowance for doubtful accounts	(151)	(141)	(1,327)
<b>Total investments and other assets</b>	<u>9,084</u>	<u>10,490</u>	<u>98,739</u>
<b>Total assets</b>	<u>¥119,529</u>	<u>¥123,894</u>	<u>\$1,166,171</u>

See Accompanying Notes to Consolidated Financial Statements.

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 3)</i>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term debt <i>(Notes 7 and 16)</i>	¥35,821	¥34,879	\$328,304
Trade notes and accounts payable <i>(Note 16)</i>	20,895	21,931	206,429
Accrued income taxes	365	615	5,789
Provision for loss on construction contracts	93	58	546
Provision for business structure improvement expenses	10	7	66
Provision for product repair costs	-	600	5,648
Other accounts payable	7,982	8,101	76,252
Other	3,869	3,767	35,456
<b>Total current liabilities</b>	<u>69,035</u>	<u>69,958</u>	<u>658,490</u>
<b>Long-term liabilities:</b>			
Long-term debt <i>(Notes 7 and 16)</i>	15,598	14,115	132,860
Net defined benefit liability <i>(Note 9)</i>	622	626	5,892
Accrued retirement benefits for directors and statutory auditors	116	128	1,205
Deferred tax liabilities <i>(Note 15)</i>	247	376	3,539
Deferred tax liabilities related to land revaluation <i>(Notes 11 and 15)</i>	4,227	4,188	39,420
Other	1,028	1,025	9,648
<b>Total long-term liabilities</b>	<u>21,838</u>	<u>20,458</u>	<u>192,564</u>
<b>Total liabilities</b>	<u>90,873</u>	<u>90,416</u>	<u>851,054</u>
<b>Contingent liabilities <i>(Note 10)</i></b>			
<b>Net assets:</b>			
<b>Shareholders' equity:</b>			
Common stock:			
Authorized - 70,000,000 shares			
Issued - 30,826,861 shares <i>(Note 12)</i>	24,222	24,222	227,993
Capital surplus <i>(Note 12)</i>	5,537	5,537	52,118
Retained earnings <i>(Note 12)</i>	(7,192)	(3,455)	(32,521)
Treasury stock <i>(Note 12)</i>	(16)	(916)	(8,621)
<b>Total shareholders' equity</b>	<u>22,551</u>	<u>25,388</u>	<u>238,969</u>
<b>Accumulated other comprehensive income:</b>			
Unrealized holding gains on other securities	743	788	7,417
Variance of land revaluation <i>(Note 11)</i>	5,543	5,582	52,541
Foreign currency translation adjustments	1,617	1,681	15,823
Remeasurements of defined benefit plans	(2,302)	(581)	(5,469)
<b>Total accumulated other comprehensive income</b>	<u>5,601</u>	<u>7,470</u>	<u>70,312</u>
<b>Non-controlling interests</b>	<u>504</u>	<u>620</u>	<u>5,836</u>
<b>Total net assets</b>	<u>28,656</u>	<u>33,478</u>	<u>315,117</u>
<b>Total liabilities and net assets</b>	<u>¥119,529</u>	<u>¥123,894</u>	<u>\$1,166,171</u>

See Accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF OPERATIONS

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

For the year ended March 31

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 3)</i>
<b>Net sales</b>	¥155,233	¥168,187	\$1,583,086
<b>Cost of sales (Notes 5 and 13)</b>	135,133	146,540	1,379,330
Gross profit	<u>20,100</u>	<u>21,647</u>	<u>203,756</u>
<b>Selling, general and administrative expenses (Note 13)</b>	15,865	15,371	144,682
Operating income	<u>4,235</u>	<u>6,276</u>	<u>59,074</u>
<b>Other income (expenses):</b>			
Interest income	42	77	725
Dividend income	55	81	762
Interest expense	(852)	(842)	(7,925)
Foreign exchange gain (loss)	(203)	37	348
Equity in losses of affiliates	(84)	(415)	(3,906)
Gain on sales of investment securities (Note 6)	258	14	132
Loss on sales of investment securities (Note 6)	-	(8)	(75)
Loss on impairment of fixed assets (Note 14)	(322)	-	-
Provision for product repair costs	-	(809)	(7,615)
Other, net	(727)	(321)	(3,022)
	<u>(1,833)</u>	<u>(2,186)</u>	<u>(20,576)</u>
Income before income taxes and non-controlling interests	<u>2,402</u>	<u>4,090</u>	<u>38,498</u>
<b>Income taxes (Note 15)</b>			
Current	535	730	6,871
Deferred	(270)	(491)	(4,621)
	<u>265</u>	<u>239</u>	<u>2,250</u>
<b>Income</b>	<u>2,137</u>	<u>3,851</u>	<u>36,248</u>
<b>Income attributable to non-controlling interests</b>	<u>161</u>	<u>114</u>	<u>1,073</u>
<b>Income attributable to owners of the Company</b>	<u>¥1,976</u>	<u>¥3,737</u>	<u>\$35,175</u>

See Accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

For the year ended March 31

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
<b>Income</b>	¥2,137	¥3,851	\$36,248
<b>Other comprehensive income (Note 19)</b>			
Unrealized holding gains on other securities	177	45	424
Deferred gains on hedges	1	-	-
Variance of land revaluation	-	38	358
Foreign currency translation adjustments	(225)	(29)	(273)
Remeasurements of defined benefit plans	1,184	1,722	16,209
Share of other comprehensive income of affiliates in equity method	(335)	95	894
<b>Total other comprehensive income</b>	<u>802</u>	<u>1,871</u>	<u>17,612</u>
<b>Comprehensive income</b>	<u>¥2,939</u>	<u>¥5,722</u>	<u>\$53,860</u>
<b>Comprehensive income attributable to</b>			
Owners of the Company	¥2,781	¥5,607	\$52,778
Non-controlling interests	158	115	1,082

