NETUREN

Annual Report 2018

For the year ended March 31, 2018

NETUREN CO., LTD.

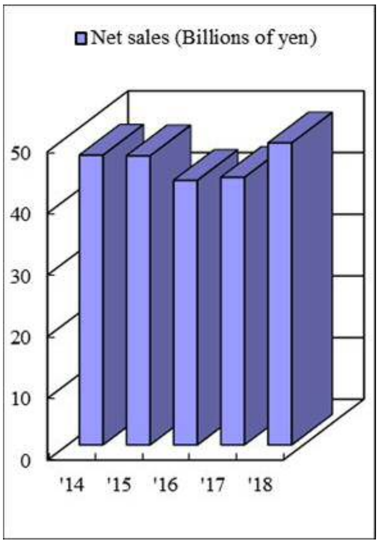
CONTENTS

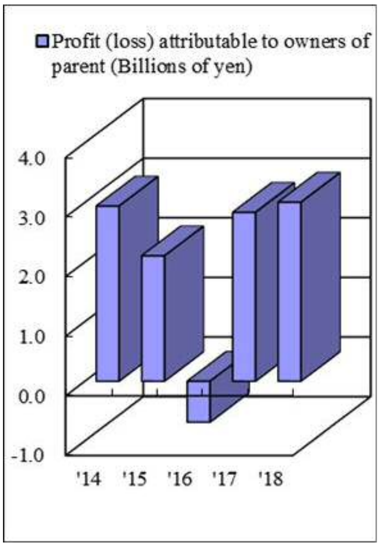
FIVE－YEAR SUMMARY

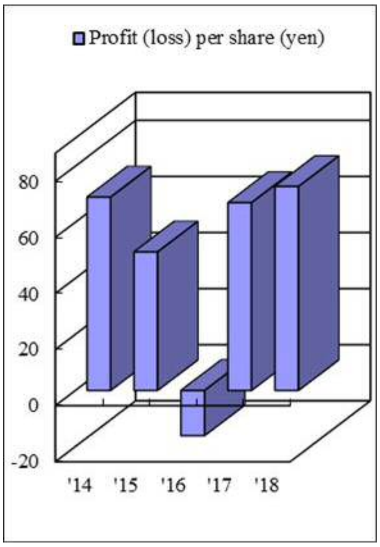
Neturen Co., Ltd. and Consolidated Subsidiaries
Five years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2014	2015	2016	2017	**2018**	**2018**
Net sales…………………………..	¥46,997	¥46,895	¥42,905	¥43,396	**¥48,980**	**$461,036**
Operating income………………….	3,686	3,001	2,145	3,003	**3,656**	**34,420**
Profit (loss)……………………..….	3,390	2,520	(411)	3,096	**3,479**	**32,749**
Profit (loss) attributable to owners of parent…………………..	2,939	2,105	(687)	2,834	**3,003**	**28,273**
Comprehensive income……………	7,208	5,460	(3,203)	2,671	**4,768**	**44,883**
Total assets………………………..	78,374	81,828	76,610	76,230	**82,571**	**777,219**
Total Net assets……………………	61,658	66,176	62,202	63,319	**66,120**	**622,372**
Per share of common stock………..						
Profit (loss)…………………….	¥ 68.96	¥49.41	¥(16.12)	¥66.98	**¥72.73**	**$0.68**
Cash dividends…………………	18.00	14.00	14.00	25.00	**22.00**	**0.21**
Stockholders' equity…………..	1,325.53	1,411.70	1,322.16	1,381.64	**1,458.40**	**13.73**

Note1: U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥106.24=US$1.
2: The fiscal year ended March 31, 2017 dividend includes a one time commemorative dividend of ¥4.00 per share.







TO OUR SHAREHOLDERS

The Group, consisting of the Company (Neturen Co., Ltd.), 18 subsidiaries and 4 affiliates, manufactures and sells prestressing steel bars and deformed steel bars for prestressed concrete used in civil engineering and construction; Induction Heated, –Quenched and Tempered Wire (ITW) used mainly for suspension springs of automobiles and motorcycles, auto parts and construction machine parts; and induction heating equipment for various industries. The group also provides heat treatment services for major critical safety parts of automobiles, machine tools and construction equipment.

(1) Activities and Results

During the fiscal year ended March 31, 2018, Japan's economy followed a moderate recovery trend overall. In the global economy, economic conditions in the United States and Europe remained relatively solid while there was sign of economic turnaround in China, including infrastructure investments that lead to demand for construction equipment and increase in demand for smartphones that lead to investment in machine tools and industrial equipment.

Under such circumstances, the Group strove to reinforce its management base and further increase corporate value by implementing growth strategies—aggressive overseas business expansion and innovation in the areas of management, technology, production, functions, and human resources development—focusing on the 13th mid-term management plan, "Global Innovation 70th."

As a result, net sales for the fiscal year under review were ¥48,980 million (up 12.9% year over year), with operating income at ¥3,656 million (up 21.8% year over year) and ordinary income at ¥4,165 million (up 16.1% year over year). Net income attributable to owners of parent was ¥3,003 million (up 6.0% year over year).

Status by business segment

a. Specialty Steel and Wire Products Division

Sales for civil engineering and construction-related items dropped year over year due partly to decline in demand for precast piles and slow growth in numbers of new condominiums and other buildings being built where many of our products are used.

Meanwhile, sales volume of ITW high-strength spring steel wire increased from a year earlier because sales in China, Europe, United States and Japan remained steady.

As a result, net sales for the fiscal year under review were ¥21,282 million (up 3.4% year over year). Operating income was ¥1,562 million (down 2.5% year over year) as a result of activities to reduce costs.

b. Induction Heating Division

Sales of services related to induction heat treatment increased from a year earlier due to a solid increase in orders from the automobile and machine tools industry. Sales of auto-parts-related segments were flat from a year earlier.

Sales of products related to construction machine parts also increased year over year due to solid increase in orders in Japan and China. Sales of induction-heating equipment increased from a year earlier due to increase in sales in Japan and China.

As a result, sales in this segment were ¥27,569 million (up 21.5% year over year) and operating income was ¥2,034 million (up 51.6% year over year).

c. Others

This segment covers activities such as real estate leasing business that are not included in the reportable segments.

Rental properties owned by the Company are stably contributing to the business performance although the contribution is small.

As a result, sales in this segment were ¥128 million (up 3.2% year over year) and operating income was ¥59 million (up 1.3% year over year).

(2) Cash Flow

At the end of the fiscal year under review, balance of cash and cash equivalents amounted to ¥12,507 million (down ¥591 million year over year).

a. Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥6,483 million (¥4,985 million income for the previous fiscal year).

This was caused mainly by increase in net income before income taxes of ¥4,645 million and increase in trade payables of ¥1,764 million.

b. Cash Flow Used in Investing Activities

Net cash used in investing activities amounted to ¥5,880 million (¥3,263 million expenditure for the previous fiscal year).

This was caused primarily by payments for purchases of property, plant and equipment totaling ¥4,650 million and payments for purchase of shares of subsidiaries resulting in change in scope of consolidation ¥1,372 million, despite proceeds from sales and redemption of investment securities ¥959 million.

c. Cash Flow Used in Financing Activities

Net cash used in financing activities amounted to ¥1,370 million (¥2,589 million expenditure for the previous fiscal year).

