# Annual Securities Report

88th term (from April 1, 2017 to March 31, 2018)

**F.C.C. CO., LTD.**

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| Document title | Annual Securities Report |
| Clause of stipulation | Article 24, paragraph 1 of the Financial Instruments and Exchange Act |
| Place of filing | Director-General of the Tokai Local Finance Bureau |
| Filing date | June 21, 2018 |
| Fiscal year | 88th term (from April 1, 2017 to March 31, 2018) |
| Company name | 株式会社エフ・シー・シー (*Kabushiki Kaisha F.C.C.*) |
| Company name in English | F.C.C. CO., LTD. |
| Title and name of representative | Toshimichi Matsuda, President and Representative Director |
| Address of registered headquarters | 7000-36 Nakagawa, Hosoe-cho, Kita-ku, Hamamatsu-shi, Shizuoka |
| Telephone number | +81-53-523-2400 (Main) |
| Name of contact person | Ryujiro Matsumoto, Director, Head of Management and Administration |
| Nearest place of contact | 7000-36 Nakagawa, Hosoe-cho, Kita-ku, Hamamatsu-shi, Shizuoka |
| Telephone number | +81-53-523-2400 (Main) |
| Name of contact person | Ryujiro Matsumoto, Director, Head of Management and Administration |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

# A. Company information

## I. Overview of the Company

### 1. Trends in selected financial data

(1) Summary of consolidated financial data

| Term | IFRS | | | | |
|---|---|---|---|---|---|
| | 84th term | 85th term | 86th term | 87th term | 88th term |
| Fiscal year-end | March 31, 2014 | March 31, 2015 | March 31, 2016 | March 31, 2017 | March 31, 2018 |
| Revenue (Millions of yen) | 145,433 | 154,395 | 167,429 | 157,217 | 173,174 |
| Profit before income taxes (Millions of yen) | 16,871 | 12,104 | 8,118 | 11,419 | 14,083 |
| Profit attributable to owners of parent (Millions of yen) | 12,905 | 7,230 | 6,162 | 7,204 | 9,691 |
| Comprehensive income (Millions of yen) | 14,937 | 16,809 | (1,155) | 7,027 | 7,935 |
| Equity attributable to owners of parent (Millions of yen) | 104,004 | 110,190 | 107,010 | 111,624 | 117,311 |
| Total assets (Millions of yen) | 139,195 | 163,819 | 159,212 | 162,708 | 170,302 |
| Equity attributable to owners of parent per share (Yen) | 2,072.27 | 2,195.52 | 2,132.18 | 2,224.12 | 2,337.43 |
| Basic earnings per share (Yen) | 257.13 | 144.07 | 122.79 | 143.54 | 193.11 |
| Diluted earnings per share (Yen) | – | – | – | – | – |
| Ratio of equity attributable to owners of parent to total assets (%) | 74.72 | 67.26 | 67.21 | 68.60 | 68.88 |
| Ratio of profit to equity attributable to owners of parent (%) | 13.27 | 6.75 | 5.67 | 6.59 | 8.47 |
| Price earnings ratio (PER) (Times) | 7.14 | 13.03 | 15.49 | 15.48 | 15.48 |
| Net cash flows from (used in) operating activities (Millions of yen) | 15,530 | 13,002 | 25,108 | 24,165 | 24,120 |
| Net cash flows from (used in) investing activities (Millions of yen) | (17,665) | (20,308) | (17,369) | (15,846) | (19,122) |
| Net cash flows from (used in) financing activities (Millions of yen) | (2,856) | 4,106 | 96 | (7,641) | (2,657) |
| Cash and cash equivalents at end of period (Millions of yen) | 19,046 | 17,557 | 23,450 | 23,474 | 25,230 |
| Number of employees<br>[Separately, average number of temporary employees] | 7,235<br>[3,489] | 7,603<br>[3,647] | 7,893<br>[3,235] | 8,189<br>[3,210] | 8,555<br>[3,637] |

Notes: 1. Effective from the 85th term, the consolidated financial statements are prepared based on International Financial Reporting Standards (hereinafter "IFRS").

2. Revenue does not include consumption taxes.

3. Information on diluted earnings per share is omitted due to an absence of potential shares.

| Term | | Japanese GAAP | |
|---|---|---|---|
| | | 84th term | 85th term |
| Fiscal year-end | | March 31, 2014 | March 31, 2015 |
| Net sales | (Millions of yen) | 144,890 | 153,939 |
| Ordinary profit | (Millions of yen) | 16,115 | 12,952 |
| Profit attributable to owners of parent | (Millions of yen) | 13,148 | 6,760 |
| Comprehensive income | (Millions of yen) | 16,269 | 16,702 |
| Net assets | (Millions of yen) | 111,099 | 115,948 |
| Total assets | (Millions of yen) | 137,909 | 162,348 |
| Net assets per share | (Yen) | 2,075.83 | 2,195.73 |
| Basic earnings per share | (Yen) | 261.99 | 134.70 |
| Diluted earnings per share | (Yen) | – | – |
| Equity ratio | (%) | 75.54 | 67.88 |
| Return on equity (ROE) | (%) | 13.59 | 6.31 |
| Price earnings ratio (PER) | (Times) | 7.01 | 13.93 |
| Net cash provided by (used in) operating activities | (Millions of yen) | 13,646 | 13,465 |
| Net cash provided by (used in) investing activities | (Millions of yen) | (15,120) | (21,783) |
| Net cash provided by (used in) financing activities | (Millions of yen) | (2,771) | 4,129 |
| Cash and cash equivalents at end of period | (Millions of yen) | 20,147 | 17,403 |
| Number of employees<br>[Separately, average number of temporary employees] | | 7,214<br>[3,444] | 7,564<br>[3,676] |

Notes: 1. An audit pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan has not been conducted for the consolidated financial statements for the 85th term prepared in accordance with Japanese GAAP.