*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						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	Total accumulated other comprehensive income		
Balance at April 1, 2016	¥24,222	¥5,537	¥(9,168)	¥(16)	¥20,575	¥567	¥(1)	¥5,543	¥2,173	¥(3,486)	¥4,796	¥353	¥25,724
Income (loss) attributable to owners of the Company for the year			1,976		1,976								1,976
Purchase of treasury stock				(0)	(0)								(0)
Changes other than shareholder's equity						176	1	-	(556)	1,184	805	151	956
Balance at March 31, 2017	¥24,222	¥5,537	¥(7,192)	¥(16)	¥22,551	¥743	¥-	¥5,543	¥1,617	¥(2,302)	¥5,601	¥504	¥28,656

(Millions of yen)

	Shareholders' equity					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	Total accumulated other comprehensive income		
Balance at April 1, 2017	¥24,222	¥5,537	¥(7,192)	¥(16)	¥22,551	¥743	¥-	¥5,543	¥1,617	¥(2,302)	¥5,601	¥504	¥28,656
Income (loss) attributable to owners of the Company for the year			3,737		3,737								3,737
Purchase of treasury stock				(900)	(900)								(900)
Disposal of treasury stock		0		0	0								0
Changes other than shareholder's equity						45	-	39	64	1,721	1,869	116	1,985
Balance at March 31, 2018	¥24,222	¥5,537	¥(3,455)	¥(916)	¥25,388	¥788	¥-	¥5,582	¥1,681	¥(581)	¥7,470	¥620	¥33,478

(Thousands of U.S. dollars) (Note 3)

	Shareholders' equity					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	Total accumulated other comprehensive income		
Balance at April 1, 2017	\$227,993	\$52,118	\$(67,696)	\$(151)	\$212,264	\$6,994	\$-	\$52,174	\$15,220	\$(21,668)	\$52,720	\$4,744	\$269,728
Income (loss) attributable to owners of the Company for the year			35,175		35,175								35,175
Purchase of treasury stock				(8,470)	(8,470)								(8,470)
Disposal of treasury stock		0		0	0								0
Changes other than shareholder's equity						423	-	367	603	16,199	17,592	1,092	18,684
Balance at March 31, 2018	\$227,993	\$52,118	\$(32,521)	\$(8,621)	\$238,969	\$7,417	\$-	\$52,541	\$15,823	\$(5,469)	\$70,312	\$5,836	\$315,117

See Accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

SWCC SHOWA HOLDINGS CO., LTD. and Consolidated Subsidiaries

For the year ended March 31

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 3)
<b>Cash flows from operating activities:</b>			
Income before income taxes and non-controlling interests	¥2,402	¥4,090	\$38,498
Depreciation and amortization	2,929	2,877	27,080
Loss on impairment of fixed assets	322	-	-
Gain on sales of investment securities	(258)	(6)	(56)
Increase (decrease) in allowance for doubtful accounts	(6)	(8)	(75)
Increase (decrease) in reserve for construction loss	(69)	(34)	(320)
Increase (decrease) in provision for product repair costs	-	600	5,648
Increase (decrease) in provision for net defined benefit liability	56	4	38
Interest and dividend income	(97)	(158)	(1,487)
Interest expenses	852	842	7,925
Foreign exchange (gain) loss	15	(269)	(2,532)
Equity in losses (gain) of affiliates	84	415	3,906
(Increase) decrease in trade notes and accounts receivable	892	1,723	16,218
(Increase) decrease in inventories	1,979	(2,782)	(26,186)
Increase (decrease) in trade notes and accounts payable	(343)	998	9,394
(Increase) decrease in other current assets	131	(48)	(452)
Increase (decrease) in other current liabilities	94	678	6,382
Other	(3)	(981)	(9,234)
Sub-total	8,980	7,941	74,747
Interest and dividends received	125	175	1,647
Interest paid	(854)	(845)	(7,954)
Business structure improvement expenses paid	(30)	(3)	(28)
Income taxes paid	(379)	(463)	(4,359)
Net cash provided by (used in) operating activities	7,842	6,805	64,053
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(9)	(14)	(132)
Proceeds from sales of investment securities	525	487	4,584
Purchases of property, plant and equipment	(2,730)	(2,751)	(25,894)
Proceeds from sales of property, plant and equipment	179	29	273
Purchases of intangible assets	(285)	(303)	(2,852)
(Increase) decrease in short-term loans receivable	30	(1,561)	(14,693)
Payments for execution of assets retirement obligations	(24)	(4)	(38)
Other	95	66	621
Net cash provided by (used in) investing activities	(2,219)	(4,051)	(38,131)

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 3)</i>
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term bank borrowings	(3,736)	(268)	(2,523)
Proceeds from long-term debt	7,500	7,000	65,889
Repayment of long-term debt	(9,615)	(8,550)	(80,478)
Cash dividends paid to non-controlling interests	(8)	-	-
Purchase of treasury stocks	-	(903)	(8,500)
Other	(648)	(575)	(5,412)
Net cash provided by (used in) financing activities	<u>(6,507)</u>	<u>(3,296)</u>	<u>(31,024)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(205)</u>	<u>(47)</u>	<u>(442)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(1,089)</u>	<u>(589)</u>	<u>(5,544)</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>6,282</u>	<u>5,193</u>	<u>48,880</u>
<b>Cash and cash equivalents at end of year (Note 4)</b>	<u>¥5,193</u>	<u>¥4,604</u>	<u>\$43,336</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 is 21 at March 31, 2018, which are listed as follows:

Name	Percentage of equity ownership	Paid-in capital
		(Millions)
SWCC Showa Cable Systems Co., Ltd.	100.0 %	¥10,000
Unimac Ltd.	55.0	480
Fuji Electric Cable Co., Ltd.	100.0	318
AXIO Corporation	100.0	310
Daiji 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
Shoukou Equipment Industry Co., Ltd.	100.0	80
Tamagawa Magnet Wire Co., Ltd.	100.0	46
Showa Science Co., Ltd.	70.0	40
Showa Recycle Co., Ltd.	100.0	20
Showa Technical Corporation	100.0	20
Tianjin Showa Enamelled Wire Co., Ltd.	54.8	US\$17.0
SWCC Showa (H.K.) Co., Ltd.	100.0	HK\$84.3
SWCC Showa (ShangHai) Co., Ltd.	100.0	US\$9.9
SWCC Showa (VIETNAM) Co., Ltd.	100.0	US\$7.0
Dongguan Showa Interconnect Products Co., Ltd.	100.0	US\$1.7
Fuqing Showa Precision Electronics Co., Ltd.	100.0	US\$3.4
Jiaxing Showa Interconnect Products Co., Ltd.	95.2	US\$3.2
SWCC Daiji Vietnam Interconnect Products Co., Ltd.	100.0	US\$2.0

The number of affiliates, in which investments are accounted for by the equity method, is 4 at March 31, 2018, which are listed as follows:

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

From the year ended March 31, 2018, SWCC Showa Device Technologies Co., Ltd. and SWCC Showa Business Solutions Co., Ltd. have been excluded from the scope of the consolidated subsidiaries since they were merged into SWCC Showa Cable Systems Co., Ltd. on April 1, 2017.

From the year ended March 31, 2018, SWCC Daiji Vietnam Interconnect Products Co., Ltd. has been included in the scope of the consolidated subsidiaries since it was newly founded.

***(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	7 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.

***(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***

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.

***(3) Application of simplified method in small business***

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

***(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 provided based on an estimate of business structure improvement expenses.

***(n) Provision for Product Repair Costs***

Provision for product repair costs is provided based on reasonably estimated costs of product repairment to be requested by customers due to quality issues of the Companies' products.

***(o) 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.

***(p) 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 deducted 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.

#### **(q) Consumption Taxes**

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

#### **(r) 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.

#### **(s) Accounting standards issued but not yet effective**

##### **1. Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28 revised on February 16, 2018)**

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26 revised on February 16, 2018)

##### **(1) Overview**

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment in entities qualified as Category 1 related to the recoverability of deferred tax assets was clarified.

##### **(2) Schedule date of adoption**

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

##### **(3) Impact of adoption of implementation guidance**

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

##### **2. Accounting Standard for Revenue Recognition (ASBJ Statement No.29 issued on March 30, 2018)**

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 issued on March 30, 2018)

##### **(1) Overview**

This is a comprehensive accounting standard for revenue recognition, which provides the following five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction value
4. Allocate the transaction value to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligations

##### **(2) Schedule date of adoption**

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

##### **(3) Impact of adoption of accounting standard and implementation guidance**

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

### **3. 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 ¥106.24= US\$1.00 prevailing on March 31, 2018. 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.

### **4. Cash and Time Deposits**

Information regarding cash and time deposits at March 31, 2017 and 2018 was as follows:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and time deposits due within 3 months	¥5,193	¥4,604	\$43,336
Time deposits due over 3 months	128	78	734
Total	¥5,321	¥4,682	\$44,070

## 5. Inventories

The breakdown of Inventories at March 31, 2017 and 2018 was as follows:

	2017		2018	
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>	
Merchandise and finished goods	¥8,333	¥10,060	\$94,691	
Work in process	6,274	7,148	67,282	
Raw materials and supplies	4,510	4,691	44,155	
	¥19,117	¥21,899	\$206,128	

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, 2017 and 2018 in the amounts of ¥(173) million and ¥54 million (US\$508 thousand), respectively.

## 6. Investment Securities

(a) Information regarding marketable other securities at March 31, 2017 and 2018 was as follows:

	2017			2018			2018		
	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	¥728	¥1,929	¥1,201	¥800	¥1,948	¥1,148	\$7,530	\$18,336	\$10,806
Securities whose acquisition cost exceeds their carrying value:									
Stocks	756	642	(114)	216	201	(15)	2,033	1,892	(141)
Total	¥1,484	¥2,571	¥1,087	¥1,016	¥2,149	¥1,133	\$9,563	\$20,228	\$10,665

(b) Sales of other securities

Information regarding other securities which have been sold out by March 31, 2017 and 2018 was as follows:

	2017			2018			2018		
	Amount of the sale	Income of the sale	Loss of the sale	Amount of the sale	Income of the sale	Loss of the sale	Amount of the sale	Income of the sale	Loss of the sale
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>					
Stock	¥525	¥258	¥-	¥487	¥14	¥(8)	\$4,584	\$132	\$(75)

## 7. 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, 2018 were 1.894% and 1.477%, respectively.

Short-term borrowings and long-term borrowings at March 31, 2017 and 2018 consisted of the following:

	2017		2018	
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>	
<b>Short-term borrowings</b>				
Unsecured	¥8,431	¥7,530	\$70,877	
Secured	18,836	19,100	179,782	
	¥27,267	¥26,630	\$250,659	
<b>Long-term borrowings</b>				
Unsecured	¥13,897	¥13,792	\$129,819	
Secured	8,645	7,200	67,771	
	¥22,542	¥20,992	\$197,590	