This was mainly due to payments for cash dividends paid ¥1,200 million and payments for purchase of treasury shares ¥683 million, despite proceeds from long-term loans payable ¥987 million.

(3) Equipment Investment

The Group (the Company and its consolidated subsidiaries) has focused on making capital expenditures for new products and businesses as well as to meet orders received. To cope with changes in business environment, the group has also invested in rationalization. We are rigorously reviewing the effects of individual equipment investments by establishing standards for returns on investments.

The Group finances capital investments mainly with funds on hand. However, when large investments such as the establishment of a new subsidiary or construction of a new plant are necessary, capital investments are made using external funds.

In the fiscal year under review, equipment investment amounted to ¥4,766 million on a consolidated basis.

(4) Issues for the Coming Term

Although the Japanese economy is trending through a moderate recovery, economic trends both in Japan and abroad remain unpredictable and operating environment surrounding the Group remains uncertain. Under such circumstances, the Group will address the following issues in order to achieve consolidated business targets set forth in the 14th mid-term management plan "Accomplish V-20."

1. Rapid development and market introduction of New Technologies, New Products and New Businesses

Rapid development of New Technologies & New Products that have been ascetained of it's marketability and business scheme. Incorporation of market needs by expansion and utilization of our global network, and realization of new businesses that acquire swift returns.

At the same time, carry out development of business creating activities which will lead to the next generation from mid to long-term perspective.

2. Securing and fostering global human resources who will forge the present and future of our Group

In order to secure and grow multifaceted and flexible human resources from companywide perspective, We will build and execute human resource development system from companywide perspective. We will also reinforce functions and organizations that support "work-style reform" which foster and promote diverse human resources.

3. Building a Global Structure for Safety, Quality and CSR Activities

To connect the entire company for Safety, Quality and CSR activities, where information is shared immediately companywide and build a system that can take quick countermeasures .

As a global company, all and every employee understands and acts on compliance, and is committed to building a Company with high social credibility.

Shigeru Mizoguchi
President

FORMULATION OF THE 14th MID-TERM MANAGEMENT PLAN

Formulation of the 14th Mid-Term Management Plan, "Accomplish V-20"

In March 2018, the Neturen Group formulated its 14th mid-term management plan, "Accomplish V-20"

Basic Policy: Finalization of "NETUREN VISION 2020" and building the foundation for further evolution

Through linkage of People, Goods and Information, We will thoroughly promote overall optimization of Four basic strategies in realizing VISION 2020: "Technological innovation", "Business creation", "Global expansion", "Strengthening & substantiating Personnel & Management", and with reinforced activities further enhance our "Evolutionary Power" which are to be the additional development source for the next generation.

Pillar 1: Rapid development and market introduction of new technologies, new products, and new businesses
Pillar 2: Securing and fostering global human resources who will forge the present and future of our Group
Pillar 3: Building a Global Structure for Safety, Quality and CSR Activities

※NETUREN VISION 2020 illustrates the Company's future vision toward realizing the Neturen Group's management philosophy with high-frequency induction heat (IH) treatment technology as it's base.

In order to realize our management philosophy, we focus on the following measures.

①Reinforcement and promotion of technology development capabilities
②New product development and new business formation
③Global business expansion
④Reinforcement of organizational structure and wholly optimal operation

Slogan: "Accomplish V-20"

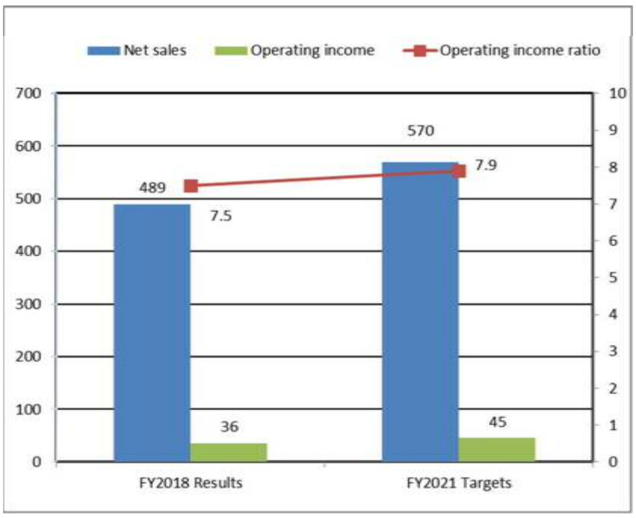
Strong determination to complete the 14th medium-term business plan is needed to bring "NETUREN VISION 2020" to fruition and make NETUREN a company that continues to evolve into the future. We have adopted the slogan to reflect our determination to accomplish the plan by fully understanding the policy and purpose of the activities and making company-wide efforts.

Target Period

Three years from April 2018 to March 2021

Consolidated Management Targets

	FY2018 Results	FY2021 Targets
Net sales	¥489billion	**¥570billion**
Operating income	¥36billion	**¥45billion**
Operating income ratio	7.5%	**7.9%**
ROA(Return on Assets)	5.2%	**over 7%**
ROE(Return on Equity)	5.1%	**over 6%**



CONSOLIDATED BALANCE SHEET

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note2)
	2017	**2018**	**2018**
ASSETS			
Current assets:			
Cash and deposits(Note4)	¥14,313	**¥14,110**	**$132,818**
Notes and accounts receivable-trade(Note4)	11,464	**12,293**	**115,711**
Electronically recorded monetary claims(Note4)	3,384	**3,907**	**36,776**
Inventories (Note3)	3,689	**4,605**	**43,353**
Deferred tax assets (Note7)	421	**467**	**4,404**
Other	1,159	**1,487**	**13,999**
Total current assets	34,433	**36,872**	**347,063**
Non-current assets:			
Property, plant and equipment:			
Land	9,811	**9,933**	**93,503**
Buildings and structures	19,312	**20,086**	**189,067**
Machinery, equipment and vehicles	45,060	**47,844**	**450,346**
Construction in progress	1,130	**1,948**	**18,341**
Other	2,510	**2,644**	**24,892**
Accumulated depreciation	(49,186)	**(51,477)**	**(484,539)**
Total property, plant and equipment	28,639	**30,980**	**291,611**
Intangible assets:			
Leasehold right	832	**744**	**7,008**
Goodwill	—	**1,282**	**12,071**
Other	157	**152**	**1,432**
Total intangible assets	989	**2,179**	**20,513**
Investments and other assets:			
Investment securities (Note4,5)	11,819	**11,825**	**111,313**
Net defined benefit asset	—	**103**	**978**
Deferred tax assets (Note7)	24	**38**	**361**
Other	433	**653**	**6,147**
Allowance for doubtful accounts	(109)	**(81)**	**(769)**
Total investments and other assets	12,167	**12,539**	**118,030**
Total non-current assets	41,796	**45,699**	**430,155**
Total assets	76,230	**82,571**	**777,219**