2. Net sales do not include consumption taxes.

3. Information on diluted earnings per share is omitted due to an absence of potential shares.

## 2. Company history

| Year | Month | Event |
|---|---|---|
| 1939 | June | Fuji Lite Industries Co., Ltd. is established in Sato-cho, Hamamatsu-shi, Shizuoka.<br>The Company begins manufacturing clutch plates, gears and other products employing compression molding of Bakelite resins. |
| 1943 | March | Changes name to Fuji Chemical Co., Ltd. |
| 1982 | February | Establishes Kyushu Fuji Chemical Industries Co., Ltd. (currently KYUSHU F.C.C. CO., LTD., a consolidated subsidiary) in Matsubase-machi, Shimomashiki-gun, Kumamoto (currently Uki-shi, Kumamoto). |
| 1984 | July | Changes name to F.C.C. CO., LTD. |
| 1988 | July | Establishes JAYTEC, INC. (currently FCC (INDIANA) LLC., a consolidated subsidiary) in Indiana, U.S.A. |
| 1989 | March | Establishes FCC (THAILAND) CO., LTD. (currently a consolidated subsidiary) in Bangkok, Thailand. |
| | June | Moves its corporate head office to the current address. |
| 1992 | September | Makes equity investment in KWANG HWA SHING INDUSTRIAL CO., LTD. of Tainan, Taiwan. |
| 1993 | September | Establishes FCC (PHILIPPINES) CORP. (currently a consolidated subsidiary) in Laguna, Philippines. |
| | October | Acquires shares of TENRYU SANGYO CO., LTD. (currently a consolidated subsidiary) |
| 1994 | August | Registers its shares for OTC trading with Japan Securities Dealers Association. |
| | December | Establishes CHENGDU JIANG HUA. F.C.C. CLUTCHES. CO., LTD. (currently CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD., a consolidated subsidiary) in Chengdu, Sichuan, China. |
| 1995 | March | Establishes CHU'S F.C.C. CO., LTD. (SHANGHAI) (currently a consolidated subsidiary) in Shanghai, China. |
| | September | Establishes FCC (EUROPE) LTD. in Milton Keynes, UK. |
| 1997 | April | Establishes FCC RICO LTD. (currently FCC CLUTCH INDIA PRIVATE LTD., a consolidated subsidiary) in Haryana, India. |
| 1998 | November | Establishes FCC DO BRASIL LTDA. (currently a consolidated subsidiary) in Amazonas, Brazil. |
| 2000 | April | Establishes FCC (North Carolina), INC. (currently FCC (North Carolina), LLC., a consolidated subsidiary) in North Carolina, U.S.A. |
| 2001 | April | Establishes PT. FCC INDONESIA (currently a consolidated subsidiary) in Karawang, Indonesia. |
| 2002 | December | Establishes FCC (North America), INC. (currently a consolidated subsidiary) and FCC (INDIANA), INC. (currently FCC (INDIANA) LLC., a consolidated subsidiary) in Indiana, U.S.A. |
| 2003 | February | Lists its shares on the Second Section of the Tokyo Stock Exchange. |
| | May | Establishes FCC (Adams), LLC. (currently a consolidated subsidiary) in Indiana, U.S.A. |
| 2004 | March | Lists its shares on the First Section of the Tokyo Stock Exchange. |
| 2005 | June | Increases investment in KWANG HWA SHING INDUSTRIAL CO., LTD. (currently FCC (TAIWAN) CO., LTD.), making the company a consolidated subsidiary. |
| | November | Establishes FCC (VIETNAM) CO., LTD. (currently a consolidated subsidiary) in Hanoi, Vietnam. |
| 2006 | January | Establishes CHINA FCC FOSHAN CO., LTD. (currently a consolidated subsidiary) in Foshan, Guangdong, China. |
| 2010 | November | Acquires 100% of shares of Tohoku Chemical Industries, Ltd. (currently a consolidated subsidiary). |
| 2012 | September | Establishes F.C.C. (China) Investment Co., Ltd. (currently a consolidated subsidiary) in Chengdu, Sichuan, China. |
| | December | Completes liquidation of FCC (EUROPE) LTD. |
| 2013 | February | Establishes FCC SEOJIN CO., LTD. in Siheung, Gyeonggi-do, Korea. |
| | June | Establishes FCC AUTOMOTIVE PARTS DE MEXICO, S.A. DE C.V. (currently a consolidated subsidiary) in San Luis Potosi, Mexico. |
| 2014 | November | Establishes FCC CLUTCH INDIA PRIVATE LTD. (currently a consolidated subsidiary) in Haryana, India. |
| | December | Acquires 100% of shares of FCC RICO LTD. (currently FCC CLUTCH INDIA PRIVATE LTD., a consolidated subsidiary). |
| 2015 | November | FCC INDIA MANUFACTURING PRIVATE LTD. has been merged by FCC CLUTCH INDIA PRIVATE LTD. |
| 2017 | September | Acquires 100% of shares of Flint Co.,Ltd. (currently a consolidated subsidiary). |

## 3. Description of business

The Group, comprising the Company, 25 subsidiaries and two associates, is engaged primarily in the manufacture and sale of clutches for motorcycles and automobiles.

The following breaks down the Group's businesses into operating segments and indicates in which segment each company falls. These operating segments are the same as those in "V. Financial information, 1. Consolidated financial statements, etc., (1) Consolidated financial statements, Notes to consolidated financial statements, 4. Segment information."

*Motorcycle clutches*

This segment is engaged primarily in the manufacture and sale of motorcycles, scooters, all-terrain vehicles (ATVs) and general-purpose clutches; it also manufactures and sells components and parts for motorcycles and automobiles.

| Business category | Principal companies |
|---|---|
| Sales | PT. FCC PARTS INDONESIA [Indonesia] |
| Manufacture and sales | The Company, KYUSHU F.C.C. CO., LTD., TENRYU SANGYO CO., LTD., Tohoku Chemical Industries, Ltd., Flint Co.,Ltd, FCC (North Carolina), LLC. [U.S.], FCC (THAILAND) CO., LTD. [Thailand], FCC (PHILIPPINES) CORP. [Philippines], CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD. [China], CHU'S F.C.C. CO., LTD. (SHANGHAI) [China], FCC (TAIWAN) CO., LTD. [Taiwan], FCC CLUTCH INDIA PRIVATE LTD. [India], PT. FCC INDONESIA [Indonesia], FCC (VIETNAM) CO., LTD. [Vietnam], FCC DO BRASIL LTDA. [Brazil] |