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

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loans principally from banks and insurance companies due serially to 2024 and predominantly collateralized, with a weighted average interest of 1.404%	¥22,542	¥20,992	\$197,590
Finance lease obligations due 2026	1,610	1,373	12,924
Less: portion due within one year	(8,554)	(8,250)	(77,654)
	<u>¥15,598</u>	<u>¥14,115</u>	<u>\$132,860</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2018 were as follows:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2019	¥6,271	\$59,027
2020	4,062	38,234
2021	2,620	24,661
2022 and thereafter	1,162	10,938
	<u>¥14,115</u>	<u>\$132,860</u>

At March 31, 2017 and 2018, the following assets were pledged as collateral for certain of the above debts:

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Investment securities	¥1,042	¥277	\$2,607
Property, plant and equipment, at net book value:			
Buildings and structures	3,995	3,746	35,260
Machinery, equipment and tools	867	581	5,469
Land	18,180	18,180	171,122
Other	86	39	367
	<u>¥24,170</u>	<u>¥22,823</u>	<u>\$214,825</u>

## 8. Leases

The future minimum payment for operating leases subsequent to March 31, 2017 and 2018 are summarized as follows:

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within one year	¥62	¥61	\$574
Over one year	465	408	3,841
Total	<u>¥527</u>	<u>¥469</u>	<u>\$4,415</u>

## 9. Retirement Benefits for Employees

Parent company and domestic consolidated subsidiaries are providing 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.

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

**(a) Defined benefit plans (excluding plans applying the simplified method)****(1) Movements in retirement benefit obligations**

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Beginning balance	¥13,774	¥13,522	\$127,278
Service cost	537	507	4,772
Interest cost	28	42	395
Actuarial gains and losses	(208)	283	2,664
Benefits paid	(609)	(577)	(5,431)
Ending balance	¥13,522	¥13,777	\$129,678

**(2) Movements in plan assets**

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Beginning balance	¥14,024	¥15,126	\$142,376
Expected return on plan assets	491	530	4,989
Actuarial gains and losses	605	1,551	14,599
Contributions paid by the employer	615	602	5,666
Benefits paid	(609)	(577)	(5,431)
Ending balance	¥15,126	¥17,232	\$162,199

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

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligations	¥13,522	¥13,777	\$129,678
Plan assets	(15,126)	(17,232)	(162,199)
Total net defined benefit liabilities (assets)	¥ (1,604)	¥ (3,455)	\$(32,521)
Net defined benefit liabilities	¥ (1,604)	¥ (3,455)	\$(32,521)
Total net defined benefit liabilities (assets)	¥ (1,604)	¥ (3,455)	\$(32,521)

**(4) Retirement benefit costs**

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥537	¥507	\$4,772
Interest cost	28	42	395
Expected return on plan assets	(491)	(530)	(4,989)
Amortization of actuarial gains and losses	324	426	4,010
Total retirement benefit costs	¥398	¥445	\$4,188

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

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Actuarial gains and losses	¥1,136	¥1,694	\$15,945
Total	¥1,136	¥1,694	\$15,945

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

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized actuarial gains and losses	¥3,076	¥1,383	\$13,018
Total	¥3,076	¥1,383	\$13,018

(7) Plan assets

1) Plan assets at March 31, 2017 and 2018 comprise the following :

	2017	2018
Life insurance company general accounts	27.4%	26.0%
Domestic bonds	9.7%	8.6%
Domestic equity securities	35.9%	40.6%
Foreign bonds	6.7%	6.6%
Foreign equity securities	9.0%	7.8%
Other assets	11.3%	10.4%
Total	100.0%	100.0%

Note: In the above plan assets, the percentage of the retirement benefit trust for the years ended March 31, 2017 and 2018 was 26.6% and 32.9%, 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, 2017 and 2018 are as follows:

	2017	2018
Discount rate	0.3%	0.2%
Long-term expected rate of return	3.5%	3.5%
Assumed salary increase rate	2.6~3.3%	2.6~3.5%

(b) Defined benefit plans applying the simplified method

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

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Beginning balance	¥417	¥453	\$4,264
Retirement benefit costs	241	183	1,723
Benefits paid	(108)	(80)	(753)
Contributions paid by the employer	(95)	(133)	(1,252)
Foreign currency translation adjustments	(2)	-	-
Ending balance	¥453	¥423	\$3,982

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

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Funded retirement benefit obligations	¥1,340	¥1,421	\$13,376
Plan assets	(1,197)	(1,328)	(12,500)
Unfunded retirement benefit obligations	309	330	3,106
Total net defined benefit liabilities (assets)	¥453	¥423	\$3,982
Net defined benefit liabilities	¥622	¥626	\$5,893
Net defined benefit assets	(168)	(203)	(1,911)
Total net defined benefit liabilities (assets)	¥453	¥423	\$3,982

(3) Retirement benefit cost calculated by the simplified method

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit cost	¥241	¥183	\$1,723

(c) Defined contribution plans

The amount of contributions to the defined contribution plans of the Company and its consolidated subsidiaries at March 31, 2017 and 2018 were ¥221million and ¥228million (US\$2,146 thousand), respectively.



## 10. Contingent Liabilities

At March 31, 2017 and 2018, the Companies were contingently liable for the following items:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Discounted and endorsed trade notes receivable	¥1,961	¥2,710	\$25,509
Guarantees of indebtedness of employees	3	1	9
	¥1,964	¥2,711	\$25,518

## 11. 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, 2017 and 2018 was lower than its carrying amount by ¥8,807 million and ¥8,857 million (US\$83,368 thousand), respectively.

## 12. 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, 2017 and 2018 was as follows:

### (a) Shares issued and treasury stock

For the year ended March 31, 2017

Types of shares	Number of shares at April 1, 2016	Increase	Decrease	Number of shares at March 31, 2017
<i>Thousands of shares</i>				
Share issued:				
Common stock	308,269	-	-	308,269
Treasury stock:				
Common stock	133	5	-	138

Note: Increase of 5 thousand shares in treasury stock is due to purchases of shares less than standard unit.

