Annual Report 2016

For the year ended March 31, 2016

NETUREN CO., LTD.

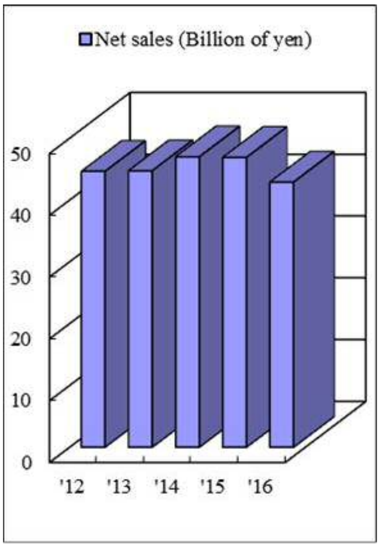
CONTENTS

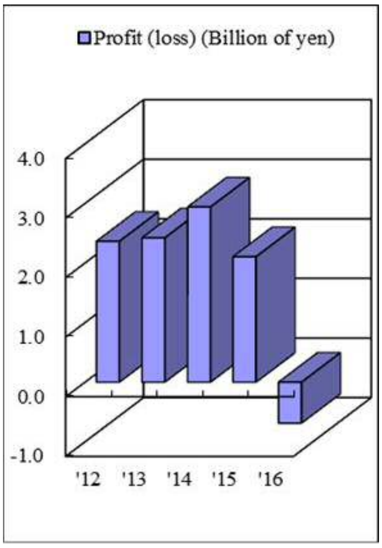
FIVE－YEAR SUMMARY

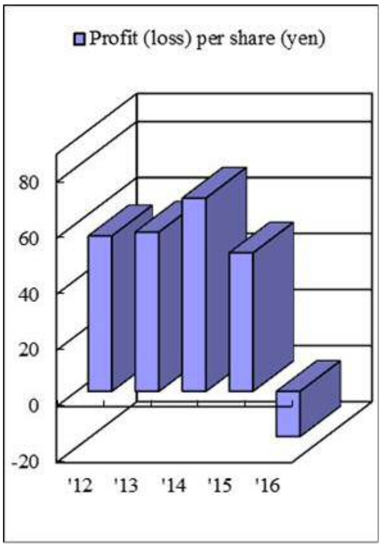
Neturen Co., Ltd. and Consolidated Subsidiaries
Five years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2012	2013	2014	2015	**2016**	**2016**
Net sales…………………………..	¥44,635	¥44,728	¥46,997	¥46,895	**¥42,905**	**$380,777**
Operating income………………….	4,207	3,826	3,686	3,001	**2,145**	**19,044**
Profit (loss)……………………..….	4,354	4,201	3,390	2,520	**(411)**	**(3,653)**
Profit (loss) attributable to owners of parent…………………...	2,363	2,422	2,939	2,105	**(687)**	**(6,097)**
Comprehensive income……………	2,137	4,328	7,208	5,460	**(3,203)**	**(28,427)**
Total assets………………………....	66,785	70,583	78,374	81,828	**76,610**	**679,898**
Total Net assets……………………	51,311	55,376	61,658	66,176	**62,202**	**552,026**
Per share of common stock (in yen and dollars):						
Profit (loss)…………………….	¥ 55.43	¥ 56.83	¥ 68.96	¥49.41	**¥(16.12)**	**$(0.14)**
Cash dividends…………………	14.00	15.00	18.00	14.00	**14.00**	**0.12**
Stockholders' equity…………...	1,134.81	1,209.91	1,325.53	1,411.70	**1,322.16**	**11.73**

Note: U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥112.68=US$1.







TO OUR SHAREHOLDERS

The Group, consisting of the Company (Neturen Co., Ltd.), 16 subsidiaries and 6 affiliates, manufactures and sells prestressing steel bars and deformed steel bars for prestressed concrete used in the civil engineering and construction field; Induction Heated, Quenched and Tempered Wire (ITW) used mainly in suspension springs for automobiles and motorcycles, auto parts and construction machine parts; and induction heating equipment for various industries. It also provides heat treatment services for major security parts of automobiles, machine tools and construction equipment.

(1) Activities and Results

During the fiscal year ended March 31, 2016, Japan's economy followed a moderate recovery trend overall. However, future economic conditions continue to be uncertain, due partly to the cautious stance of companies toward capital investment and a sharp appreciation of the yen. In the global economy, economic conditions in China and other emerging countries remained sluggish, while resource and energy prices continued to fall worldwide. These adversely impacted the business performance of companies in Japan.

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 medium-term business plan, "Global Innovation 70th."

However, orders received from the construction machinery industry decreased more than expected, due partly to falling resource and energy prices, while orders received from the civil engineering and construction industries were sluggish, due to a fall in the number of construction starts for condominiums and other buildings. These primary factors seriously impacted the Group's business performance.

As a result, net sales for the fiscal year under review were ¥42,905 million (down 8.5% from the previous fiscal year), with operating income at ¥2,145 million (down 28.5% from the previous fiscal year) and ordinary income at ¥2,758 million (down 23.8% from the previous fiscal year). Net loss attributable to owners of parent was ¥687 million (net income of ¥2,105 million in the previous fiscal year), as a result of recording an impairment loss on non-current assets of ¥3,102 million, due to a continued deterioration of orders received from the construction machinery industry inside and outside Japan.