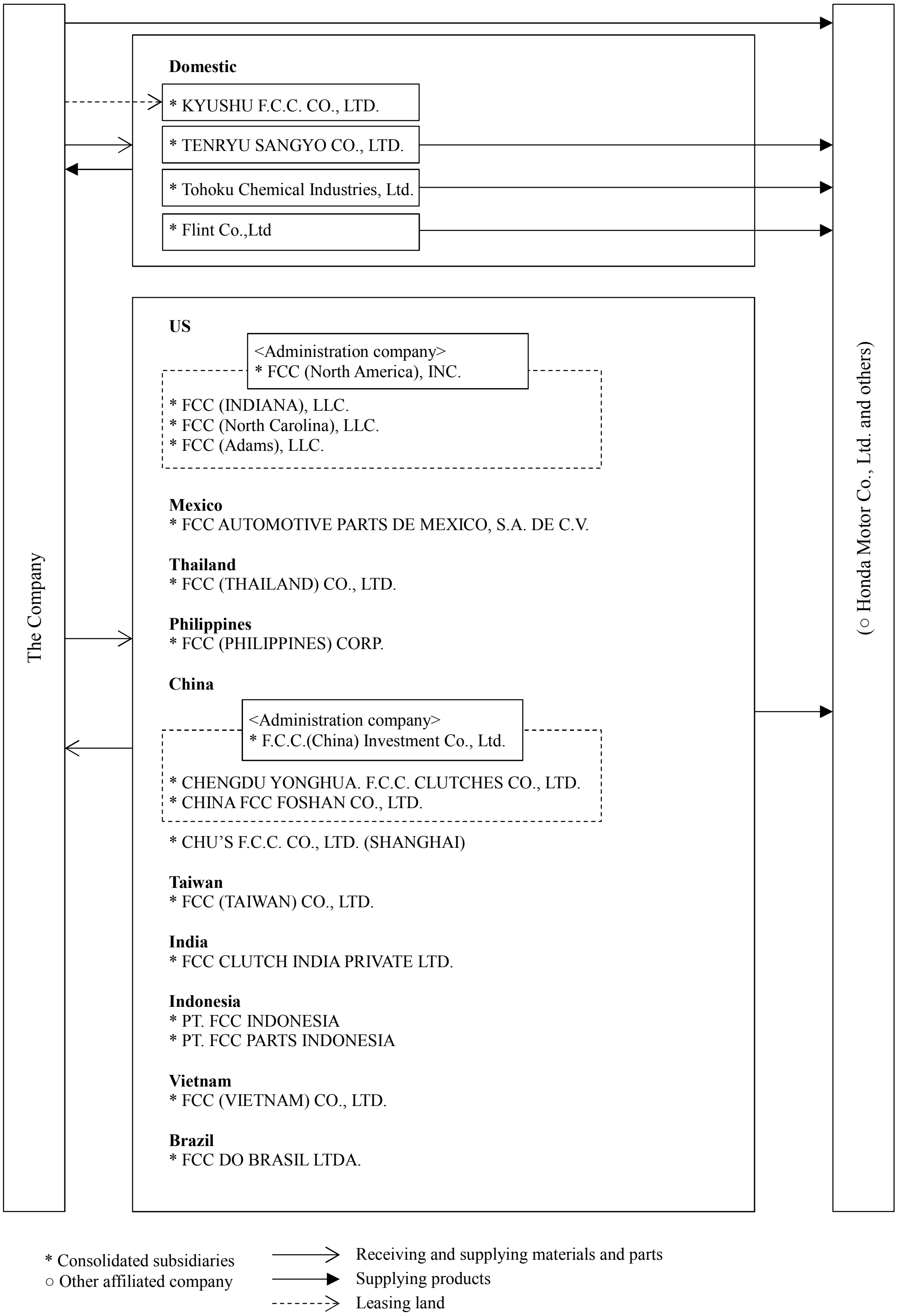
*Automobile clutches*

This segment is engaged primarily in the manufacture and sale of clutches for automatic and manual transmission automobiles.

| Business category | Principal companies |
|---|---|
| Manufacture and sales | The Company, KYUSHU F.C.C. CO., LTD., FCC (INDIANA), LLC. [U.S.], FCC (North Carolina), LLC. [U.S.], FCC (Adams), LLC. [U.S.], FCC AUTOMOTIVE PARTS DE MEXICO, S.A. DE C.V. [Mexico], FCC (THAILAND) CO., LTD. [Thailand], FCC (PHILIPPINES) CORP. [Philippines], CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD. [China], CHINA FCC FOSHAN CO., LTD. [China], FCC CLUTCH INDIA PRIVATE LTD. [India], PT. FCC INDONESIA [Indonesia], FCC (VIETNAM) CO., LTD. [Vietnam], FCC DO BRASIL LTDA. [Brazil] |

**Group business structure chart**

The following Group business structure chart shows the matters described above.



## 4. Overview of subsidiaries and other affiliates

| Name | Address | Issued capital | Principal contents of business | Ratio of voting rights holding (held) (%) (Note 3) | Relationship |
|---|---|---|---|---|---|
| <Consolidated subsidiaries><br>KYUSHU F.C.C. CO., LTD. | Uki-shi, Kumamoto | ¥30,000,000 | Motorcycle and automobile clutches | 100 | Manufacturing the Company's product components and products. Interlocking officers and leasing land. |
| TENRYU SANGYO CO., LTD. | Higashi-ku, Hamamatsu-shi, Shizuoka | ¥22,500,000 | Motorcycle clutches | 80.22 | Purchasing motorcycle, automobile and general-purpose components. Interlocking officers and capital assistance. |
| Tohoku Chemical Industries, Ltd. | Nasukarasuyama-shi, Tochigi | ¥125,000,000 | Motorcycle clutches | 100 | Purchasing Tohoku Chemical Industries, Ltd.'s products. Interlocking officers. |
| Flint Co.,Ltd | Ongatown, Onga-gun, Fukuoka | ¥10,000,000 | Motorcycle clutches | 100 | Purchasing Flint Co.,Ltd's products.<br>Interlocking officers. |
| FCC (North America), INC.<br>(Note 2) | Indiana, U.S. | US$42,800,000 | Administration of subsidiaries in the U.S. | 100 | Interlocking officers and capital assistance. |
| FCC (INDIANA), LLC.<br>(Notes 2, 4) | Indiana, U.S. | US$17,800,000 | Automobile clutches | 100<br>[100] | Selling the Company's products, components and raw materials. Purchasing FCC (INDIANA), LLC.'s products and components. Interlocking officers. |
| FCC (North Carolina), LLC.<br>(Note 2) | North Carolina, U.S. | US$10,000,000 | Motorcycle and automobile clutches | 100<br>[100] | Selling the Company's products, components and raw materials. Purchasing FCC (North Carolina), LLC.'s products and components. Interlocking officers. |
| FCC (Adams), LLC.<br>(Notes 2, 4) | Indiana, U.S. | US$15,000,000 | Automobile clutches | 100<br>[100] | Selling the Company's products, components and raw materials. Purchasing FCC (Adams), LLC.'s products and components. Interlocking officers. |
| FCC AUTOMOTIVE PARTS DE MEXICO, S.A. DE C.V.<br>(Note 2) | San Luis Potosi, Mexico | MXN500,000,000 | Automobile clutches | 100<br>[40.60] | Selling the Company's products, components and raw materials. Interlocking officers and capital assistance. |
| FCC (THAILAND) CO., LTD. | Bangkok, Thailand | THB60,000,000 | Motorcycle and automobile clutches | 100<br>[0.07] | Selling the Company's products, components and raw materials. Purchasing FCC (THAILAND) CO., LTD.'s products and components. Interlocking officers. |
| FCC (PHILIPPINES) CORP.<br>(Note 2) | Laguna, Philippines | PHP200,000,000 | Motorcycle and automobile clutches | 100 | Selling the Company's products, components and raw materials. Purchasing FCC (PHILIPPINES) CORP.'s products and components. Interlocking officers. |
| F.C.C. (China) Investment Co., Ltd.<br>(Note 2) | Sichuan, China | US$30,000,000 | Administration of subsidiaries in China | 100 | Interlocking officers. |
| CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD.<br>(Note 2) | Sichuan, China | US$28,000,000 | Motorcycle and automobile clutches | 100<br>[71.43] | Selling the Company's products, components and raw materials. Purchasing CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD.'s products and components. Interlocking officers and capital assistance. |
| CHU'S F.C.C. CO., LTD. (SHANGHAI)<br>(Note 2) | Shanghai, China | US$9,800,000 | Motorcycle clutches | 100 | Selling the Company's products, components and raw materials. Purchasing CHU'S F.C.C. CO., LTD. (SHANGHAI)'s products and components. Interlocking officers. |