For the year ended March 31, 2018

Types of shares	Number of shares at April 1, 2017	Increase	Decrease	Number of shares at March 31, 2018
<i>Thousands of shares</i>				
Share issued:				
Common stock	308,269	-	277,442	30,827
Treasury stock:				
Common stock	138	988	124	1,002

Notes:

(1) Effective October 1, 2017, the Company carried out a 10-to-1 share consolidation for its common stock.

(2) Decrease of 277,442 thousand shares in share issued is due to the share consolidation.

(3) Increase of 988 thousand shares in treasury stock is due to increase of 987 thousand shares in acquisition of shares from another company and 1 thousand shares in purchase of shares less than standard unit.

(4) Decrease of 124 thousand shares in treasury stock is due to decrease of 124 thousand shares in the share consolidation.

### (b) Dividends

#### 1) Dividend payment

There were no dividends paid to owners of the Company for the years ended March 31, 2017 and 2018.

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

Resolution	Type of Shares	Total amount of dividends	Funds for dividends	Dividends per share	Record date	Effective date
Shareholders' meeting held on June 26, 2018	Common stock	¥ 149million (\$1,402thousand)	Retained earnings	¥5.00(\$0.05)	March 31, 2018	June 27, 2018

### 13. Selling, General and Administrative Expenses

The breakdown of "Selling, General and Administrative Expenses" for the years ended March 31, 2017 and 2018 was as follows:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Shipping charges	¥1,153	¥1,332	\$12,538
Other selling expenses	361	390	3,671
Salaries and other allowances for employees	6,691	6,019	56,654
Retirement benefits expenses for employees	421	341	3,210
Retirement benefits expenses for directors and statutory auditors	24	16	151
Allowance for doubtful accounts	(3)	3	28
Depreciation and amortization cost	970	855	8,048
Other	6,248	6,415	60,382
	<u>¥15,865</u>	<u>¥15,371</u>	<u>\$144,682</u>

Research and development expensed included in "Selling, general and administrative expenses" and manufacture costs for the years ended March 31, 2017 and 2018 amounted to ¥746million and ¥182million, ¥811million (US\$7,634thousand) and ¥235 million (US\$2,212thousand), respectively.

### 14. 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 seismic isolation device manufacturing equipment, the profitability from the business has been worsened and the book value of the asset was reduced to the recoverable amount.

In relation to the fixed assets for business offices which are scheduled to be relocated, not expected to be used in the future, and likely to be disposed of, the book value of the assets was reduced to the recoverable amount.

The recoverable amounts are determined at their net selling prices and based on the estimated selling prices. For the seismic isolation device manufacturing equipment and the office 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:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥238	¥ -	\$ -
Machinery, equipment and vehicles	46	-	-
Tools, furniture and fixtures	6	-	-
Land	-	-	-
Lease assets	32	-	-
Other	-	-	-
	<u>¥322</u>	<u>¥ -</u>	<u>\$ -</u>

Location	Asset Group	Fixed Assets	2017	2018	2018
			<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Tokyo	Office equipment	Buildings and structures, tools, furniture and fixtures, lease assets	¥276	¥ -	\$ -
Kanagawa	Seismic isolation device manufacturing equipment	Buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures, lease assets and others	46	-	-
Total:			<u>¥322</u>	<u>¥ -</u>	<u>\$ -</u>

## 15. Income Taxes

Significant components of deferred taxes at March 31, 2017 and 2018 were as follows:

	2017	2018	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Loss carry-forwards	¥2,492	¥1,368	\$12,877
Unrealized gain on real estate	620	618	5,817
Other accounts payable	567	579	5,450
Accrued bonuses	499	524	4,932
Depreciation	2,104	1,830	17,225
Other	1,656	1,830	17,225
Subtotal deferred tax assets	7,938	6,749	63,526
Valuation allowance	<u>(6,454)</u>	<u>(4,615)</u>	<u>(43,439)</u>
Total deferred tax assets	1,484	2,134	20,087
Deferred tax liabilities:			
Net defined benefit asset	(52)	(62)	(584)
Unrealized holding gains on securities	(344)	(346)	(3,257)
Profit and loss adjustment of group company transaction	(149)	(149)	(1,402)
Undistributed earnings of subsidiary companies	(108)	(276)	(2,598)
Other	(271)	(233)	(2,193)
Total deferred tax liabilities	<u>(924)</u>	<u>(1,066)</u>	<u>(10,034)</u>
Net deferred tax assets (liabilities):	<u>¥560</u>	<u>¥1,068</u>	<u>\$10,053</u>
Deferred tax assets related to land revaluation:			
Valuation allowance	1,212	1,201	11,305
Total deferred tax assets related to land revaluation	<u>(1,212)</u>	<u>(1,201)</u>	<u>(11,305)</u>
Deferred tax liabilities related to land revaluation:	-	-	-
Total deferred tax assets (liabilities) related to land revaluation	<u>(4,227)</u>	<u>(4,188)</u>	<u>(39,420)</u>
Net deferred tax liabilities related to land revaluation:	<u>¥(4,227)</u>	<u>¥(4,188)</u>	<u>\$ (39,420)</u>

The differences between the statutory tax rate and the effective tax rate were summarized as follows:

	2017	2018
	(%)	(%)
Legal effective tax rate	30.9	30.8
The items which are never counted in loss of money such as donations	1.9	1.5
The amount of increase and decrease of the amount of evaluation-related mortgage	△47.0	△30.2
The items which are never counted in loss of money such as receipt dividend	△3.5	△0.5
Residence tax per capita rate	3.5	1.4
The amount of foreign tax	4.6	1.5
Investment loss by the equity method	1.1	3.1
Retained earnings of subsidiary companies	4.5	6.8
Other	15.0	△8.6
Effective tax rate	<u>11.0</u>	<u>5.8</u>

## **16. 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 to the group 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, the balances are constantly monitored to be within the balance of foreign-currency trade receivables. Long-term debts, which have maturity dates within 5 years and 10 months, are primarily utilized to secure financing for equipment. Long-term 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 depending on category of risks. Evaluation of hedge effectiveness is performed by comparing cumulative fluctuation of market value or of cash flows of hedged items with that of market value or of cash flows of hedging instruments.