Status by business segment

a. Specialty Steel and Wire Products Division

The sales volume of our main products, civil engineering and construction-related items, decreased from the previous fiscal year. This was due partly to a decline in the number of construction starts for condominiums and other buildings where many of our products are used, as well as intensifying competition, including from materials sourced overseas.

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

As a result, sales in this segment were ¥21,383 million (down 8.8% from the previous fiscal year) and operating income was ¥1,193 million (down 18.6%).

b. Induction Heat Treatment Service and Heating Machine Division

Sales of services related to induction heat treatment were flat from a year earlier. On the other hand, sales of products related to construction machine parts and induction-heating equipment dropped year on year, due partly to a steeper-than-expected fall in orders from the construction machinery industry against the backdrop of a slowdown in large-scale mine development caused by falling resource and energy prices. Another factor contributing to the decrease was a plunge in orders in China, which is experiencing a sharp economic slowdown. Sales of auto-parts-related segments decreased year on year, due chiefly to the slow growth of orders in Japan.

As a result, sales in this segment were ¥21,397 million (down 8.3% from the previous fiscal year) and operating income was ¥894 million (down 39.5%).

c. Others

This segment deals with activities such as the 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 size of contribution is small.

As a result, sales in this segment were ¥125 million (down 1.4% from the previous fiscal year) and operating income was ¥57 million (up 2.5%).

(2) Cash Flow

At the end of the fiscal year under review, the balance of cash and cash equivalents amounted to ¥14,054 million (up ¥631 million from the previous fiscal year).

a. Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥4,574 million (¥4,692 million income in the previous fiscal year).

This was caused mainly by a decline in income before income taxes and minority interests, whose main contributory factor was the recording of a non-cash impairment loss of ¥3,102 million.

b. Cash Flow Used in Investing Activities

Net cash used in investing activities amounted to ¥2,442 million (¥3,017 million expenditure in the previous fiscal year).

This was caused mainly by payments for purchases of property, plant and equipment totaling ¥3,010million, despite Proceeds from sales and redemption amounting to ¥1,510 million.

c. Cash Flow Used in Financing Activities

Net cash used in financing activities amounted to ¥1,393 million (¥1,393 million expenditure in the previous fiscal year).

This was mainly due to payments of dividends amounting to ¥596 million and repayment of long-term debt totaling ¥406 million.

(3) Equipment Investment

The Group (the Company and its consolidated subsidiaries) has been focused on making capital expenditures for new products and businesses as well as to meet orders received. To cope with changes in the business environment, we also have 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 ¥3,088 million on a consolidated basis.

(4) Issues for the Coming Term

We recognize that the operating environment surrounding the Group will continue to be harsh going forward.

1. Quicken the speed at which new products that meet the needs of customers are developed and launched in the market, and take quickly and appropriate steps to respond to changes in the order situation.
2. Promote energy-saving measures including the necessary capital investments and minimize the impact of a rise in electricity rates on business results.
3. Supply products of consistent quality to the market in a timely manner by responding appropriately to the demand associated with reconstruction from the Great East Japan Earthquake and large-scale projects.
4. Establish strategies to promote global opportunities, enhance technologies, and urgently secure and develop the human resources needed. In addition, strengthen the management framework to ensure the smooth launch of new overseas businesses, contribute to the Group’s consolidated business performance, visualize risks unique to overseas business, and implement countermeasures for those risks.

Shigeru Mizoguchi
President

CONSOLIDATED BALANCE SHEETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note2)
	2015	**2016**	**2016**
ASSETS			
Current assets:			
Cash and deposits(Note4)	¥13,763	**¥14,674**	**$130,228**
Notes and accounts receivable-trade(Note4)	12,467	**11,905**	**105,653**
Electronically recorded monetary claims	1,840	**2,763**	**24,525**
Securities(Note4,5)	190	**-**	**-**
Inventories (Note3)	4,312	**4,179**	**37,092**
Deferred tax assets (Note7)	416	**410**	**3,642**
Other	1,779	**1,519**	**13,482**
Total current assets	34,770	**35,452**	**314,626**
Non-current assets:			
Property, plant and equipment:			
Land	10,209	**9,602**	**85,214**
Buildings and structures	19,711	**18,758**	**166,477**
Machinery, equipment and vehicles	43,684	**42,436**	**376,607**
Construction in progress	719	**2,214**	**19,652**
Other	2,496	**2,476**	**21,974**
Accumulated depreciation	(44,940)	**(47,030)**	**(417,384)**
Total property, plant and equipment	31,880	**28,456**	**252,542**
Intangible assets:			
Leasehold right	973	**911**	**8,087**
Other	16	**11**	**99**
Total intangible assets	990	**922**	**8,186**
Investments and other assets:			
Investment securities (Note4,5)	13,892	**11,470**	**101,795**
Deferred tax assets (Note7)	43	**40**	**362**
Other	337	**353**	**3,133**
Allowance for doubtful accounts	(85)	**(84)**	**(748)**
Total investments and other assets	14,187	**11,779**	**104,543**
Total non-current assets	47,058	**41,158**	**365,272**
Total assets	81,828	**76,610**	**679,898**