| Name | Address | Issued capital | Principal contents of business | Ratio of voting rights holding (held) (%) (Note 3) | Relationship |
|---|---|---|---|---|---|
| CHINA FCC FOSHAN CO., LTD. (Note 2) | Guangdong, China | US$28,000,000 | Automobile clutches | 100 [61.43] | Selling the Company’s products, components and raw materials. Purchasing CHINA FCC FOSHAN CO., LTD.’s products and components. Interlocking officers. |
| FCC (TAIWAN) CO., LTD. (Note 2) | Tainan, Taiwan | NT$195,000,000 | Motorcycle clutches | 70 [15] | Selling the Company’s products, components and raw materials. Purchasing FCC (TAIWAN) CO., LTD.’s products and components. Interlocking officers. |
| FCC CLUTCH INDIA PRIVATE LTD. (Notes 2, 4) | Haryana, India | INR2,800,000,000 | Motorcycle and automobile clutches | 100 | Selling the Company’s products, components and raw materials. Purchasing FCC CLUTCH INDIA PRIVATE LTD.’s products and components. Interlocking officers and capital assistance. |
| PT. FCC INDONESIA (Notes 2, 4) | Karawang, Indonesia | US$11,000,000 | Motorcycle and automobile clutches | 100 [0.55] | Selling the Company’s products, components and raw materials. Purchasing PT. FCC INDONESIA’s products and components. Interlocking officers. |
| PT. FCC PARTS INDONESIA | Karawang, Indonesia | US$300,000 | Motorcycle clutches | 100 [100] | Selling the Company’s products, components and raw materials. Purchasing PT. FCC PARTS INDONESIA’s products and components. |
| FCC (VIETNAM) CO., LTD. (Note 2) | Hanoi, Vietnam | US$25,000,000 | Motorcycle and automobile clutches | 90 | Selling the Company’s products, components and raw materials. Purchasing FCC (VIETNAM) CO., LTD.’s products and components. Interlocking officers. |
| FCC DO BRASIL LTDA. (Note 2) | Amazonas, Brazil | BRL31,600,000 | Motorcycle and automobile clutches | 100 | Selling the Company’s products, components and raw materials. Purchasing FCC DO BRASIL LTDA.’s products and components. Capital assistance. |
| <Other affiliate> Honda Motor Co., Ltd. (Note 5) | Minato-ku, Tokyo | ¥86,067,000,000 | Manufacture and sales of automobiles and engines | 21.69 (held) | Selling the Company’s products and purchasing raw materials and components. |

Notes: 1. Descriptions in the “Principal contents of business” column are names of segments.

2. These companies are classified as “Specified Subsidiaries” under the Financial Instruments and Exchange Act of Japan.

3. The figures in brackets in the “Ratio of voting rights holding” column are indirect holding ratio included in the figures outside the brackets.

4. For FCC (INDIANA) LLC., FCC (Adams), LLC., FCC CLUTCH INDIA PRIVATE LTD. and PT. FCC INDONESIA, the percentage of their net sales (excluding internal sales between consolidated companies) to consolidated net sales exceeded 10%. Key profit and loss information in each company's financial statements prepared under the generally accepted accounting standards in Japan is as follows:

   Key profit and loss information

   • FCC (INDIANA), LLC.

   | | |
   |---|---|
   | (1) Net sales | ¥34,567 million |
   | (2) Ordinary profit | ¥1,320 million |
   | (3) Profit | ¥1,435 million |
   | (4) Net assets | ¥14,051 million |
   | (5) Total assets | ¥19,587 million |

   • FCC (Adams), LLC.

   | | |
   |---|---|
   | (1) Net sales | ¥26,096 million |
   | (2) Ordinary profit | ¥409 million |
   | (3) Profit | ¥679 million |
   | (4) Net assets | ¥4,410 million |
   | (5) Total assets | ¥23,510 million |

   • FCC CLUTCH INDIA PRIVATE LTD.

   | | |
   |---|---|
   | (1) Net sales | ¥23,984 million |
   | (2) Ordinary profit | ¥(38 million) |
   | (3) Profit | ¥(61 million) |
   | (4) Net assets | ¥3,101 million |
   | (5) Total assets | ¥17,047 million |

   • PT. FCC INDONESIA

   | | |
   |---|---|
   | (1) Net sales | ¥20,829 million |
   | (2) Ordinary profit | ¥2,412 million |
   | (3) Profit | ¥1,863 million |
   | (4) Net assets | ¥13,975 million |
   | (5) Total assets | ¥16,694 million |

5. This company files its Annual Securities Report.
6. In addition to the above, there are six affiliates.

## 5. Information about employees

### (1) Consolidated companies

As of March 31, 2018

| Segment name | Number of employees |
|---|---|
| Motorcycle clutches | 4,529 [3,307] |
| Automobile clutches | 3,537 [253] |
| Total of reportable segments | 8,066 [3,560] |
| Corporate (common) | 489 [77] |
| Total | 8,555 [3,637] |

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during the fiscal year under review is given in brackets separately.

2. The number in the Corporate (common) segment indicates employees in the administration department, the R&D Division and the Manufacturing Technology Center.

### (2) Reporting company

As of March 31, 2018

| Number of employees | Average age | Average years of service | Average annual salary (Yen) |
|---|---|---|---|
| 1,106 [134] | 40.5 | 16.3 | 6,586,357 |

| Segment name | Number of employees |
|---|---|
| Motorcycle clutches | 225 [43] |
| Automobile clutches | 392 [14] |
| Total of reportable segments | 617 [57] |
| Administration (general operations) | 489 [77] |
| Total | 1,106 [134] |

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during the fiscal year under review is given in brackets separately.

2. Average annual salary includes bonuses and surplus wages.

3. The number in the Administration (general operations) segment indicates employees in the administration department, the R&D Division and the Manufacturing Technology Center.

### (3) Status of labor union

The reporting company and some of its consolidated subsidiaries have labor unions. However, these companies have no labor-management issues to note.

## II. Overview of business

### 1. Management policy, management environment, issues to address, etc.

Please note that matters concerning the future in this article were determined by the Group as of the filing date of this Annual Securities Report.