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note2)
	2017	**2018**	**2018**
LIABILITIES			
Current liabilities:			
Notes and accounts payable-trade(Note4)	¥2,403	**¥3,046**	**$28,679**
Electronically recorded obligations(Note4)	3,841	**5,083**	**47,847**
Short-term loans payable (Note6)	1,444	**1,478**	**13,921**
Lease obligations (Note6)	25	**29**	**273**
Income taxes payable (Note7)	373	**672**	**6,331**
Deferred tax liabilities (Note7)	1	**0**	**2**
Provision for bonuses	646	**619**	**5,832**
Other	2,018	**2,667**	**25,107**
Total current liabilities	10,753	**13,598**	**127,994**
Non-current liabilities:			
Long-term loans payable(Note6)	212	**785**	**7,394**
Lease obligations (Note6)	44	**58**	**551**
Net defined benefit liability (Note11)	924	**899**	**8,466**
Deferred tax liabilities (Note7)	746	**1,006**	**9,472**
Other	228	**102**	**966**
Total non-current liabilities	2,157	**2,852**	**26,852**
NET ASSETS			
Shareholders' equity:			
Capital stock	6,418	**6,418**	**60,413**
Capital surplus	4,763	**4,758**	**44,792**
Retained earnings	46,718	**48,521**	**456,714**
Treasury shares	(1,777)	**(2,461)**	**(23,169)**
Total shareholders' equity	56,121	**57,236**	**538,751**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,270	**1,541**	**14,512**
Foreign currency translation adjustment	283	**1,093**	**10,293**
Remeasurements of defined benefit plans	(138)	**(66)**	**(626)**
Total accumulated other comprehensive income	1,415	**2,568**	**24,178**
Non-controlling interests	5,782	**6,315**	**59,442**
Total net assets	63,319	**66,120**	**622,372**
Total liabilities and net assets	76,230	**82,571**	**777,219**

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note2)
	2017	**2018**	**2018**
Net sales	¥43,396	**¥48,980**	**$461,036**
Cost of sales	33,147	**37,799**	**355,794**
Gross profit	10,249	**11,180**	**105,242**
Selling, general and administrative expenses (Note8)	7,245	**7,524**	**70,821**
Operating income	3,003	**3,656**	**34,420**
Non-operating income			
Interest and dividend income	255	**257**	**2,426**
Share of profit of entities accounted for using equity method.	282	**148**	**1,396**
Gain on step acquisitions	—	**1,221**	**11,493**
Gain on sales of investment securities	225	**369**	**3,476**
Subsidy income	2	**636**	**5,994**
Impairment loss	(11)	**(1,134)**	**(10,681)**
Compensation for damage	—	**(428)**	**(4,030)**
Other net (Note9)	(36)	**(81)**	**(765)**
Other income (expenses) - net	716	**989**	**9,310**
Profit before income taxes	3,720	**4,645**	**43,730**
Income taxes (Note7)			
Current	(833)	**(1,078)**	**(10,151)**
Deferred	209	**(88)**	**(829)**
Total income taxes	623	**1,166**	**10,981**
Profit	3,096	**3,479**	**32,749**
Profit attributable to:			
Profit attributable to owners of parent	2,834	**3,003**	**28,273**
Profit attributable to non-controlling interests	261	**475**	**4,476**
Other comprehensive income (Note10)			
Valuation difference on available-for-sale securities	950	**268**	**2,530**
Foreign currency translation adjustment	(1,197)	**640**	**6,025**
Remeasurements of defined benefit plans, net of tax	85	**71**	**676**
Share of other comprehensive income of entities accounted for using equity method	(263)	**308**	**2,899**
Total other comprehensive income	(424)	**1,289**	**12,133**
Comprehensive income	2,671	**4,768**	**44,883**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	2,840	**4,157**	**39,131**
Comprehensive income attributable to non-controlling interests	(169)	**611**	**5,752**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 31, 2016….....	¥6,418	5,528	44,485	(1,670)	54,761
Changes of items during period					
Dividends of surplus………...			(596)		(596)
Profit attributable to owners of parent…………….			2,834		2,834
Purchase of treasury shares…...				(872)	(872)
Retirement of treasury shares...		(765)		765	—
Change of scope of consolidation			(4)		(4)
Other………………………...					
Balance at March 31, 2017……	**6,418**	**4,763**	**46,718**	**(1,777)**	**56,121**
Changes of items during period...					
Dividends of surplus………...			**(1,200)**		**(1,200)**
Profit attributable to owners of parent…………….			**3,003**		**3,003**
Purchase of treasury shares…...				**(683)**	**(683)**
Disposal of treasury shares…...		**0**		**0**	**0**
Capital increase of consolidated Subsidiaries……………………		**(4)**			**(4)**
Other………………………...					
Balance at March 31, 2018…	**6,418**	**4,758**	**48,521**	**(2,461)**	**57,236**

	Thousands of U.S. dollars (Note2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 31, 2017……	**$60,413**	**44,833**	**439,743**	**(16,735)**	**528,255**
Changes of items during period					
Dividends of surplus………...			**(11,301)**		**(11,301)**
Profit attributable to owners of parent…………….			**28,273**		**28,273**
Purchase of treasury shares…...				**(6,434)**	**(6,434)**
Disposal of treasury shares…...		**0**		**0**	**0**
Capital increase of consolidated Subsidiaries……………………		**(41)**			**(41)**
Other………………………...					
Balance at March 31, 2018……	**60,413**	**44,792**	**456,714**	**(23,169)**	**538,751**

	Millions of yen				
	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2016……	¥335	1,479	(224)	5,849	62,202
Changes of items during period					
Dividends of surplus………..					(596)
Profit attributable to owners of parent…………….					2,834
Purchase of treasury shares…...					(872)
Retirement of treasury shares...					—
Change of scope of consolidation					(4)
Other………………………...	934	(1,196)	85	(67)	(243)
Balance at March 31, 2017……	**1,270**	**283**	**(138)**	**5,782**	**63,319**
Changes of items during period					
Dividends of surplus………..					**(1,200)**
Profit attributable to owners of parent…………….					**3,003**
Purchase of treasury shares…...					**(683)**
Disposal of treasury shares…...					**0**
Capital increase of consolidated Subsidiaries……………………					**(4)**
Other………………………...	**271**	**809**	**71**	**532**	**1,686**
Balance at March 31, 2018……	**1,541**	**1,093**	**(66)**	**6,315**	**66,120**

	Thousands of U.S. dollars (Note2)				
	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at March 31, 2017……	**$11,955**	**$2,669**	**$(1,303)**	**$54,430**	**$596,006**
Changes of items during period					
Dividends of surplus………..					**(11,301)**
Profit attributable to owners of parent…………….					**28,273**
Purchase of treasury shares…...					**(6,434)**
Disposal of treasury shares…...					**0**
Capital increase of consolidated Subsidiaries……………………					**(41)**
Other………………………...	**2,557**	**7,624**	**676**	**5,012**	**15,870**
Balance at March 31, 2018……	**14,512**	**10,293**	**(626)**	**59,442**	**622,372**