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note2)
	2015	**2016**	**2016**
LIABILITIES			
Current liabilities:			
Notes and accounts payable-trade(Note4)	¥5,006	**¥5,248**	**$46,577**
Electronically recorded obligations	—	**730**	**6,486**
Short-term loans payable (Note6)	2,144	**1,887**	**16,755**
Lease obligations (Note6)	31	**35**	**311**
Income taxes payable (Note7)	281	**464**	**4,120**
Deferred tax liabilities (Note7)	1	**1**	**11**
Provision for bonuses	539	**517**	**4,590**
Other	4,010	**3,067**	**27,223**
Total current liabilities	12,015	**11,952**	**106,076**
Non-current liabilities:			
Long-term loans payable(Note6)	1,020	**621**	**5,513**
Lease obligations (Note6)	64	**59**	**524**
Deferred tax liabilities (Note7)	1,440	**589**	**5,228**
Net defined benefit liability (Note12)	901	**977**	**8,677**
Other	209	**208**	**1,852**
Total non-current liabilities	3,636	**2,455**	**21,795**
NET ASSETS			
Shareholders' equity:			
Capital stock	6,418	**6,418**	**56,960**
Capital surplus	5,528	**5,528**	**49,065**
Retained earnings	45,768	**44,485**	**394,790**
Treasury shares	(1,670)	**(1,670)**	**(14,826)**
Total shareholders' equity	56,045	**54,761**	**485,989**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,057	**335**	**2,980**
Foreign currency translation adjustment	2,262	**1,479**	**13,132**
Remeasurements of defined benefit plans	(196)	**(224)**	**(1,991)**
Total accumulated other comprehensive income	4,123	**1,591**	**14,121**
Non-controlling interests	6,007	**5,849**	**51,916**
Total net assets	66,176	**62,202**	**552,026**
Total liabilities and net assets	81,828	**76,610**	**679,898**

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note2)
	2015	**2016**	**2016**
Net sales	¥46,895	**¥42,905**	**$380,777**
Cost of sales	37,465	**34,168**	**303,232**
Gross profit	9,429	**8,737**	**77,544**
Selling, general and administrative expenses (Note8)	6,428	**6,591**	**58,500**
Operating income	3,001	**2,145**	**19,044**
Other income (expenses):			
Interest and dividend income	235	**281**	**2,495**
Share of profit of entities accounted for using equity method	347	**402**	**3,573**
Gain on sales of investment securities	—	**759**	**6,744**
Impairment loss (Note9)	—	**(3,102)**	**(27,535)**
Other net (Note10)	2	**(107)**	**(954)**
Other income (expenses) - net	585	**(1,766)**	**(15,676)**
Profit before income taxes	3,586	**379**	**3,367**
Income taxes (Note7)			
Current	(886)	**(923)**	**(8,192)**
Deferred	(179)	**131**	**1,171**
Total income taxes	(1,066)	**791**	**7,021**
Profit (loss)	2,520	**(411)**	**(3,653)**
Profit (loss) attributable to:			
Profit (loss) attributable to owners of parent	2,105	**(687)**	**(6,097)**
Profit attributable to non-controlling interests	414	**275**	**2,443**
Other comprehensive income (Note11)			
Valuation difference on available-for-sale securities	1,021	**(1,728)**	**(15,339)**
Foreign currency translation adjustment	1,501	**(824)**	**(7,316)**
Remeasurements of defined benefit plans, net of tax	71	**(28)**	**(251)**
Share of other comprehensive income of entities accounted for using equity method	345	**(210)**	**(1,866)**
Total other comprehensive income	2,940	**(2,791)**	**(24,773)**
Comprehensive income	5,460	**(3,203)**	**(28,427)**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	4,550	**(3,219)**	**(28,569)**
Comprehensive income attributable to non-controlling interests	909	**15**	**141**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2014….........	¥6,418	¥5,528	¥44,541	¥(1,669)	¥54,818
Cumulative effects of changes in accounting policies……………..			(162)		(162)
Restated balance………………..	6,418	5,528	44,379	(1,669)	54,656
Changes of items during period					
Dividends of surplus………...			(724)		(724)
Profit attributable to owners of parent…………….			2,105		2,105
Purchase of treasury shares…...				(0)	(0)
Change of scope of consolidation			8		8
Other………………………...					
Balance at March 31, 2015…...	**6,418**	**5,528**	**45,768**	**(1,670)**	**56,045**
Changes of items during period					
Dividends of surplus………...			**(596)**		**(596)**
Profit (loss) attributable to owners of parent…………….			**(687)**		**(687)**
Purchase of treasury shares…...				**(0)**	**(0)**
Disposal of treasury shares…...		**0**		**0**	**0**
Other………………………...					
Balance at March 31, 2016……	**6,418**	**5,528**	**44,485**	**(1,670)**	**54,761**

	Thousands of U.S. dollars (Note2)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 31, 2015……	**$56,960**	**$49,064**	**$406,183**	**$ (14,822)**	**$497,386**
Changes of items during period					
Dividends of surplus………...			**(5,295)**		**(5,295)**
Profit (loss) attributable to owners of parent…………….			**(6,097)**		**(6,097)**
Purchase of treasury shares…...				**(6)**	**(6)**
Disposal of treasury shares…...		**0**		**2**	**2**
Other………………………...					
Balance at March 31, 2016……	**56,960**	**49,065**	**394,790**	**(14,826)**	**485,989**

	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 April 1, 2014………..	¥1,020	¥924	¥(267)	¥5,161	¥61,658
Cumulative effects of changes in accounting policies……………..					(162)
Restated balance………………..	1,020	924	(267)	5,161	61,496
Changes of items during period					
Dividends of surplus………..					(724)
Profit attributable to owners of parent…………….					2,105
Purchase of treasury shares…...					(0)
Change of scope of consolidation					8
Other………………………...	1,036	1,337	71	846	3,290
Balance at March 31, 2015……	**2,057**	**2,262**	**(196)**	**6,007**	**66,176**
Changes of items during period					
Dividends of surplus………...					**(596)**
Profit (loss) attributable to owners of parent…………….					**(687)**
Purchase of treasury shares…...					**(0)**
Disposal of treasury shares…...					**0**
Other………………………...	**(1,721)**	**(782)**	**(28)**	**(157)**	**(2,689)**
Balance at March 31, 2016……	**335**	**1,479**	**(224)**	**5,849**	**62,202**