(1) Basic corporate management policy

The Group's fundamental policy of corporate philosophy is to "make a contribution to society by supplying products that make the best of ideas and technology to satisfy customers in every way, and which are also safe and environmentally friendly."

In line with this corporate philosophy, the Group's officers and employees "place safety and the environment first when conducting business," "employ ingenuity and creative thinking for the greater purpose of advancing our business," "renew and improve ourselves and our business, every day," "carry out our work in a speedy and timely manner" and "honor harmony among people and make our offices a place where people enjoy what they do in a bright working atmosphere."

(2) Medium- and long-term business strategy of the Company

Looking at the future business environment, the global economy is expected to recover modestly, but both political and economic developments in the U.S. and China, as well as financial market fluctuations, must continue to be watched. In the automotive industry, demand is expected to grow in both the motorcycle and automobile markets over the medium to long term. However, in conjunction with the measures to address fuel consumption regulations and the advances in technologies for the electrification of cars, global competition among is expected to become increasingly fierce, not just in the automotive industry, but including other industries as well.

Under such a management environment, the Group will ensure the implementation of the 10th Medium-Term Management Plan starting in FY2017, and strive for sustainable growth and improved corporate value.

The 10th Medium-Term Management Plan (FY2017 – FY2019)

Go! Reach beyond evolution.

Business policy

To promote sustainability and increase corporate value.

To build a business structure that has overwhelming competitive strength by progressing with the details of strengthening product development capabilities and on-site capabilities.

Performance targets (FY2019 revised targets)

| | | | |
|---|---|---|---|
| Revenue: | ¥185.0 billion | ROE: | 9.2% |
| Operating profit: | ¥16.5 billion | Dividend payout ratio: | 30% |

(3) Issues to address

The Company will ensure implementation of the priority measures set out in the 10th Medium-Term Management Plan to build a business structure that has overwhelming competitive strength. In particular, the Company will focus on increasing production in the U.S. and improving profitability.

The following are the principal issues to be addressed by each operating segment.

*Motorcycle clutches*

Expand production capacity in India

*Automobile clutches*

Increase production in the U.S., build a stable mass production structure, and improve productivity

## 2. Business risks

Of the items related to the overview of business and financial information described in this Annual Securities Report, the following may have a considerable impact on the investment decisions of investors.

Please note that matters concerning the future in this article were determined by the Group as of the filing date of this Annual Securities Report.

(1) Business development centered on clutch products

The Group continues to evolve as a specialist in clutch products. Although the clutch products currently manufactured and sold by the Group are important functional components of drive trains for automobiles and motorcycles driven by internal combustion engines, there is no guarantee that a replacement for a clutch product will not be developed and put into general use in the future.

In addition, clutch products may become unnecessary as drive train components in next-generation automobiles and motorcycles that are not driven by internal combustion engines.

(2) Dependence on certain industries and customers

Most clutch products manufactured and sold by the Group are for the automobile and motorcycle industries. As a result, the financial performance of the Group may be affected by future trends in these industries. In addition, the Group's sales revenue from the Honda Motor Group accounted for approximately 47% of the Group's sales revenue in the fiscal year ended March 31, 2018. The financial performance of the Group could be significantly affected, therefore, by the Honda Motor Group's future business strategy, procurement policies and other decisions.

(3) Development of overseas business

The Group operates globally, centering on Japan, the U.S. and Asia. Accordingly, the Group's financial performance could be affected by following factors: political and economic trends in various countries; fluctuations in foreign exchange markets; unforeseen changes in laws and regulations; international tax-related risks, such as transfer pricing taxation; and the occurrence of natural disasters.

(4) Competition faced by the Group

International competition in the automobile and motorcycle industries has become extremely fierce. While the Group is endeavoring to sustain and strengthen its competitiveness in various areas, ranging from product development and manufacturing to quality assurance, certain obstacles may make it difficult to do so in the future, in which case the Group's market share and earnings capability could decline.

(5) Compensation for product defects

Although the Group is doing all it can to ensure sufficient quality control, it is not possible to completely prevent defects and deficiencies in all products. In addition, large recalls by final assemblers caused by defects in products supplied by the Group could result in enormous costs to the Group, as well as in serious damage to its reputation. In such an event, product defect liability could have a serious impact on both the Group's financial performance and financial condition.

(6) Impacts of natural disasters and earthquakes, etc.

The Group is implementing measures to minimize potential risks of disruptions to its production lines caused by major natural disasters. There is no guarantee, however, that it will be able to completely avoid or reduce damage. In this respect, the Group's principal manufacturing facilities are concentrated notably in western Shizuoka, and this area lies within a region that is likely to be affected by the widely predicted Tokai and Tonankai earthquakes. The occurrence of such a major disaster could have an enormous impact on the Group's manufacturing facilities and cause a significant reduction in its production capacity.

## 3. Management analysis of financial position, operating results and cash flows

(1) Overview of operating results, etc.

The Group's financial position, operating results and cash flows for the fiscal year ended March 31, 2018 were as follows.

1) Financial position and operating results

In the fiscal year ended March 31, 2018, the Japanese economy gradually recovered against a backdrop of improved corporate earnings and stronger employment and income environments. Overseas, despite uncertainty due to geopolitical risks, the economy continued its modest recovery overall. The U.S. economy continued to recover steadily. In Asia, there were signs of a recovery in China, while India maintained a high growth rate, centered on domestic demand.

In the automotive industry, in Japan, sales of registered vehicles declined in the automobile market, but driven by an increase in sales of lightweight mini vehicles, the number of new vehicles sold increased for the second consecutive year. Overseas, although sales of passenger cars in the U.S. struggled, sales of light trucks remained solid. In China, sales by Japanese manufacturers remained strong. In the motorcycle market, sales in India were significantly higher than in the previous fiscal year, while a recovery trend was seen in the ASEAN countries as well.

Under these circumstances, the Group has worked to strengthen development capabilities and on-site capabilities in the first year of the 10th Medium-Term Management Plan. In the motorcycle business, in the expanding Indian market, we improved profitability by expanding production capacity and reducing costs, including establishing a new plant in Ahmedabad, as well as developed new technologies on the development front, and actively made proposals to customers. In the automobile business, amid the solid sales of light trucks in the U.S., we have worked to improve profitability by increasing production of clutches for 10-speed ATs. In terms of development, we worked on developing friction materials and adapting our products to the technologies related to the electrification of cars.

Outside of the clutches business, we worked on the development of fuel cell systems, thin paper and thin film technologies based on our paper-making and catalyst technologies with an eye to the future,

As a result, during the fiscal year ended March 31, 2018, in addition to an increase in sales of motorcycle clutches in India, an increase in sales of automobile clutches for Ford in the U.S. and for China led to revenue increasing by 10.1% from the previous fiscal year to ¥173,174 million, and operating profit increasing by 25.1% from the previous fiscal year to ¥14,052 million. Profit before income taxes increased by 23.3% from the previous fiscal year to ¥14,083 million. Profit attributable to owners of parent increased by 34.5% from the previous fiscal year to ¥9,691 million.