CONSOLIDATED STATEMENT OF CASH FLOWS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note2)
	2017	**2018**	**2018**
Cash flows from operating activities:			
Profit before income taxes	¥3,720	**¥4,645**	**$43,730**
Depreciation	2,739	**2,897**	**27,270**
Impairment loss	11	**1,134**	**10,681**
Amortization of goodwill	—	**103**	**978**
Increase (decrease) in provision for bonuses	129	**(27)**	**(256)**
Decrease (increase) in net defined benefit asset	—	**17**	**166**
Increase (decrease) in net defined benefit liability	70	**78**	**740**
Interest and dividend income	(162)	**(197)**	**(1,860)**
Interest expenses	39	**37**	**357**
Foreign exchange losses (gains)	33	**(56)**	**(533)**
Share of (profit) loss of entities accounted for using equity method	(282)	**(148)**	**(1,396)**
Loss (gain) on sales of property, plant and equipment	(2)	**(0)**	**(9)**
Loss (gain) on disposal of property, plant and equipment	18	**46**	**437**
Loss (gain) on sales of intangible assets	—	**17**	**166**
Loss (gain) on step acquisitions	28	**(1,221)**	**(11,493)**
Loss (gain) on sales of investment securities	(225)	**(267)**	**(2,520)**
Decrease (increase) in notes and accounts receivable-trade	(433)	**(1,067)**	**(10,051)**
Decrease (increase) in inventories	335	**(697)**	**(6,563)**
Increase (decrease) in notes and accounts payable-trade	368	**1,764**	**16,611**
Increase (decrease) in accrued consumption taxes	386	**(194)**	**(1,834)**
Other, net	(891)	**95**	**899**
Subtotal	5,884	**6,960**	**65,520**
Interest and dividend income received	221	**243**	**2,295**
Interest expenses paid	(40)	**(26)**	**(250)**
Income taxes (paid) refund	(1,080)	**(694)**	**(6,540)**
Net cash provided by (used in) operating activities	4,985	**6,483**	**61,024**

	Millions of yen		Thousands of U.S. dollars (Note2)
	2017	**2018**	**2018**
Cash flows from investing activities:			
Payments into time deposits……………………………………	¥(1,118)	**¥(1,718)**	**$(16,174)**
Proceeds from withdrawal of time deposits……………………	499	**1,212**	**11,416**
Purchase of property, plant and equipment…………………..	(2,981)	**(4,650)**	**(43,769)**
Proceeds from sales of property, plant and equipment………	5	**8**	**83**
Purchase of intangible assets………………………………...	(151)	**(20)**	**(192)**
Proceeds from sales of intangible assets……………………..	—	**68**	**641**
Purchase of investment securities……………………………	(115)	**(316)**	**(2,982)**
Proceeds from sales and redemption of investment securities….	382	**959**	**9,032**
Payments of loans receivable………………………………..	(7)	**(11)**	**(104)**
Collection of loans receivable………………………………	8	**12**	**118**
Purchase of shares of subsidiaries resulting in change in scope of consolidation………………………………………	—	**(1,372)**	**(12,920)**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation……………………………	257	**—**	**—**
Purchase of long-term prepaid expenses……………………	(42)	**(26)**	**(247)**
Other, net……………………………………………………	1	**(26)**	**(246)**
Net cash provided by (used in) investing activities…….	(3,263)	**(5,880)**	**(55,347)**
Cash flows from financing activities:			
Increase in short-term loans payable………………………...	1,357	**772**	**7,269**
Decrease in short-term loans payable………………………..	(1,813)	**(744)**	**(7,011)**
Proceeds from long-term loans payable……………………..	—	**987**	**9,290**
Repayments of long-term loans payable……………………	(406)	**(413)**	**(3,887)**
Purchase of treasury shares…………………………………..	(872)	**(683)**	**(6,434)**
Cash dividends paid………………………………………….	(596)	**(1,200)**	**(11,301)**
Dividends paid to Non-controlling interests…………………	(222)	**(58)**	**(550)**
Other, net……………………………………………………	(35)	**(28)**	**(271)**
Net cash provided by (used in) financing activities…….	(2,589)	**(1,370)**	**(12,896)**
Effect of exchange rate change on cash and cash equivalents	(159)	**175**	**1,656**
Net increase (decrease) in cash and cash equivalents…….	(1,026)	**(591)**	**(5,563)**
Cash and cash equivalents at beginning of period…………...	14,054	**13,098**	**123,293**
Increase in cash and cash equivalents from newly consolidated subsidiary………………………………………..	70	**—**	**—**
Cash and cash equivalents at end of period…………………..	13,098	**12,507**	**117,729**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Neturen Co., Ltd. (the Company) and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements are 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.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in dollars) do not necessarily agree with the sum of the individual amounts.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers outside Japan.

(1) Principle of Consolidation and Investments in Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and 17 significant subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. All unrealized profits and losses with regard to intercompany transactions of assets are also wholly eliminated in consolidation. The equity method to account for investments in an unconsolidated subsidiary and 4 affiliates has been followed by the Company in the accompanying consolidated financial statements. Accordingly, earnings corresponding to the equity ownership are included as income of the Company and the consolidated subsidiaries in investment accounts.

The fiscal year-end of all subsidiaries differs from that of the Company. Accounts of those subsidiaries which have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions and the results of operations.

(2) Foreign Currency financial statement

In translating the financial statements of foreign subsidiaries and affiliates into Japanese yen, all assets, liabilities, revenues and expenses are translated at the current exchange rates in effect each balance sheet date except for capital and retained earnings which are translated at the historical exchange rates in effect at the time of the transactions. The resulting translation adjustments are reflected as separate components in the accompanying consolidated financial statements as foreign currency translation adjustments.

(3) Cash and Cash Equivalents

Cash and cash equivalents for the consolidated statements of cash flows include cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase.

(4) Short-term Securities, Investment securities

Short-term securities and investment securities are classified and account for, depending on management's intent, as follows:

Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are amortized or accumulated to face value. Other securities, "available-for-sale securities" with fair value are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of net assets until realized. Other securities without fair value are carried at cost. In computing realized gain or loss, cost of other securities are principally determined by the moving-average method.

(5) Derivatives

Derivatives are valued by the market value method.

(6) Inventories

Inventories are principally stated at cost on a first-in, first-out basis, evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability.

(7) Property, Plant and Equipment (except under lease)

Property, plant and equipment are stated at cost.

In the Company and its domestic subsidiaries, the declining-balance method is primarily used for depreciation.

Further, depreciation of buildings (excluding attached fixtures) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, is calculated by the straight-line method.

In foreign subsidiaries, the straight-line method is primarily used for depreciation.

The range of useful lives is principally from 5 to 50 years for buildings and structures, from 4 to 12 years for machinery, equipment and vehicles.

(8) Intangible assets

Intangible assets are carried at cost less accumulated amortization, which are amortized by the straight-line method.

(9) Lease assets

Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciation on a straight-line basis, with lease period used as their useful lives and no residual value.

(10) Allowance for Doubtful Accounts

The allowance for doubtful accounts has been provided at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the analysis of certain individual receivables.

(11) Research and Development Costs

Research and development costs are charged to income as incurred.

(12) Retirement and severance benefits

The retirement benefit obligation are attributed to each period by the benefit formula method.