	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, 2015……	**$18,257**	**$20,075**	**$(1,740)**	**$53,316**	**$587,295**
Changes of items during period					
Dividends of surplus………...					**(5,295)**
Profit (loss) attributable to owners of parent…………….					**(6,097)**
Purchase of treasury shares…...					**(6)**
Disposal of treasury shares…...					**2**
Other………………………...	**(15,277)**	**(6,942)**	**(251)**	**(1,400)**	**(23,871)**
Balance at March 31, 2016……	**2,980**	**13,132**	**(1,991)**	**51,916**	**552,026**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note2)
	2015	**2016**	**2016**
Cash flows from operating activities:			
Profit before income taxes…………………………………..	¥3,586	**¥379**	**$3,367**
Depreciation……………………………………………….	2,967	**2,930**	**26,005**
Impairment loss…………………………………………...	—	**3,102**	**27,535**
Increase (decrease) in provision for bonuses………………...	(85)	**(22)**	**(195)**
Increase (decrease) in net defined benefit liability…………..	77	**42**	**374**
Interest and dividend income……………………………...	(164)	**(190)**	**(1,688)**
Interest expenses…………………………………………..	68	**56**	**504**
Foreign exchange losses (gains)…………………………..	(132)	**44**	**398**
Share of (profit) loss of entities accounted for using equity method..	(347)	**(402)**	**(3,573)**
Loss (gain) on sales of property,plant and equipment……….	(0)	**2**	**24**
Loss (gain) on disposal of property, plant and equipment…...	50	**41**	**370**
Loss (gain) on sales of investment securities………………..	—	**(759)**	**(6,744)**
Decrease (increase) in notes and accounts receivable-trade…	67	**(534)**	**(4,741)**
Decrease (increase) in inventories………………………...	269	**41**	**369**
Increase (decrease) in notes and accounts payable-trade……	(868)	**1,019**	**9,045**
Increase (decrease) in accrued consumption taxes…………..	609	**(428)**	**(3,800)**
Other, net………………………………………………….	(435)	**(359)**	**(3,190)**
Subtotal……………………………………………….	5,662	**4,964**	**44,060**
Interest and dividend income received………………………	274	**291**	**2,585**
Interest expenses paid……………………………………..	(70)	**(55)**	**(493)**
Income taxes (paid) refund…………………………………..	(1,174)	**(625)**	**(5,553)**
Net cash provided by (used in) operating activities…….	4,692	**4,574**	**40,599**

	Millions of yen		Thousands of U.S. dollars (Note2)
	2015	**2016**	**2016**
Cash flows from investing activities:			
Payments into time deposits…………………………………	¥(1,030)	**¥(519)**	**$(4,606)**
Proceeds from withdrawal of time deposits…………………	1,107	**408**	**3,629**
Proceeds from sales and redemption of securities…………...	300	**—**	**—**
Purchase of property, plant and equipment…………………..	(3,350)	**(3,010)**	**(26,719)**
Proceeds from sales of property, plant and equipment………	11	**2**	**20**
Purchase of intangible assets……………………………...	(6)	**(15)**	**(141)**
Purchase of investment securities……………………………	(13)	**(731)**	**(6,495)**
Proceeds from sales and redemption of investment securities….	—	**1,510**	**13,408**
Payments of loans receivable………………………………..	(9)	**(4)**	**(36)**
Collection of loans receivable………………………………	35	**10**	**91**
Purchase of long-term prepaid expenses…………………….	(62)	**(69)**	**(620)**
Other, net……………………………………………………	0	**(23)**	**(208)**
Net cash provided by (used in) investing activities…….	(3,017)	**(2,442)**	**(21,677)**
Cash flows from financing activities:			
Increase in short-term loans payable………………………...	—	**422**	**3,746**
Decrease in short-term loans payable………………………..	(120)	**(663)**	**(5,887)**
Proceeds from long-term loans payable……………………..	30	**—**	**—**
Repayments of long-term loans payable…………………….	(434)	**(406)**	**(3,603)**
Purchase of treasury shares…………………………………..	(0)	**(0)**	**(6)**
Cash dividends paid………………………………………….	(724)	**(596)**	**(5,295)**
Dividends paid to Non-controlling interests…………………	(107)	**(118)**	**(1,049)**
Other, net……………………………………………………	(35)	**(30)**	**(273)**
Net cash provided by (used in) financing activities……	(1,393)	**(1,393)**	**(12,368)**
Effect of exchange rate change on cash and cash equivalents	301	**(106)**	**(946)**
Net increase (decrease) in cash and cash equivalents…….	583	**631**	**5,607**
Cash and cash equivalents at beginning of period…………..	12,684	**13,422**	**119,124**
Increase in cash and cash equivalents from newly consolidated subsidiary………………………………………..	154	**—**	**—**
Cash and cash equivalents at end of period…………………..	13,422	**14,054**	**124,731**

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 14 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 6 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) 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.

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

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed under the declining-balance method at rates based on estimated useful lives of the assets while the straight-line method is applied to buildings acquired after April 1, 1998, and to the assets of foreign subsidiaries.