The following are the business results in each operating segment.

*Motorcycle clutches*

An increase in sales of motorcycle clutches in India and Vietnam led to revenue increasing by 13.2% from the previous fiscal year to ¥82,936 million. Operating profit increased by 35.1% from the previous fiscal year to ¥11,256 million.

*Automobile clutches*

In addition to an increase in sales of automobile clutches for Ford in the U.S., an increase in sales of automobile clutches in China led to revenue increasing by 7.5% from the previous fiscal year to ¥90,238 million. Operating profit decreased by 3.7% from the previous fiscal year to ¥2,796 million due to the recording of impairment loss in the automobiles business and an increase in expenses in Mexico.

The financial position is as follows.

At the end of the fiscal year under review, total assets were ¥170,302 million, up ¥7,593 million compared with the end of the previous fiscal year.

At the end of the fiscal year under review, total liabilities were ¥51,402 million, up ¥1,848 million compared with the end of the previous fiscal year.

At the end of the fiscal year under review, equity was ¥118,900 million, up ¥5,745 million compared with the end of the previous fiscal year.

2) Cash flows

As of the end of the fiscal year under review, cash and cash equivalents (hereinafter "net cash") totaled ¥25,230 million.

Cash flow positions in the fiscal year under review and the factors thereof are as follows.

*Cash flows from (used in) operating activities*

Net cash flows from operating activities was ¥24,120 million.

This is mainly due to profit before income taxes of ¥14,083 million and depreciation and amortization expense of ¥12,766 million.

*Cash flows from (used in) investing activities*

Net cash used in investing activities was ¥19,122 million.

This is mainly due to purchase of property, plant and equipment of ¥14,199 million and payments into time deposits of ¥3,887 million.

*Cash flows from (used in) financing activities*

Net cash used in financing activities was ¥2,657 million.

This is mainly due to cash dividends paid of ¥2,058 million and net increase (decrease) in short-term borrowings of ¥365 million.

3) Performance of production, orders received and sales

i) Production performance

Production performance by segment for the fiscal year under review is as shown below.

| Segment name | Fiscal year ended March 31, 2018 | Year-on-year comparison (%) |
|---|---|---|
| Motorcycle clutches (Millions of yen) | 80,811 | 109.9 |
| Automobile clutches (Millions of yen) | 87,694 | 103.9 |
| Total (Millions of yen) | 168,505 | 106.7 |

Notes: 1. Amounts are based on sales prices.
2. Consumption taxes are not included in the above amounts.

ii) Performance of orders received

Performance of orders received by segment for the fiscal year under review is as shown below.

| Segment name | Orders received (Millions of yen) | Year-on-year comparison (%) | Order backlog (Millions of yen) | Year-on-year comparison (%) |
|---|---|---|---|---|
| Motorcycle clutches | 84,400 | 115.7 | 7,224 | 125.4 |
| Automobile clutches | 91,772 | 110.2 | 7,603 | 125.3 |
| Total | 176,173 | 112.7 | 14,828 | 125.4 |

Notes: 1. Amounts are based on sales prices.
2. Consumption taxes are not included in the above amounts.

(iii) Sales performance

Sales performance by segment for the fiscal year under review is as shown below.

| Segment name | Fiscal year ended March 31, 2018 | Year-on-year comparison (%) |
|---|---|---|
| Motorcycle clutches (Millions of yen) | 82,936 | 113.2 |
| Automobile clutches (Millions of yen) | 90,238 | 107.5 |
| Total (Millions of yen) | 173,174 | 110.1 |

Notes: 1. The table below shows sales results by major transaction partner and the ratio of those sales results to total sales results for the last two fiscal years.

| Transaction partner | Fiscal year ended March 31, 2017 | | Fiscal year ended March 31, 2018 | |
|---|---|---|---|---|
| | Amount (Millions of yen) | Ratio (%) | Amount (Millions of yen) | Ratio (%) |
| Honda Motor Co., Ltd. | 9,110 | 5.8 | 10,436 | 6.0 |
| Ford Motor Company | 21,051 | 13.4 | 24,301 | 14.0 |

2. Consumption taxes are not included in the amounts in the above table.

(2) Details of analysis and considerations regarding the status of operating results etc., from management's perspective

The details of analysis and considerations regarding the status of operating results etc., from management's perspective are as follows. Please note that matters concerning the future in this article were determined by the Group as of the filing date of this Annual Securities Report.

1) Significant accounting policies and estimates

The consolidated financial statements of the Company have been prepared in accordance with IFRS pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements. Estimates that are deemed necessary have been made based on reasonable criteria.

Significant accounting policies applied in the consolidated financial statements of the Company are provided in "V. Financial information, 1. Consolidated financial statements, etc., (1) Consolidated financial statements, Notes to consolidated financial statements, 3. Significant accounting policies."

2) Recognition as well as details and considerations of status of operating results etc., for the fiscal year under review

Analysis of operating results

Please refer to "II. Overview of business, 3. Management analysis of financial position, operating results and cash flows, (1) Overview of operating results, etc. 1) Financial position and operating results."

Analysis of financial position

(Current assets)

At the end of the fiscal year under review, current assets were ¥76,892 million, up ¥5,271 million compared with the end of the previous fiscal year. This is mainly due to increases of ¥1,869 million in trade and other receivables and ¥1,756 million in cash and cash equivalents and ¥1,044 million in other financial assets.

(Non-current assets)

At the end of the fiscal year under review, non-current assets were ¥93,410 million, up ¥2,322 million compared with the end of the previous fiscal year. This is mainly due to increases of ¥3,171 million in other financial assets and ¥988 million in goodwill and intangible assets in spite of a decrease of ¥1,578 million in property, plant and equipment.

(Current liabilities)

At the end of the fiscal year under review, current liabilities were ¥41,143 million, up ¥5,491 million compared with the end of the previous fiscal year. This is mainly due to increases of ¥2,913 million in borrowings and ¥1,670 million in trade and other payables.

(Non-current liabilities)

At the end of the fiscal year under review, non-current liabilities were ¥10,258 million, down ¥3,643 million compared with the end of the previous fiscal year. This is mainly due to a decrease of ¥3,674 million in borrowings.

(Equity)

At the end of the fiscal year under review, equity was ¥118,900 million, up ¥5,745 million compared with the end of the previous fiscal year. This is mainly due to an increase of ¥7,920 million in retained earnings in spite of a decrease of ¥2,233 million in other components of equity.