### **(c) Risk management system associated with financial instruments**

#### **1) Credit risk management (Risk of default on the receivable from counterparties, 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, procures fund for the group companies. The finance department prepares and updates financing plans periodically based on the group companies' demand for fund and keeps a certain amount of cash in hand for the purpose of liquidity risk management.

### **(d) Other supplemental information on 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 market 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, 2017 and 2018 is shown as follows:

	2017	2018	2018
	Carrying amounts		
	(Millions of yen)	(Thousands of U.S. dollars)	
Other securities			
Investments in unlisted companies	¥3,636	¥3,292	\$30,986
	¥3,636	¥3,292	\$30,986

The carrying amounts and fair values of the financial instruments as of March 31, 2017 and 2018 are summarized as follows:

	2017			2018			2018		
	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	¥5,321	¥5,321	¥ -	¥4,682	¥4,682	¥ -	\$44,070	\$44,070	\$-
(2) Trade notes and accounts receivable	41,453	-	-	39,730	-	-	373,965	-	-
Allowance for doubtful accounts	(10)	-	-	(12)	-	-	(113)	-	-
	41,443	41,441	(2)	39,718	39,720	2	373,852	373,870	18
(3) Investment securities									
Other securities	2,571	2,571	-	2,149	2,149	-	20,228	20,228	-
(4) Trade notes and accounts payable	(20,895)	(20,895)	-	(21,931)	(21,931)	-	(206,429)	(206,429)	-
(5) Short-term borrowings	(27,267)	(27,267)	-	(26,630)	(26,630)	-	(250,659)	(250,659)	-
(6) Long-term borrowings	(22,542)	(22,488)	(54)	(20,992)	(20,965)	(27)	(197,590)	(197,336)	(254)
(7) Derivative transactions									
(i) Hedge accounting not applicable	(3)	(3)	-	-	-	-	-	-	-
(ii) Hedge accounting applicable	-	-	-	-	-	-	-	-	-

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*  
The fair value of investment securities is based on quoted market price.
- (4) *Trade notes and accounts payable*  
The carrying amount approximates fair value due to the short maturity of these instruments.
- (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 long-term borrowings is based on the current discounted interest rates for the borrowings with the same conditions. Long-term borrowings with the maturity term within one year are included.
- (7) *Derivative transactions*  
Refer to note "17. Derivatives".

Redemption schedules for cash and trade receivables after March 31, 2017 and 2018 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
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
<b>2017</b>						
Cash and time deposits	¥5,321	¥-	¥-			
Trade notes and accounts receivable	40,179	1,274	-			
<b>Total of the amounts</b>	<b>¥45,500</b>	<b>¥1,274</b>	<b>¥-</b>			
<b>2018</b>						
Cash and time deposits	¥4,682	¥-	¥-	\$44,070	\$-	\$-
Trade notes and accounts receivable	38,817	913	-	365,371	8,594	-
<b>Total of the amounts</b>	<b>¥43,499</b>	<b>¥913</b>	<b>¥-</b>	<b>\$409,441</b>	<b>\$8,594</b>	<b>\$-</b>

Redemption schedules for trade payables, short-term and long-term borrowings after March 31, 2017 and 2018 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
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
<b>2017</b>						
Trade notes and accounts payable	¥20,895	¥-	¥-			
Short-term borrowings	27,267	-	-			
Long-term borrowings	8,050	14,407	85			
<b>Total of the amounts</b>	<b>¥56,212</b>	<b>¥14,407</b>	<b>¥85</b>			
<b>2018</b>						
Trade notes and accounts payable	¥21,931	¥-	¥-	\$206,429	\$-	\$-
Short-term borrowings	26,630	-	-	250,659	-	-
Long-term borrowings	7,752	13,212	28	72,967	124,360	263
<b>Total of the amounts</b>	<b>¥56,313</b>	<b>¥13,212</b>	<b>¥28</b>	<b>\$530,055</b>	<b>\$124,360</b>	<b>\$263</b>

## 17. Derivatives

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

### Currency-related Transactions

	2017			2018			2018		
	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)	¥347	¥(3)	¥(3)	¥-	¥-	¥-	\$-	\$-	\$-

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

There were no currency-related transactions which meet the criteria for hedge accounting for the years ended March 31, 2017 and 2018, respectively.

**(b) Interest-related Transactions**

	2017			2018			2018		
	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
Interest rate swaps									
Pay/fixed and									
Receive/floating									
Long-term debt	¥13,246	¥8,731	¥-	¥12,421	¥7,917	¥-	\$116,915	\$74,520	\$-

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

**18. Per Share Information**

Income (loss) and net assets per share for the years ended March 31, 2017 and 2018 were as follows:

	2017	2018	2018
		(Yen)	(U.S. dollars)
Income (loss) attributable to owners of the Company per share	¥64.14	¥123.93	\$1.166
Net assets per share	¥913.60	¥1,101.71	\$10.370

Income (loss) attributable to owners of the Company per share is calculated based on the income (loss) attributable to owners 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.

Effective October 1, 2017, the Company carried out a 10-to-1 share consolidation of its common stock. Income attributable to owners of the Company per share and net assets per share are calculated on the assumption that the share consolidation of its common stock was carried out at the beginning of the fiscal year ended March 31, 2017.