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.

(7) Intangible assets

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

(8) 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.

(9) 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.

(10) Research and Development Costs

Research and development costs are charged to income as incurred.

(11) 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.

(12) 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.

(Change in accounting policies)

Application of accounting standards related to business combination

The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations”(Accounting Standards Board of Japan(“ASBJ”) Statement No.21 of September 13, 2013) “Revised Accounting Standard for Consolidated Financial Statements”(ASBJ Statement No.22 of September 13, 2013) “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7 of September 13, 2013) and other standards. These revised accounting standards are applied from the fiscal year ended March 31 2016. Accordingly, differences resulting from changes in ownership interest in subsidiaries when control over the subsidiaries is retained are recognized under capital surplus, and acquisition-related costs are recorded as expenses for the period in which they arise. For business combinations conducted on or after the beginning of the year ended March 31, 2016, the accounting method has been changed to reflect adjustments of the allocation of acquisition costs on the finalization of provisional accounting treatments in the consolidated financial statements for the year in which the business combination occurs. In addition, the presentation method of net income was amended, and “minority interests” were changed to “non-controlling interests”. Certain reclassifications were made to the previous year’s consolidated financial statements to reflect these changes in presentation.

From April 1, 2015, these revised standards are applied prospectively in accordance with the transitional treatment provided in Article 58-2(4) of ASBJ Statement No.21, Article 44-5(4) of ASBJ Statement No.22 and Article 57-4(4) of ASBJ Statement No.7 is applied from the beginning of the year ended March 31,2016.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

This change had no impact on consolidated Financial Statements.

(Accounting standards issued but not yet applied)

“Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016(hereinafter, “Guidance No.26”))

(1) Overview

Following the framework in Auditing Committee Report No. 66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets”, which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The Company and its domestic subsidiaries are currently in the process of determining the effects of these revised 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 ¥112.68 to $1, the approximate rate of exchange on March 31, 2016, 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, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Finished goods	¥958	**¥990**	**$8,791**
Work in process	1,305	**1,238**	**10,987**
Raw materials and supplies	2,049	**1,950**	**17,314**
	4,312	**4,179**	**37,092**

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 managings 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 and accounts receivable— 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 and accounts payable— 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, 2015 and 2016 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		
	2015		
	Book value	Fair value	Difference
Cash and Deposits	¥13,763	¥13,763	¥—
Notes and accounts receivable	12,467	12,467	—
Marketable securities and investment securities:			
Other securities	8,172	8,172	—
Total	34,403	34,403	—
Notes and accounts payable	5,006	5,006	—
Total	5,006	5,006	—

	Millions of yen		
	2016		
	Book value	Fair value	Difference
Cash and Deposits	**¥14,674**	**¥14,674**	**¥—**
Notes and accounts receivable	**11,905**	**11,905**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**106**	**107**	**0**
Other securities	**5,267**	**5,267**	**—**
Total	**31,953**	**31,954**	**0**
Notes and accounts payable	**5,248**	**5,248**	**—**
Total	**5,248**	**5,248**	**—**

	Thousands of U.S. dollars		
	2016		
	Book value	Fair value	Difference
Cash and Deposits	**$130,228**	**$130,228**	**$—**
Notes and accounts receivable	**105,653**	**105,653**	**—**
Marketable securities and investment securities:			
Held-to-maturity securities	**944**	**952**	**7**
Other securities	**46,749**	**46,749**	**—**
Total	**283,576**	**283,583**	**7**
Notes and accounts payable	**46,577**	**46,577**	**—**
Total	**46,577**	**46,577**	**—**

(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.

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

As of March 31, 2015 and 2016, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Other securities without fair value:			
Unlisted equity securities	¥759	**¥244**	**$2,169**

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, 2015 and 2016

	Millions of yen			
	2015			
	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	¥13,763	¥—	¥—	¥—
Notes and accounts receivable	12,467	—	—	—
Total	26,231	—	—	—

	Millions of yen			
	2016			
	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	**¥14,674**	**¥—**	**¥—**	**¥—**
Notes and accounts receivable	**11,905**	**—**	**—**	**—**
Held-to-maturity securities	**—**	**—**	**100**	**—**
Total	**26,579**	**—**	**100**	**—**

	Thousands of U.S. dollars			
	2016			
	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	**$130,228**	**$—**	**$—**	**$—**
Notes and accounts receivable	**105,653**	**—**	**—**	**—**
Held-to-maturity securities	**—**	**—**	**887**	**—**
Total	**235,882**	**—**	**887**	**—**

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, 2015 and 2016.

	Millions of yen						Thousands of U.S. dollars		
	2015			**2016**			**2016**		
Held-to-maturity securities:	Book value	Difference	Fair value	Book value	Difference	Fair value	Book value	Difference	Fair value
Bonds…................	¥—	¥—	¥—	**¥106**	**¥0**	**¥107**	**$944**	**$7**	**$952**
Others..................	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	—	—	—	**106**	**0**	**107**	**944**	**7**	**952**
Other securities:									
Available-for-sale securities	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition cost	Unrealized gain (loss)	Book value (Fair value)	Acquisition Cost	Unrealized gain (loss)	Book value (Fair value)
Bonds…................	¥—	¥—	¥—	**¥—**	**¥—**	**¥—**	**$—**	**$—**	**$—**
Equity securities...	4,722	3,206	7,928	**4,431**	**782**	**5,213**	**39,330**	**6,942**	**46,272**
Others..................	243	(0)	243	**53**	**0**	**53**	**472**	**4**	**476**
	4,965	3,206	8,172	**4,484**	**782**	**5,267**	**39,802**	**6,946**	**46,749**