Present conditions and outlook of business strategy

In terms of progress made in FY2017, the first year of the 10th Medium-Term Management Plan, performance exceeded the plan both for motorcycle clutches and automobile clutches. Based on these results, future demand trends, and other factors, the performance targets of the 10th Medium-Term Management Plan have been revised upwards.

The new performance targets are provided in “II. Overview of business, 1. Management policy, management environment, issues to address, etc.”

Analysis of capital resources and funding liquidity

The Group’s financial policy is to maintain the sound balance sheet taking into account appropriate liquidity, etc. in securing funds for business activities. The Group procures working funds and funds for equipment from internal funds and bank borrowings, and believes that it has sufficiently secured the level of funds currently required. Cash flows for the fiscal year under review are provided in “II. Overview of business, 3. Management analysis of financial position, operating results and cash flows, (1) Overview of operating results, etc., 2) Cash flows.”

(3) Information about differences in main items in the overview of operating results, etc.

The following are differences between main items in consolidated financial statements prepared in accordance with IFRS and equivalent items in consolidated financial statements if prepared in accordance with Japanese GAAP.

Fiscal year ended March 31, 2017

Certain development expense that was expensed under Japanese GAAP is capitalized under IFRS.

Consequently, goodwill and intangible assets in the consolidated statement of financial position increased by ¥2,420 million.

In the consolidated statement of income, cost of sales increased by ¥489 million, and research and development expense included in selling, general and administrative expenses decreased by ¥1,153 million.

Fiscal year ended March 31, 2018

Certain development expense that was expensed under Japanese GAAP is capitalized under IFRS.

Consequently, goodwill and intangible assets in the consolidated statement of financial position increased by ¥2,885 million.

In the consolidated statement of income, cost of sales increased by ¥603 million, and research and development expense included in selling, general and administrative expenses decreased by ¥1,068 million.

## 4. Critical contracts for operation

Not applicable.

## 5. Research and development activities

As a manufacturer of functional components for transportation vehicles, the Group has adopted the basic R&D policy of identifying customer needs and providing products that give customers excellent performance through the application of creative ideas and technologies. Accordingly, it carries out both basic research on friction materials for use in motorcycle, automobile and general-purpose clutches and R&D on the clutches themselves, including R&D on production technologies for use in their manufacture.

The Group also develops new products by making improvements to existing products and using technologies it has accumulated through experience in manufacturing clutches (and friction materials employed in clutches). Among R&D activities aimed at protecting the environment, it is developing a porous fiber catalytic sheet (paper catalyst), which it believes can be employed as a paper catalyst to clean engine exhaust emissions.

During the fiscal year ended March 31, 2018, research and development expense (including expenses recognized as development assets) amounted to ¥4,052 million.

The following is a summary of R&D activities by segment during the fiscal year ended March 31, 2018.

*Motorcycle clutches*

Research and development activities are underway to improve product appeal, including clutch operability, and reduce costs. Research and development of wet friction materials for motorcycles and dry friction materials for scooters provided a foundation for these activities.

Principal achievements during the fiscal year ended March 31, 2018:

1) In ASEAN, began mass production of pulley assemblies and clutches for commuter-use motorcycles targeting the global consumer market;
2) Expanded development of clutches for large-displacement sports model motorcycles incorporating the Company's proprietary A&S technology; and
3) Developed new friction materials with enhanced product appeal and durability.

In addition, the Company is conducting R&D activities aimed at expanding applications for paper catalysts to clean engine exhaust emissions of general-purpose machinery, for which mass production began in March 2011.

Research and development expense in the motorcycle clutches segment amounted to ¥1,852 million.

*Automobile clutches*

Research and development activities are underway to make clutches more compact and lightweight, less expensive to manufacture, and more fuel efficient. Research and development of wet friction materials for automatic transmissions (including ATs/CVTs) and dry friction materials for manual transmissions provided a foundation for these activities.

Principal achievements during the fiscal year ended March 31, 2018:

1) Began mass production of clutch assemblies for ATs based on the following:
    - Elements of the Company's proprietary segment method for manufacturing friction plates, and
    - Elements of the Company's proprietary technologies that increase fuel efficiency and achieve weight reductions;
2) Began mass production of lock-up clutches featuring a new damper structure with excellent damping properties; and
3) Developed new friction materials with enhanced product appeal and durability.

Research and development expense in the automobile clutches segment amounted to ¥2,200 million.

## III. Information about facilities

### 1. Overview of capital investments, etc.

During the fiscal year ended March 31, 2018, the Company made total capital investments (including investments on intangible assets) of ¥15,014 million. The principal capital investment details were: expanding production capacity for automobile clutches in the U.S.; and expanding production capacity for motorcycle clutches in India. The breakdown of capital investments by business segment is ¥3,863 million for motorcycle clutches, ¥10,526 million for automobile clutches, and ¥625 million for the common segment.

(1) Reporting company

Acquisition of testing apparatus, etc. by R&D Division

(2) Subsidiaries

Manufacturing facilities to produce new models and production capacity expansion at FCC (Adams), LLC.

Manufacturing facilities to produce new models and production capacity expansion at FCC (INDIANA), LLC.

Manufacturing facilities to produce new models, production capacity expansion and acquisition of buildings at FCC CLUTCH INDIA PRIVATE LTD.

Manufacturing facilities to produce new models and production capacity expansion at FCC (VIETNAM) CO., LTD.

### 2. Major facilities

Major facilities of the Group are as follows:

(1) Reporting company

As of March 31, 2018

| Name (Location) | Segment name | Facilities | Carrying amount (Millions of yen) | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment and vehicles | Land ($m^2$) | Other | Total | |
| Hosoe Factory (Kita-ku, Hamamatsu-shi, Shizuoka) | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 148 | 329 | 270 (18,080) | 21 | 771 | 104 [6] |
| Hamakita Factory (Kita-ku, Hamamatsu-shi, Shizuoka) | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 1,374 | 1,267 | 595 (85,261) | 438 | 3,675 | 201 [4] |
| Watagashima Factory (Tenryu-ku, Hamamatsu-shi, Shizuoka) | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 984 | 596 | 766 (61,268) | 157 | 2,505 | 105 [4] |
| Suzuka Factory (Suzuka-shi, Mie) | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 2,094 | 1,112 | 1,292 (75,130) | 72 | 4,571 | 207 [51] |
| R&D Division (Kita-ku, Hamamatsu-shi, Shizuoka) | Common | Testing apparatus and measuring instruments | 422 | 723 | 216 (12,093) | 67 | 1,429 | 193 [75] |

## (2) Domestic subsidiaries

As of March 31, 2018

| Name (Location) | Segment name | Facilities | Carrying amount (Millions of yen) | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment and vehicles | Land ($m^2$) | Other | Total | |
| KYUSHU F.C.C. CO., LTD. (Uki-shi, Kumamoto) | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 179 | 345 | 11 (20,474) | 103 | 638 | 113 [29] |