Actuarial gain / loss is recognized using the straight-line method over mainly 10 years from next fiscal year.

After adjusting for the tax effects, unrecognized actuarial gains / losses are recorded in accumulated adjustment for retirement benefits in accumulated other comprehensive income in the net assets section.

(13) Goodwill

Goodwill is evaluated on an individual basis and amortized by the straight-line method over 10 year.

(14) Income Taxes

Income taxes of the Company and subsidiaries are provided on the basis of amounts payable as indicated in the tax returns.

The Company and its consolidated subsidiaries have adopted the assets and liabilities method of tax effect accounting in order to recognize the effect of all temporary differences in the recognition of assets and liabilities for tax financial reporting purpose.

(Accounting Standards Issued but Not yet Adopted)

“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018)

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

(1) Overview

The above guidance was revised with regard to the treatment of taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the approach to determining recoverability of deferred tax assets in a company which is categorized as ‘Type 1’ according to the guidance.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Effects of the application of the guidance

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of this new guidance on the consolidated financial statements.

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018 (hereinafter, “Statement No.29”))

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

(1) Overview

In accordance with this comprehensive accounting standard for revenue recognition, revenue is recognized through the application of the following five steps.

1: Identify the contract with the customer.
2: Identify the performance obligations in the contract.
3: Determine the transaction price.
4: Allocate the transaction price to the performance obligations in the contract.
5: Recognize revenue as the performance obligations are satisfied.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

2. Translation in U.S. Dollars

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥106.24 to $1, the approximate rate of exchange on March 31, 2018, at the Tokyo foreign exchange market. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars amounts at such rate or at any other rate.

3. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Finished goods	¥782	**¥940**	**$8,853**
Work in process	1,199	**1,820**	**17,134**
Raw materials and supplies	1,707	**1,844**	**17,365**
	3,689	**4,605**	**43,353**

4. Status of financial instruments

(1) Policies for financial instruments

The Companies raised the funds by bank borrowings and retained earnings according to capital investment. The Companies manage funds only through short-term time deposit and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to trading receivables and payables. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk.

Trade receivables —notes receivable , accounts receivable and electronically recorded monetary claims— are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers. Equity securities —the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices. Trade payable —notes payable , accounts payable and electronically recorded obligations— mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Short-term debt is raised mainly in connection with business activities. Long-term debt is taken out principally for the purpose of capital expenditure. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Company undertakes interest rate swap transactions as a hedging instrument for most long-term debt.

(3) Risk management of financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instrument.

(c) Monitoring of liquidity risks for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage the liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

Estimated fair value of financial instruments:

The book value of the financial instruments on the consolidated balance sheets as of March 31, 2017 and 2018 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2017		
	Book value	Fair value	Difference
Cash and Deposits	¥14,313	¥14,313	¥—
Notes and accounts receivable-trade	11,464	11,464	—
Electronically recorded monetary claims	3,384	3,384	—
Marketable securities and investment securities:			
Held-to-maturity securities	105	106	0
Other securities	6,588	6,588	—
Total	35,857	35,858	0
Notes and accounts payable-trade	2,403	2,403	—
Electronically recorded obligations	3,841	3,841	—
Total	6,244	6,244	—

	Millions of yen		
	2018		
	Book value	Fair value	Difference
Cash and Deposits	**¥14,110**	**¥14,110**	**¥—**
Notes and accounts receivable-trade	**12,293**	**12,293**	**—**
Electronically recorded monetary claims	**3,907**	**3,907**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**207**	**206**	**(0)**
Other securities	**6,461**	**6,461**	**—**
Total	**36,979**	**36,979**	**(0)**
Notes and accounts payable-trade	**3,046**	**3,046**	**—**
Electronically recorded obligations	**5,083**	**5,083**	**—**
Total	**8,130**	**8,130**	**—**
Derivatives			
Hedge accounting not applied	**(15)**	**(15)**	**—**
Total	**(15)**	**(15)**	**—**

	Thousands of U.S. dollars		
	2018		
	Book value	Fair value	Difference
Cash and Deposits	**$132,818**	**$132,818**	**$—**
Notes and accounts receivable-trade	**115,711**	**115,711**	**—**
Electronically recorded monetary claims	**36,776**	**36,776**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**1,951**	**1,944**	**(6)**
Other securities	**60,820**	**60,820**	**—**
Total	**348,077**	**348,070**	**(6)**
Notes and accounts payable-trade	**28,679**	**28,679**	**—**
Electronically recorded obligations	**47,847**	**47,847**	**—**
Total	**76,526**	**76,526**	**—**
Derivatives			
Hedge accounting not applied	**(143)**	**(143)**	**—**
Total	**(143)**	**(143)**	**—**

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities

Cash and deposits and notes and accounts receivable

Since these items are settled in a short period, their book value approximates fair value.

Investment securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 5.

Notes and accounts payable and short-term debt

Since these items are settled in a short period of time, their book value approximates fair value.

Derivatives

The Fair value is based on information provided by financial institutions at the end of the fiscal year.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

As of March 31, 2017 and 2018, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Other securities without fair value:			
Unlisted equity securities	¥243	**¥231**	**$2,178**

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2017 and 2018

	Millions of yen			
	2017			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	¥14,313	¥—	¥—	¥—
Notes and accounts receivable-trade	11,464	—	—	—
Electronically recorded monetary claims	3,384	—	—	—
Held-to-maturity securities	—	100	—	—
Total	29,163	100	—	—

	Millions of yen			
	2018			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	**¥14,110**	**¥—**	**¥—**	**¥—**
Notes and accounts receivable-trade	**12,293**	**—**	**—**	**—**
Electronically recorded monetary claims	**3,907**	**—**	**—**	**—**
Held-to-maturity securities	**—**	**100**	**100**	**—**
Total	**30,310**	**100**	**100**	**—**

	Thousands of U.S. dollars			
	2018			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Year through Ten Years	Due after Ten Years
Cash and Deposits	**$132,818**	**$—**	**$—**	**$—**
Notes and accounts receivable-trade	**115,711**	**—**	**—**	**—**
Electronically recorded monetary claims	**36,776**	**—**	**—**	**—**
Held-to-maturity securities	**—**	**941**	**941**	**—**
Total	**285,305**	**941**	**941**	**—**

5. Short-term Investment Securities, Investment Securities and Other Securities

The following is an analytical summary of held-to-maturity securities and available-for-sale securities consisted of short-term investment securities, investment securities and stocks of subsidiaries and affiliates as of March 31, 2017 and 2018.