As of March 31, 2015 and 2016, the cost of non-marketable securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Other securities without fair value:			
Unlisted equity securities…...	¥759	**¥244**	**$2,169**
Non-consolidated subsidiaries and affiliates:			
Equity securities...	5,150	**5,851**	**51,932**

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, 2015 and 2016 were approximately 2.4% and 2.2% respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Unsecured loans from banks...	¥1,426	**¥1,035**	**$9,191**
Less: current portion...	(406)	**(414)**	**(3,678)**
Lease obligations..	95	**94**	**835**
Less: current portion...	(31)	**(35)**	**(311)**
	1,084	**680**	**6,037**

Interest rates applicable to the long-term loans mentioned above ranged from 0.9% and 0.9% as of March 31, 2015 and 2016 respectively.

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

As of March 31,	Millions of yen	Thousands of U.S. dollars
2018..	**¥412**	**$3,658**
2019..	**206**	**1,828**
2020..	**3**	**26**
2021..	**—**	**—**
	621	**5,513**

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, 2015 and 2016.

	As of March 31	
	2015	**2016**
Statutory tax rate	35.6%	**33.1%**
Permanent differences-Entertainment expenses and other	0.3	**3.3**
Permanent differences-Dividend income and other	(10.8)	**(80.5)**
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.4)	**(35.1)**
Dividends from consolidated subsidiaries	10.1	**78.8**
Valuation allowance for deferred tax assets	(0.5)	**174.6**
Per capita tax	1.1	**10.5**
Recognition of effective tax rate on retained earnings of foreign subsidiaries	2.0	**8.4**
Unrecording dererred tax assets to unrealized gain	(0.1)	**1.4**
Deficit of consolidated subsidiaries	3.2	**42.0**
Tax rate differences	(4.2)	**(7.4)**
Tax credit	(4.1)	**(22.5)**
Other-net	0.5	**1.9**
Effective tax rate	29.7%	**208.5%**

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Deferred tax assets:			
Inventories	¥ 33	**¥34**	**$305**
Depreciation	46	**41**	**370**
Intangible assets	8	**7**	**67**
Unrealized loss on valuation of other securities	23	**22**	**199**
Allowance for doubtful accounts	9	**8**	**76**
Accrued enterprise tax	26	**30**	**269**
Accrued employees' bonuses	203	**182**	**1,621**
Net defined benefit liability	485	**472**	**4,189**
Impairment loss	335	**1,239**	**11,003**
Valuation allowance	(511)	**(1,234)**	**(10,952)**
Unrealized loss on available-for-sale securities	146	**247**	**2,199**
Others	294	**196**	**1,744**
Total	1,103	**1,250**	**11,095**
Deferred tax liabilities:			
Accumulated earnings of consolidated subsidiaries	(416)	**(458)**	**(4,067)**
Reserve for deferred capital gains	(384)	**(360)**	**(3,200)**
Unrealized gain on available-for-sale securities	(1,193)	**(484)**	**(4,303)**
Others	(91)	**(85)**	**(760)**
Total	(2,086)	**(1,389)**	**(12,331)**
Net deferred tax assets (liabilities)	(982)	**(139)**	**(1,235)**

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Deferred tax assets - current	¥416	**¥410**	**$3,642**
Deferred tax assets - non current	43	**40**	**362**
Deferred tax liabilities - current	(1)	**(1)**	**(11)**
Deferred tax liabilities - non current	(1,440)	**(589)**	**(5,228)**

The "Act for Partial Amendment of the Income Tax Act, etc." and the "Act for Partial Amendment of the Local Tax Act, etc." were promulgated on March 29, 2016. As a result, the effective tax rate which the Company used for calculation of deferred tax assets and deferred tax liabilities for this period has been changed from 32.3% for the previous fiscal year to 30.9% for those which are expected to be recovered or paid from April 1, 2016 to March 31, 2018 and to 30.6% for those which are expected to be recovered or paid from April 1, 2018, respectively.

As a result of this change, net deferred tax liabilities (after netting deferred tax assets) decreased by ¥1 million ($16 thousand), remeasurements of defined benefit plans decreased by ¥5 million ($48 thousand), income taxes – deferred increase by ¥18 million ($160 thousand) and valuation difference on available-for-sale securities increased by ¥25 million ($225 thousand) as of and for the fiscal year ended March 31, 2016, respectively.

8. Research and Development Costs

Research and development costs are charged to income for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Research and development costs	¥891	**¥952**	**$8,455**

9. Impairment Loss

The Group has charged with impairment loss for the following groups of assets:

Category of assets	Location	Millions of yen **2016**	Thousands of U.S. dollars **2016**
Buildings and structures, Machinery, equipment and vehicles, Land, etc	Ibaraki, Kanagawa, Japan	**¥1,809**	**$16,057**
	Hyogo, Japan	**582**	**5,171**
Buildings and structures, Machinery, equipment and vehicles, etc	China	**605**	**5,375**
	Indonesia	**105**	**931**
		¥3,102	**$27,535**

In principle, the Group uses business sites as the standard for grouping assets used for business operations.

For assets used for business operations where there was a significant decline in profitability, the book value was written down to the recoverable amounts. As result, an impairment loss ¥3,102 million was recorded as an extraordinary loss. The recoverable amounts of these assets were measured at their net realizable value or their value in use. The net realizable value was based on the estimated sales value. The value in use was calculated by discounting future cash flows with a discount rate of 3.4%.