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

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars)
Income (loss) attributable to owners of the Company	¥1,976	¥3,737	\$35,175
Income (loss) attributable to shares of common stock	¥1,976	¥3,737	\$35,175
		(Thousands of shares)	
Weighted average number of shares of common stock	30,813	30,155	

## 19. Other Comprehensive Income

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

	2017	2018	2018
	<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	¥480	¥51	\$480
Reclassification adjustments	<u>(259)</u>	<u>(5)</u>	<u>(47)</u>
Subtotal before tax	221	46	433
Tax effect	<u>(44)</u>	<u>(1)</u>	<u>(9)</u>
Net unrealized holding gains (losses) on other securities	177	45	424
Deferred gains (losses) on hedges			
Increase (decrease) during the year	<u>1</u>	<u>-</u>	<u>-</u>
Net deferred gains (losses) on hedges	1	-	-
Variance of land revaluation			
Tax effect	-	38	358
Foreign currency translation adjustments			
Increase (decrease) during the year	(225)	(29)	(273)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	813	1,268	11,935
Reclassification adjustments	<u>323</u>	<u>426</u>	<u>4,010</u>
Subtotal before tax	1,136	1,694	15,945
Tax effect	48	28	264
Net remeasurements of defined benefit plans	<u>1,184</u>	<u>1,722</u>	<u>16,209</u>
Share of other comprehensive income of affiliates in equity method			
Increase (decrease) during the year	<u>(335)</u>	<u>95</u>	<u>894</u>
Total other comprehensive income	<u>¥802</u>	<u>¥1,871</u>	<u>\$17,612</u>

## 20. Segment Information

### Business Segments

The businesses of the Companies are divided based on the similarity in products and service 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, communication cable constructions

(3) Magnet Wire operations:

Magnet wires

(4) Communication System operations:

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

(5) Device operations:

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

Due to merger between power cable constructions section and communication cable constructions section in the Company's consolidated subsidiary, SWCC Showa Cable Systems Co., Ltd., communication cable constructions included in communication system operations have been transferred into power system operations from this first quarter of the year ended March 31, 2018. In conformity with the change in classification, segment information for the previous year is reclassified accordingly.

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, 2017 is summarized as follows:



2017	Reportable Business Segments					Others	Total	Adjustments	Consolidated
Segment Information	Electric Wire	Power System	Magnet Wire	Communication System	Device				
<i>(Millions of yen)</i>									
Net sales									
Outside customers	¥69,564	¥24,639	¥19,790	¥19,563	¥19,890	¥1,787	¥155,233	¥-	¥155,233
Inter segment	13,253	75	1,573	1,102	27	9,733	25,763	(25,763)	-
Total	¥82,817	¥24,714	¥21,363	¥20,665	¥19,917	¥11,520	¥180,996	¥(25,763)	¥155,233
Segment income (loss)	¥1,469	¥790	¥246	¥1,061	¥991	¥(292)	¥4,265	¥(30)	¥4,235
Segment assets	¥44,744	¥25,257	¥11,831	¥16,753	¥12,480	¥10,222	¥121,287	¥(1,758)	¥119,529
Depreciation	692	263	392	415	286	976	3,024	(95)	2,929
Investments in equity method affiliates	2,121	917	-	-	-	-	3,038	-	3,038
Increase in fix assets	796	371	441	613	274	797	3,292	(48)	3,244

Notes:

- (1) Segment income (loss) included in Adjustments of ¥30 million, mainly consisted of unrealized gain of ¥15 million.
- (2) Segment assets included in Adjustments amounting to ¥1,758 million, mainly consisted of the common assets not allocated to any segment of ¥8,040 million, elimination of inter-segment transactions of ¥7,842 million and unrealized gain of ¥2,104 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, 2018 is summarized as follows:

2018	Reportable Business Segments					Others	Total	Adjustments	Consolidated
Segment Information	Electric Wire	Power System	Magnet Wire	Communication System	Device				
<i>(Millions of yen)</i>									
Net sales									
Outside customers	¥78,087	¥26,356	¥21,218	¥20,786	¥20,189	¥1,551	¥168,187	¥-	¥168,187
Inter segment	15,382	43	1,499	985	28	8,971	26,908	(26,908)	-
Total	¥93,469	¥26,399	¥22,717	¥21,771	¥20,217	¥10,522	¥195,095	¥(26,908)	¥168,187
Segment income (loss)	¥2,257	¥1,753	¥246	¥1,377	¥1,136	¥(503)	¥6,266	¥10	¥6,276
Segment assets	¥45,973	¥25,557	¥13,928	¥16,947	¥12,391	¥11,310	¥126,106	¥(2,212)	¥123,894
Depreciation	674	256	358	456	385	829	2,958	(81)	2,877
Investments in equity method affiliates	1,682	1,011	-	-	-	-	2,693	-	2,693
Increase in fix assets	675	446	538	692	560	541	3,452	(61)	3,391

2018	Reportable Business Segments					Others	Total	Adjustments	Consolidated
Segment Information	Electric Wire	Power System	Magnet Wire	Communication System	Device				
<i>(Thousands of U.S. dollars)</i>									
Net sales									
Outside customers	\$735,006	\$248,080	\$199,718	\$195,651	\$190,032	\$14,599	\$1,583,086	\$-	\$1,583,086
Inter segment	144,785	405	14,110	9,271	264	84,441	253,276	(253,276)	-
Total	\$879,791	\$248,485	\$213,828	\$204,922	\$190,296	\$99,040	\$1,836,362	\$(253,276)	\$1,583,086
Segment income (loss)	\$21,245	\$16,500	\$2,316	\$12,961	\$10,693	\$(4,735)	\$58,980	\$94	\$59,074
Segment assets	\$432,728	\$240,559	\$131,100	\$159,516	\$116,632	\$106,457	\$1,186,992	\$(20,821)	\$1,166,171
Depreciation	6,344	2,409	3,370	4,292	3,624	7,803	27,842	(762)	27,080
Investments in equity method affiliates	15,832	9,516	-	-	-	-	25,348	-	25,348
Increase in fix assets	6,354	4,198	5,064	6,514	5,271	5,092	32,493	(574)	31,919

Notes:

- (1) Segment income (loss) included in Adjustments of ¥10 million (US\$94 thousand), mainly consisted of unrealized gain of ¥27 million (US\$254 thousand).