	Millions of yen						Thousands of U.S. dollars		
	2017			**2018**			**2018**		
Held-to-maturity securities:	Book value	Difference	Fair value	Book value	Difference	Fair value	Book value	Difference	Fair value
Bonds………………	¥105	¥0	¥106	**¥207**	**¥(0)**	**¥206**	**$1,951**	**$(6)**	**$1,944**
Others………………	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	105	0	106	**207**	**(0)**	**206**	**1,951**	**(6)**	**1,944**
Other securities: Available-for-sale securities	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition Cost	Unrealized gain (loss)	Book value (Fair value)
Bonds………………	¥—	¥—	¥—	**¥—**	**¥—**	**¥—**	**$—**	**$—**	**$—**
Equity securities...	4,360	2,074	6,434	**4,035**	**2,425**	**6,461**	**37,986**	**22,834**	**60,820**
Others………………	153	0	154	**—**	**—**	**—**	**—**	**—**	**—**
	4,513	2,074	6,588	**4,035**	**2,425**	**6,461**	**37,986**	**22,834**	**60,820**

As of March 31, 2017 and 2018, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2017**
Other securities without fair value:			
Unlisted equity securities……………	¥243	**¥231**	**$2,178**
Non-consolidated subsidiaries and affiliates:			
Equity securities……………	4,881	**4,925**	**46,362**

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans consist mainly of short-term notes and short-term borrowings under the loan agreements. The weighted average interest rates applicable to such loans as of March 31, 2017 and 2018 were approximately 2.2% and 2.2% respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Unsecured loans from banks……………	¥627	**¥1,197**	**$11,271**
Less: current portion……………	(414)	**(411)**	**(3,877)**
Lease obligations……………	70	**87**	**825**
Less: current portion……………	(25)	**(29)**	**(273)**
	257	**844**	**7,946**

Interest rates applicable to the long-term loans mentioned above ranged from 0.4% to 0.9% as of March 31, 2017 and 2018 respectively.

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

As of March 31,	Millions of yen	Thousands of U.S. dollars
2020……………	**¥200**	**$1,886**
2021……………	**197**	**1,858**
2022……………	**197**	**1,858**
2023……………	**190**	**1,792**
	785	**7,394**

7. Income Taxes

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purpose for the years ended March 31, 2017 and 2018.

	As of March 31	
	2017	**2018**
Statutory tax rate	30.9%	**30.9%**
Permanent differences-Entertainment expenses and other	0.3	**0.3**
Permanent differences-Dividend income and other	(12.1)	**(2.2)**
Equity in earnings of unconsolidated subsidiaries and affiliates	(2.3)	**(1.0)**
Dividends from consolidated subsidiaries	11.9	**2.1**
Valuation allowance for deferred tax assets	(8.0)	**(0.7)**
Per capita tax	1.1	**0.9**
Recognition of effective tax rate on retained earnings of foreign subsidiaries	1.1	**1.2**
Amortization of goodwill	—	**0.7**
Tax rate differences	(1.8)	**(2.9)**
Tax credit	(3.8)	**(3.5)**
Other-net	(0.5)	**(0.7)**
Effective tax rate	16.8%	**25.1%**

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Deferred tax assets:			
Inventories	¥34	**¥34**	**$320**
Depreciation	28	**6**	**57**
Intangible assets	7	**21**	**202**
Unrealized loss on valuation of other securities	22	**22**	**211**
Allowance for doubtful accounts	42	**36**	**343**
Accrued enterprise tax	39	**46**	**435**
Accrued employees' bonuses	227	**215**	**2,029**
Net defined benefit liability	444	**428**	**4,037**
Impairment loss	1,068	**956**	**9,002**
Valuation allowance	(802)	**(837)**	**(7,882)**
Unrealized loss on available-for-sale securities	184	**148**	**1,397**
Others	159	**355**	**3,344**
Total	1,455	**1,434**	**13,500**
Deferred tax liabilities:			
Accumulated earnings of consolidated subsidiaries	(496)	**(549)**	**(5,176)**
Reserve for deferred capital gains	(356)	**(353)**	**(3,327)**
Unrealized gain on available-for-sale securities	(821)	**(890)**	**(8,384)**
Others	(83)	**(140)**	**(1,321)**
Total	(1,757)	**(1,934)**	**(18,209)**
Net deferred tax assets (liabilities)	(302)	**(500)**	**(4,709)**

Net deferred tax assets are included in the assets and liabilities shown below.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Deferred tax assets - current	¥421	**¥467**	**$4,404**
Deferred tax assets - non current	24	**38**	**361**
Deferred tax liabilities - current	(1)	**(0)**	**(2)**
Deferred tax liabilities - non current	(746)	**(1,006)**	**(9,472)**

8. Research and Development Costs

Research and development costs are charged to income for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Research and development costs	¥1,289	**¥959**	**$9,028**

9. Other Income / (Expenses) — Other, net

Other income / (expenses) — Other, net consists of the following items:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Foreign exchange Loss	¥ (27)	**¥ (12)**	**$ (121)**
Other	(9)	**(68)**	**(644)**
Other income (expenses) - net	(36)	**(81)**	**(765)**

10. Impairment loss

The Company and its consolidated subsidiaries recorded impairment loss on the following asset groups.

2018 (From April 1, 2017 to March 31, 2018):

Location	Purpose of use	Type
Korea Neturen Co., Ltd. (Yeongcheon-si, Gyeongsangbuk-do, Korea)	—	Goodwill

The Group's assets are mainly grouped by factory (multiple factories are classified into one group when business complementarity is recognized) based on managerial accounting classification. In addition, consolidated subsidiaries' assets are primarily grouped by company.

Among these asset groups, as a result of analyzing the recoverability of goodwill recorded when the Company acquired additional shares in Korea Neturen Co., Ltd. and turned it into a consolidated subsidiary based on forecasts of future cash flows, the Company recorded impairment losses of ¥1,134 million. The calculation was made at a discount rate of 8.1%.

11. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Other consolidated comprehensive income for the year ended March 31, 2017 and 2018			
Unrealized gain on available-for sale securities			
Amount arising during the year	¥1,511	**¥606**	**$5,711**
Reclassification adjustments for gains and losses recognized in the income statement	(225)	**(267)**	**(2,520)**
Amount before tax effect adjustment	1,286	**338**	**3,190**
Tax effect	(335)	**(70)**	**(659)**
Total	950	**268**	**2,530**
Foreign currency translation adjustments			
Amount arising during the year	(1,197)	**640**	**6,025**
Total	(1,197)	**640**	**6,025**
Remeasurements of defined benefit plans			
Amount arising during the year	37	**18**	**174**
Reclassification adjustments for gains and losses recognized in the income statement	86	**85**	**800**
Amount before tax effect adjustment	123	**103**	**975**
Tax effect	(37)	**(31)**	**(298)**
Total	85	**71**	**676**
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	(255)	**308**	**(2,899)**
Reclassification adjustments for gains and losses recognized in the income statement	(8)	**—**	**—**
Total	(263)	**308**	**2,899**
Total	(424)	**1,289**	**12,133**

12. Retirement and severance benefits

The Company has adopted a corporate pension plan and a lump-sum pension plan, both of which are defined benefit plans. The Company also adopted a retirement benefit trust.

Domestic consolidated subsidiaries have adopted lump-sum pension plans, and calculated projected benefit obligations by the simplified method.