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

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Foreign exchange gains	¥77	**¥—**	**$—**
Foreign exchange Loss	—	**(123)**	**(1,092)**
Amortization of business commencement expenses	(81)	**—**	**—**
Other	6	**15**	**137**
Other income (expenses) - net	2	**(107)**	**(954)**

11. Other Comprehensive Income

Other comprehensive income for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Other consolidated comprehensive income for the year ended March 31, 2015 and 2016			
Unrealized gain on available-for sale securities			
Amount arising during the year	¥1,364	**¥(1,798)**	**$(15,959)**
Reclassification adjustments for gains and losses recognized in the income statement	—	**(636)**	**(5,648)**
Amount before tax effect adjustment	1,364	**(2,434)**	**(21,607)**
Tax effect	(342)	**706**	**6,267**
Total	1,021	**(1,728)**	**(15,339)**
Foreign currency translation adjustments			
Amount arising during the year	1,501	**(824)**	**(7,316)**
Total	1,501	**(824)**	**(7,316)**
Remeasurements of defined benefit plans			
Amount arising during the year	49	**(87)**	**(778)**
Reclassification adjustments for gains and losses recognized in the income statement	75	**54**	**479**
Amount before tax effect adjustment	125	**(33)**	**(298)**
Tax effect	(54)	**5**	**47**
Total	71	**(28)**	**(251)**
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	359	**(178)**	**(1,588)**
Reclassification adjustments for gains and losses recognized in the income statement	(14)	**(31)**	**(277)**
Total	345	**(210)**	**(1,866)**
Total	2,940	**(2,791)**	**(24,773)**

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, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Balance at April 1	¥2,327	**¥2,521**	**$22,376**
Cumulative effects of changes in accounting polisies	251	—	—
Restated balance	2,578	**2,521**	**22,376**
Service cost	138	**142**	**1,265**
Interest cost	22	**22**	**200**
Actuarial loss (gain)	38	**(15)**	**(137)**
Benefits paid	(257)	**(204)**	**(1,819)**
Balance at March 31	2,521	**2,466**	**21,886**

Movements in plan assets except plan applied simplified method for the years ended March 31, 2015 and 2016 were as follows

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Balance at April 1	¥1,678	**¥1,669**	**$14,816**
Expected return on plan assets	24	**25**	**227**
Acturial loss(gain)	88	**(103)**	**(915)**
Contributions paid by the employer	134	**152**	**1,354**
Benefit paid	(257)	**(204)**	**(1,819)**
Balance at March 31	1,669	**1,539**	**13,663**

Movements in liability for retirement benefitts based on the simplified method for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Balance at April 1	¥ 49	**¥50**	**$443**
Retirement benefit costs	14	**5**	**48**
Benefit paid	(14)	**(4)**	**(37)**
Balance at March 31	50	**51**	**454**

Reconciliation from retirement benefit obligations and plan assets to liability (asset) for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Funded retirement benefit obligations	¥2,521	**¥2,466**	**$21,886**
Plan assets	(1,669)	**(1,539)**	**(13,663)**
	851	**926**	**8,222**
Unfunded retirement benefit obligations	50	**51**	**454**
Total net liabilitiy (asset) for retirement benefits at March 31	901	**977**	**8,677**
Asset for retirement benefits	—	—	—
Liabilitiy for retirement benefits	901	**977**	**8,677**
Total net liabilitiy (asset) for retirement benefits at March 31	901	**977**	**8,677**

Retirement benefit costs for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Service cost	¥138	**¥142**	**$1,265**
Interest cost	22	**22**	**200**
Expected return on plan assets	(24)	**(25)**	**(227)**
Net actuarial loss amortization	75	**54**	**479**
Retirement benefit costs calculated by the simplified method	14	**5**	**48**
Total retirement benefit costs for year ended March 31	226	**199**	**1,766**

Breakdown of items recognized in other comprehensive income for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Actuarial differences	¥(125)	**¥33**	**$298**
Total	(125)	**33**	**298**

Breakdown of items recognized in accumulated other comprehensive income for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Unrecognized actuarial differences	¥289	**¥323**	**$2,869**
Total	289	**323**	**2,869**

Plan assets for the years ended March 31, 2015 and 2016 were as follows:

	As of March 31	
	2015	**2016**
Plan assets comprise:		
Domestic Bonds	8.4%	**10.7%**
Domestic Stocks	23.0	**19.1**
Foreign Bonds	2.7	**3.1**
Foreign Stocks	12.2	**11.1**
Insurance assets (General account)	43.0	**47.1**
Other	10.7	**8.9**
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, 2015 and 2016 were as follows:

	As of March 31	
	2015	**2016**
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, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
The estimated amount of contributions to defined contribution plans	¥55	**¥56**	**$500**
Total	55	**56**	**500**

13. 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				
	2015				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	¥23,443	¥23,324	¥46,768	¥126	¥46,895
Inter-segment	—	18	18	—	18
Total	23,443	23,342	46,786	126	46,913
Segment profit	1,466	1,477	2,944	56	3,001
Segment assets	22,223	35,303	57,527	2,150	59,678
Other items					
Depreciation and amortization	821	1,973	2,794	119	2,914
Increase in property, plant and equipment and intangible assets	883	2,226	3,109	115	3,224