(2) Segment assets included in Adjustments amounting to ¥2,212 million (US\$20,821 thousand), mainly consisted of the common assets not allocated to any segment of ¥8,095 million (US\$76,195 thousand), elimination of inter-segment transactions of ¥8,298 million (US\$78,106 thousand) and unrealized gain of ¥2,077 million (US\$19,550 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.

### Geographical Segments

Geographical segment sales for the years ended March 31, 2017 and 2018 are summarized as follows:

Year ended March 31, 2017	Japan	Asia	Other	Total
(Millions of yen)				
Sales	¥137,429	¥17,554	¥250	¥155,233
<hr/>				
Year ended March 31, 2018	Japan	Asia	Other	Total
(Millions of yen)				
Sales	¥148,429	¥19,531	¥227	¥168,187
<hr/>				
Year ended March 31, 2018	Japan	Asia	Other	Total
(Thousands of U.S. dollars)				
Sales	\$1,397,110	\$183,839	\$2,137	\$1,583,086

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

### Major Customer Information

2017		
Major customer	Sales (Millions of yen)	Segments
SENSHU ELECTRIC CO.,LTD.	¥16,145	Electric Wire and Communication System

2018		
Major customer	Sales (Millions of yen)	Segments
SENSHU ELECTRIC CO.,LTD.	¥22,032	Electric Wire and Communication System

2018		
Major customer	Sales (Thousands of U.S. dollars)	Segments
SENSHU ELECTRIC CO.,LTD.	\$207,380	Electric Wire and Communication System

Segment information on impairment losses on fixed assets for the years ended March 31, 2017 and 2018 are summarized as follows:

Year ended March 31,	Reportable Business Segments					Others	Eliminations	Total
	Electric Wire	Power System	Magnet Wire	Communication System	Device			
2017								
(Millions of yen)								
Impairment losses of fixed assets	¥-	¥-	¥-	¥-	¥46	¥276	¥-	¥322

Note: "Others" for the year ended March 31, 2017 is related to the idled leased assets which are owned by the company engaged in administrative management business.

There were no impairment losses on fixed assets for the year ended March, 31, 2018.

## 21. Related Party Transactions

### Transactions with Related Parties

#### Transactions of the Company with subsidiaries and affiliates which are not accounted by consolidation

	2017	2018
Type of related party	-	Affiliate
Name	-	FuTong-Showa Electric Wire & Cable (HangZhou) Co., Ltd.
Address	-	China
Capital in paid	-	374,230 thousands Chinese Yuan
Type of business	-	Manufacturing
Owing (or owned) rate of voting right	-	Indirect 48.9 % (Indirect 21.1%)
Relation with related party	-	Loan receivable
Type of transaction	-	Loan receivable
Transaction amount	-	¥1,104million (\$10,392thousands)
Account	-	Other current assets
Ending balance of the account	-	¥2,125million (\$20,002thousands)

Note: The Company reasonably determines interests considering market interest rate. No collateral is provided.

## 22. Business Combinations

### Business Combinations under common control

Merger of SWCC Showa Cable Systems Co., Ltd., SWCC Showa Device Technologies Co., Ltd. and SWCC Showa Business Solutions Co., Ltd.

The Company's two subsidiaries, SWCC Showa Device Technologies Co., Ltd. and SWCC Showa Business Solutions Co., Ltd. were merged into the Company's subsidiary, SWCC Showa Cable Systems Co., Ltd., on April 1, 2017.

#### (1) Transactions summary

##### (i) Name of companies and description of business involved in business 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: SWCC Showa Device Technologies Co., Ltd.

Description of business: Manufacture and sales of information devices and rubber and plastic processing products

Name of merged company: SWCC Showa Business Solutions Co., Ltd.

Description of business: Support services for group businesses

##### (ii) Date of the merger

April 1, 2017

##### (iii) Legal form of the merger

Absorption-type merger, with SWCC Showa Cable Systems Co., Ltd. as the surviving company, and SWCC Showa Device Technologies Co., Ltd. and SWCC Showa Business Solutions Co., Ltd. as the absorbed companies.

##### (iv) Name of company after the merger

SWCC Showa Cable Systems Co., Ltd.

##### (v) Other transactions summary

To promote implementing organizational reforms and focusing our efforts on growth areas, which are the primary measures of the Company's "Mid-term business plan 2016-2018", above companies were merged into SWCC Showa Cable Systems Co., Ltd. with the objectives of improving the productivity by increasing the efficiency of the organization and strengthening the responsiveness for customer needs by concentrating management resources.

#### (2) Accounting summary

Pursuant to the "Accounting Standard for Business Combination" (ASBJ Statement No.21 issued on September 13, 2013) and Guidance on Accounting Standard for Business Combination and for Business Divestitures (ASBJ Guidance No.10 issued on September 13, 2013), the transaction was accounted for as transactions under common control.

### **23. Subsequent Events**

There were no subsequent events for the year ended March, 31, 2018.



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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, 2018 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, 2018 and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

*Ernst & Young ShinNihon LLC*

June 26, 2018  
Tokyo, Japan