Defined benefit plans

Movements in retirement benefit obligations except plan applied simplified method for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Balance at April 1	¥2,466	**¥2,467**	**$23,224**
Service cost	140	**160**	**1,511**
Interest cost	22	**22**	**210**
Actuarial loss (gain)	(36)	0	**9**
Benefits paid	(124)	**(134)**	**(1,264)**
Balance at March 31	2,467	**2,516**	**23,690**

Movements in plan assets except plan applied simplified method for the years ended March 31, 2017 and 2018 were as follows

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Balance at April 1	¥1,539	**¥1,597**	**$15,033**
Expected return on plan assets	24	**26**	**246**
Actuarial loss(gain)	0	**19**	**183**
Contributions paid by the employer	156	**166**	**1,567**
Benefit paid	(124)	**(134)**	**(1,264)**
Balance at March 31	1,597	**1,674**	**15,766**

Movements in liability for retirement benefits based on the simplified method for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Balance at April 1	¥51	**¥54**	**$511**
Retirement benefit costs	4	**22**	**209**
Benefit paid	(1)	**(1)**	**(11)**
Increase in net defined benefit asset from newly consolidated subsidiary.	—	**(114)**	**(1,082)**
Other	—	**(6)**	**(62)**
Balance at March 31	54	**(46)**	**(435)**
Liability for retirement benefits	54	**57**	**542**
Asset for retirement benefits	—	**(103)**	**(978)**
Total net liability (asset) for retirement benefits at March 31	54	**(46)**	**(435)**

Reconciliation from retirement benefit obligations and plan assets to liability (asset) for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Funded retirement benefit obligations	¥2,467	**¥2,676**	**$25,190**
Plan assets	(1,597)	**(1,938)**	**(18,244)**
	870	**737**	**6,946**
Unfunded retirement benefit obligations	54	**57**	**542**
Total net liability (asset) for retirement benefits at March 31	924	**795**	**7,488**
Liability for retirement benefits	924	**899**	**8,466**
Asset for retirement benefits	—	**(103)**	**(978)**
Total net liability (asset) for retirement benefits at March 31	924	**795**	**7,488**

Retirement benefit costs for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	**2018**
Service cost	**¥140**	**¥160**	**$1,511**
Interest cost	**22**	**22**	**210**
Expected return on plan assets	**(24)**	**(26)**	**(246)**
Net actuarial loss amortization	**86**	**85**	**800**
Retirement benefit costs calculated by the simplified method	**4**	**22**	**209**
Total retirement benefit costs for year ended March 31	**229**	**264**	**2,486**

Breakdown of items recognized in other comprehensive income for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Actuarial differences……	¥(123)	**¥(103)**	**$(975)**
Total……	(123)	**(103)**	**(975)**

Breakdown of items recognized in accumulated other comprehensive income for the years ended March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Unrecognized actuarial differences……	¥199	**¥95**	**$903**
Total……	199	**95**	**903**

Plan assets for the years ended March 31, 2017 and 2018 were as follows:

	As of March 31	
	2017	**2018**
Plan assets comprise:		
Domestic Bonds……	12.7%	**12.2%**
Domestic Stocks……	20.2	**17.1**
Foreign Bonds……	3.5	**4.1**
Foreign Stocks……	10.9	**9.8**
Insurance assets (General account)……	46.4	**47.2**
Other……	6.3	**9.6**
Total……	100.0	**100.0**

Long-term expected rate of return

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

Actuarial assumptions for the years ended March 31, 2017 and 2018 were as follows:

	As of March 31	
	2017	**2018**
Discount rate……	1.0%	**1.0%**
Expected rate of return on plan assets……	1.9	**1.9**
Future salary increase rate……	2.6	**2.6**

Defined contribution plans

The estimated amount of contributions to defined contribution plans at March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
The estimated amount of contributions to defined contribution plans……	¥56	**¥63**	**$593**
Total……	56	**63**	**593**

13. Business combinations

(1) Business combinations by acquisition

1) Overview of the business combination

Name and business of the acquired company

Name: Korea Neturen Co., Ltd.

Business: Heating Machine Division

2) Main reasons for the business combination

Korea Neturen Co., Ltd. is an important base for production, sale, and maintenance of the Group 's induction-heating equipment and plays an essential part in our future global business expansion.

A decision was made to obtain the company's shares as turning it into a consolidated subsidiary is expected to strengthen our global business framework and generate synergies.

3) Date of the business combination

Share acquisition date: June 19, 2017

Deemed acquisition date: March 31, 2017

4) Legal form of the business combination

Share acquisition

5) Name of the acquired company after the business combination

No change in name

6) Ratio of voting rights acquired

Voting right ratio before acquisition: 44.8%

Ratio of voting rights acquired: 46.2%

Voting right ratio after acquisition: 91.0%

7) Primary basis for determining which is the acquiring company

The Company acquired shares in exchange for a cash payment.

(2) Period for which the acquired company's results were included in the consolidated financial statements

The results of Korea Neturen Co., Ltd. for the period from April 1, 2017 to December 31, 2017 were included in the consolidated financial statements.

(3) Amount and type of consideration paid for and acquisition cost of the acquired company

Fair value of shares held before business combination: ¥1,560 million

Cash payment for additional purchase: ¥1,591 million

Acquisition cost: ¥3,152 million

(4) Main acquisition-related costs

Advisory fees, etc. ¥23 million

(5) Difference between cost of the acquired company and total acquisition cost of individual transactions leading to acquisition

Gain on step acquisitions: ¥1,221 million

(6) Amount, cause and amortization of goodwill arising from the acquisition

1) Amount of goodwill

¥2,445 million

2) Cause of goodwill

Because the acquisition price exceeded the net assets of the acquired company, the difference was recorded as goodwill.

3) Amortization method and period

The goodwill arising from the acquisition will be amortized by the straight-line method over 10 years.

(7) Breakdown of assets acquired and liabilities assumed on the date of the business combination

Current assets: ¥741 million

Non-current assets: ¥318 million

Total assets: ¥1,060 million

Current liabilities: ¥255 million

Non-current liabilities: ¥12 million

Total liabilities: ¥267 million

(8) Estimate and calculation method of the impact on the consolidated statements of income calculated on the assumption that the business combination had been concluded at the start of the consolidated fiscal year ended March 31, 2018

A description is omitted as the estimated amount of the impact is immaterial.

14. Segment information

notes:

Summary of report segment

The reportable segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies divides the business into 2 segments: Specialty Steel & Wire Products Division-related business segment manufactures prestressing steel bars, deform prestressing steel bars, shear reinforcement bars for civil engineering and construction works, and Induction Heated, Quenched and Tempered Wire (ITW), etc. mainly for automobile and motorcycle suspension springs. The Induction Heat Treatment Service and Heating Machine Division-related business segment provides induction heat treatment services for major security parts of automobiles and machine tools. The segment also manufactures auto parts and construction machine parts, as well as induction heating equipment for various industries.

Calculating methods of amounts of sales, profit (loss), assets and liabilities etc of each reportable segment

The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies (Note 1)". Segment profit (loss) are based on operating income. Intersegment sales are mainly based on market price.

Operations in different industries:

(1) Specialty Steel and Wire Products Division: Prestressing Steel Bars & Wires, Spiral Wires, etc.

(2) Induction Heat Treatment Service and Heating Machine Division: Surface heat treatment, Induction heating machine, automobile components, etc.