	Millions of yen				
	2016				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	**¥21,383**	**¥21,397**	**¥42,780**	**¥125**	**¥42,905**
Inter-segment	**—**	**19**	**19**	**—**	**19**
Total	**21,383**	**21,417**	**42,800**	**125**	**42,925**
Segment profit	**1,193**	**894**	**2,087**	**57**	**2,145**
Segment assets	**21,362**	**32,668**	**54,030**	**2,162**	**56,193**
Other items					
Depreciation and amortization	**838**	**1,932**	**2,771**	**117**	**2,888**
Increase in property, plant and equipment and intangible assets	**290**	**2,682**	**2,973**	**108**	**3,082**

	Thousands of U.S. dollars				
	2016				
	Reportable segment			Others	Total
	(1)	(2)	Total	(3)	
Sales:					
Customers	**$189,768**	**$189,897**	**$379,666**	**$1,110**	**$380,777**
Inter-segment	**—**	**176**	**176**	**—**	**176**
Total	**189,768**	**190,073**	**379,842**	**1,110**	**380,953**
Segment profit	**10,594**	**7,935**	**18,529**	**514**	**19,044**
Segment assets	**189,588**	**289,918**	**479,507**	**19,193**	**498,700**
Other items					
Depreciation and amortization	**7,445**	**17,146**	**24,592**	**1,041**	**25,633**
Increase in property, plant and equipment and intangible assets	**2,579**	**23,810**	**26,389**	**966**	**27,356**

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

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Sales:			
Reportable segment total	¥46,786	**¥42,800**	**$379,842**
Sales in "Others"	126	**125**	**1,110**
Elimination of inter-segment transaction	(18)	**(19)**	**(176)**
Sales in consolidated financial statements	46,895	**42,905**	**380,777**

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Profit:			
Reportable segment total	¥2,944	**¥2,087**	**$18,529**
Profit in "Others"	56	**57**	**514**
Elimination of inter-segment transaction	—	**—**	**—**
Operating income in consolidated financial statements	3,001	**2,145**	**19,044**

	Millions of yen		Thousands of U.S. dollars
	2015	**2016**	**2016**
Assets:			
Reportable segment total	¥57,527	**¥54,030**	**$479,507**
Assets in "Others"	2,150	**2,162**	**19,193**
Corporate assets	22,150	**20,417**	**181,197**
Assets in consolidated financial statements	81,828	**76,610**	**679,898**

Other items are as follows:

	Millions of yen			
	2015			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization..	¥2,794	¥119	¥52	¥2,967
Increase in property, plant and equipment and intangible assets………………………………...	3,109	115	8	3,232

	Millions of yen			
	2016			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization..	**¥2,771**	**¥117**	**¥41**	**¥2,930**
Increase in property, plant and equipment and intangible assets………………………………...	**2,973**	**108**	**5**	**3,088**

	Thousands of U.S. dollars			
	2016			
	Reportable segment	Others	Adjustments	Consolidated
Other items:				
Depreciation and amortization..	**$24,592**	**$1,041**	**$371**	**$26,005**
Increase in property, plant and equipment and intangible assets………………………………...	**26,389**	**966**	**49**	**27,405**

Related information

Information about products and services

	Millions of yen						
	2016						
	Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers............	**¥9,648**	**¥10,861**	**¥11,339**	**¥4,393**	**¥5,662**	**¥1,000**	**¥42,905**

	Thousands of U.S. dollars						
	2016						
	Prestressing steel bars	ITW	Heat treatment	Automobile component parts	Induction heating equipment	Others	Total
Sales:							
Customers............	**$85,630**	**$96,388**	**$100,633**	**$38,989**	**$50,255**	**$8,878**	**$380,777**

Information about geographical areas

	Millions of yen					
	2016					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	**¥31,971**	**¥7,982**	**¥2,375**	**¥576**	**¥0**	**¥42,905**

	Thousands of U.S. dollars					
	2016					
	Japan	Asia	North America	Europe	Others	Total
Net sales………..	**$283,737**	**$70,841**	**$21,078**	**$5,114**	**$5**	**$380,777**

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

	Millions of yen				
	2016				
	Japan	Asia	North America	Europe	Total
Property, plant and equipment.........	**¥20,972**	**¥4,938**	**¥1,306**	**¥1,239**	**¥28,456**

	Thousands of U.S. dollars				
	2016				
	Japan	Asia	North America	Europe	Total
Property, plant and equipment.........	**$186,122**	**$43,831**	**$11,590**	**$10,996**	**$252,542**

14. Subsequent events

The following appropriations of unappropriated retained earnings were approved at the meeting of shareholders of the Company held on June 28, 2016.

Cash dividends	Millions of yen	Thousands of U.S. dollars
¥7 per share (applicable to the six-month period ended March 31, 2016)……………..	¥298	$2,647

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, 2016, 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, 2016, 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, 2016 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 28, 2016

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: 44,713,930 shares
Number of shareholders: 3,347

Number of Employees:
1,329 (Consolidated)

(As of March 31, 2016)

Directors and Corporate Auditors:

President (Representative Director)
Shigeru Mizoguchi

Managing Director
Shinjiro Motoki
Katsumi Omiya

Director
Junichi Goya
Tomokatsu Yasukawa
Tetsuji Murata
Takashi Suzuki
Kazuhiro Kawasaki

Outside Director
Yasuko Teraura

Standing Audit & Supervisory Board Member
Hitoshi Inagaki

Outside Audit & Supervisory Board Member
Hiroshi Yoshimine
Takeshi Nakano

(As of June 28, 2016)