(3) Others: Leasing and others

	Millions of yen				
	2017				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	¥20,582	¥22,689	¥43,272	¥124	¥43,396
Inter-segment	—	15	15	—	15
Total	20,582	22,705	43,287	124	43,411
Segment profit	1,602	1,342	2,944	58	3,003
Segment assets	20,333	32,948	53,282	2,092	55,374
Other items					
Depreciation and amortization	770	1,847	2,617	84	2,701
Increase in property, plant and equipment and intangible assets	509	2,488	2,998	24	3,023

	Millions of yen				
	2018				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	**¥21,282**	**¥27,569**	**¥48,852**	**¥128**	**¥48,980**
Inter-segment	**—**	**3**	**3**	**—**	**3**
Total	**21,282**	**27,573**	**48,856**	**128**	**48,984**
Segment profit	**1,562**	**2,034**	**3,597**	**59**	**3,656**
Segment assets	**21,369**	**39,312**	**60,682**	**2,063**	**62,745**
Other items					
Depreciation and amortization	**794**	**1,983**	**2,777**	**86**	**2,864**
Increase in property, plant and equipment and intangible assets	**939**	**6,173**	**7,112**	**59**	**7,172**

	Thousands of U.S. dollars				
	2018				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	**$200,325**	**$259,503**	**$459,829**	**$1,206**	**$461,036**
Inter-segment	**—**	**37**	**37**	**—**	**37**
Total	**200,325**	**259,541**	**459,867**	**1,206**	**461,073**
Segment profit	**14,708**	**19,151**	**33,859**	**561**	**34,420**
Segment assets	**201,147**	**370,035**	**571,183**	**19,418**	**590,602**
Other items					
Depreciation and amortization	**7,478**	**18,667**	**26,146**	**814**	**26,960**
Increase in property, plant and equipment and intangible assets	**8,838**	**58,106**	**66,944**	**564**	**67,509**

Reconciliation between reportable segment total and amounts disclosed in consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Sales:			
Reportable segment total	¥43,287	**¥48,856**	**$459,867**
Sales in "Others"	124	**128**	**1,206**
Elimination of inter-segment transaction	(15)	**(3)**	**(37)**
Sales in consolidated financial statements	43,396	**48,980**	**461,036**

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Profit:			
Reportable segment total	¥2,944	**¥3,597**	**$33,859**
Profit in "Others"	58	**59**	**561**
Elimination of inter-segment transaction	—	**—**	**—**
Operating income in consolidated financial statements	3,003	**3,656**	**34,420**

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Assets:			
Reportable segment total	¥53,282	**¥60,682**	**$571,183**
Assets in "Others"	2,092	**2,063**	**19,418**
Corporate assets	20,856	**19,826**	**186,616**
Assets in consolidated financial statements	76,230	**82,571**	**777,219**

Other items are as follows:

	Millions of yen 2017 Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization.......................................	¥2,617	¥84	¥37	¥2,739
Increase in property, plant and equipment and intangible assets……………………………...	2,998	24	144	3,167

	Millions of yen **2018** Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization.......................................	**¥2,777**	**¥86**	**¥32**	**¥2,897**
Increase in property, plant and equipment and intangible assets……………………………...	**7,112**	**59**	**39**	**7,211**

	Thousands of U.S. dollars **2018** Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization.......................................	**$26,146**	**$814**	**$309**	**$27,270**
Increase in property, plant and equipment and intangible assets……………………………...	**66,944**	**564**	**373**	**67,883**

Related information

Information about products and services

	Millions of yen 2017 Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers...........	¥9,398	¥10,330	¥12,504	¥5,013	¥5,170	¥978	¥43,396

	Millions of yen **2018** Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers...........	**¥9,038**	**¥11,146**	**¥14,966**	**¥6,223**	**¥6,377**	**¥1,227**	**¥48,980**

	Thousands of U.S. dollars **2018** Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers...........	**$85,080**	**$104,920**	**$140,877**	**$58,578**	**$60,028**	**$11,550**	**$461,036**

Information about geographical areas

	Millions of yen					
	2017					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	¥33,144	¥7,560	¥1,999	¥691	¥0	¥43,396

	Millions of yen					
	2018					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	**¥36,225**	**¥8,929**	**¥2,671**	**¥1,149**	**¥3**	**¥48,980**

	Thousands of U.S. dollars					
	2018					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	**$340,980**	**$84,052**	**$25,150**	**$10,818**	**$34**	**$461,036**

Note: Net sales is based on a customer's location and classified by countries.

	Millions of yen					
	2017					
Property, plant	Japan	Asia	North America	Europe	Others	Total
and equipment…	¥21,552	¥4,105	¥1,127	¥1,259	¥593	¥28,639

	Millions of yen					
	2018					
Property, plant	Japan	Asia	North America	Europe	Others	Total
and equipment…	**¥23,417**	**¥4,060**	**¥952**	**¥1,876**	**¥672**	**¥30,980**

	Thousands of U.S. dollars					
	2018					
Property, plant	Japan	Asia	North America	Europe	Others	Total
and equipment…	**$220,424**	**$38,222**	**$8,965**	**$17,666**	**$6,332**	**$291,611**

15. Subsequent events

(1) Cash dividends

The following appropriations of unappropriated retained earnings were approved at the meeting of shareholders of the Company held on June 27, 2018.

The fiscal year ended March 31, 2017 dividend includes a commemorative dividend of ¥4 per share.

Cash dividends	Millions of yen	Thousands of U.S. dollars
¥11 per share (applicable to the six-month period ended March 31, 2018)……………	¥451	$4,245

Independent Auditor's Report

To The Board of Directors of Neturen Co., Ltd.

We have audited the accompanying consolidated financial statements of Neturen Co., Ltd. and its subsidiaries, which comprise the consolidated balance sheet as of March 31, 2018, the consolidated statements of income and comprehensive income, changes in net assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 generally accepted accounting principles in Japan, and for such internal control as management determines is necessary to enable the preparation of 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 audits. 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the consolidated financial position of Neturen Co., Ltd. and its subsidiaries as of March 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translations

The accompanying consolidated financial statements as of and for the year ended March 31, 2018 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into dollars on the basis set forth in Note2 of the notes to consolidated financial statements.

Inoue Audit Corporation

INOUE AUDIT CORPORATION

Tokyo, Japan

June 27, 2018

CORPORATE DATA

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Date of Establishment:
May 15, 1946

Paid-in Capital:
¥6,418 million

Common Stock:
Authorized: 150,000,000 shares
Issued: 43,790,500 shares
Number of shareholders: 8,137

Number of Employees:
1,526(Consolidated)

(As of March 31, 2018)

Directors and Corporate Auditors:

President (Representative Director)
Shigeru Mizoguchi

Managing Director
Katsumi Omiya   Tetsuji Murata

Director
Tomokatsu Yasukawa   Takashi Suzuki
Nobumoto Ishiki   Yoshitaka Misaka
Nobuhiro Murai

Outside Director
Yasuko Teraura   Mineo Hanai

Standing Audit & Supervisory Board Member
Hitoshi Inagaki

Outside Audit & Supervisory Board Member
Hiroshi Yoshimine   Takeshi Nakano

(As of June 27, 2018)