## (3) Overseas subsidiaries

As of March 31, 2018

| Name | Location | Segment name | Facilities | Carrying amount (Millions of yen) | | | | | Number of employees |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings and structures | Machinery, equipment and vehicles | Land ($m^2$) | Other | Total | |
| FCC (North Carolina), LLC. | North Carolina, U.S. | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 3,699 | 4,506 | 30 (366,274) | 890 | 9,125 | 415 [28] |
| FCC (Adams), LLC. | Indiana, U.S. | Automobile clutches | Manufacturing facilities for clutches | 3,035 | 7,712 | 49 (161,880) | 5,291 | 16,089 | 600 [23] |
| FCC (INDIANA), LLC. | Indiana, U.S. | Automobile clutches | Manufacturing facilities for clutches | 1,752 | 5,336 | 77 (246,263) | 2,229 | 9,397 | 784 [5] |
| PT. FCC INDONESIA | Karawang, Indonesia | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 548 | 1,238 | – (72,812) | 107 | 1,894 | 1,228 [404] |
| FCC (THAILAND) CO., LTD. | Bangkok, Thailand | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 804 | 1,043 | 638 (87,890) | 423 | 2,909 | 423 [483] |
| CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD. | Sichuan, China | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 396 | 957 | – (27,826) | 292 | 1,645 | 337 [27] |
| FCC AUTOMOTIVE PARTS DE MEXICO, S.A. DE C.V. | San Luis Potosi, Mexico | Automobile clutches | Manufacturing facilities for clutches | 1,164 | 1,820 | 144 (81,837) | 750 | 3,879 | 394 |
| FCC CLUTCH INDIA PRIVATE LTD. | Haryana, India | Motorcycle and automobile clutches | Manufacturing facilities for clutches | 1,010 | 2,762 | 1,359 (114,619) | 654 | 5,787 | 770 [2,449] |

Notes: 1. The carrying amount of “Other” assets relates to tools, furniture and fixtures, leased assets and intangible assets and includes construction in progress. The amounts shown above do not include consumption taxes.

2. Of the land of KYUSHU F.C.C. CO., LTD., 19,174 $m^2$ was leased from the reporting company.

3. Of the land of FCC (North Carolina), LLC. of 366,274 $m^2$, 11,266 $m^2$ was leased.

4. The number of employees shown in brackets is the number of temporary employees at the end of the period.

## 3. Planned additions, retirements, etc. of facilities

(1) Planned additions, etc. of important facilities

During the next fiscal year (from April 1, 2018 to March 31, 2019), the Company plans to make total capital investments of ¥11,305 million.

The principal capital investment items will be manufacturing facilities to produce new models and expansion of production capacity in the U.S., India, Japan and Vietnam. The breakdown of planned capital investments by business segment will be ¥3,942 million for motorcycle clutches, ¥6,886 million for automobile clutches, and ¥477 million for the common segment.

- Reporting company

  Production capacity expansion at Watagashima Factory and acquisition of testing apparatus, etc. at the R&D Division

- Subsidiaries

  Manufacturing facilities to produce new models and production capacity expansion at FCC (Adams), LLC.

  Manufacturing facilities to produce new models and production capacity expansion at FCC CLUTCH INDIA PRIVATE LTD.

  Manufacturing facilities to produce new models and production capacity expansion at FCC (VIETNAM) CO., LTD.

  Manufacturing facilities to produce new models and production capacity expansion at FCC (INDIANA), LLC.

(2) Retirement, etc. of important facilities

The Company has no plan for the sales/retirement of important facilities, with the exception of the regular upgrading of facilities.

## IV. Information about reporting company

### 1. Information about shares, etc.

(1) Total number of shares, etc.

Total number of shares

| Class | Total number of authorized shares (Shares) |
|---|---|
| Ordinary shares | 90,000,000 |
| Total | 90,000,000 |

(2) Changes in number of shares issued, issued capital, etc.

| Date | Increase (decrease) in total number of shares issued (Shares) | Balance of total number of shares issued (Shares) | Increase (decrease) in issued capital (Millions of yen) | Balance of issued capital (Millions of yen) | Increase (decrease) in capital reserve (Millions of yen) | Balance of capital reserve (Millions of yen) |
|---|---|---|---|---|---|---|
| April 1, 2006 (Note) | 26,322,015 | 52,644,030 | – | 4,175 | – | 4,555 |

Note: This was due to a 2-for-1 share split.

(3) Shareholding by shareholder category

As of March 31, 2018

| Category | Shareholding status (Number of shares per share unit: 100 shares) | | | | | | | | Shares less than one unit (Shares) |
|---|---|---|---|---|---|---|---|---|---|
| | Public sector | Financial institutions | Financial instruments business operators | Other corporations | Foreign investors | | Individuals, etc. | Total | |
| | | | | | Companies, etc. | Individuals | | | |
| Number of shareholders | – | 40 | 20 | 124 | 193 | 5 | 12,875 | 13,257 | – |
| Number of shares held (Units) | – | 124,982 | 2,286 | 144,090 | 138,964 | 8 | 116,004 | 526,334 | 10,630 |
| Shareholding ratio (%) | – | 23.75 | 0.43 | 27.38 | 26.40 | 0.00 | 22.04 | 100.00 | – |

Notes: 1. 2,455,841 treasury shares are included in "Individuals, etc." as 24,558 units and "Shares less than one unit" as 41 shares.

2. "Other corporations" column above includes 37 units of shares held in the name of Japan Securities Depository Center, Incorporated.

(4) Major shareholders

As of March 31, 2018

| Name | Address | Number of shares held (Thousands of shares) | Shareholding ratio (excluding treasury shares) (%) |
|---|---|---|---|
| Honda Motor Co., Ltd. | 2-1-1 Minami-Aoyama, Minato-ku, Tokyo | 10,881 | 21.69 |
| SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account) | 1-3-1, Nishi-Shimbashi, Minato-ku, Tokyo | 2,508 | 5.00 |
| Y.A Co., Ltd. | 38-28 Yamate-cho, Naka-ku, Hamamatsu-shi, Shizuoka | 2,019 | 4.02 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2-11-3 Hamamatsu-cho, Minato-ku, Tokyo | 1,765 | 3.52 |
| Yoshihide Yamamoto | Naka-ku, Hamamatsu-shi, Shizuoka | 1,525 | 3.04 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1-8-11 Harumi, Chuo-ku, Tokyo | 1,434 | 2.86 |
| Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. | Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo | 1,315 | 2.62 |
| Ei Yamamoto | Naka-ku, Hamamatsu-shi, Shizuoka | 1,300 | 2.59 |
| THE BANK OF NEW YORK MELLON 140044 (Standing Proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.) | 225 LIBERTY STREET, NEW YORK, NEW YORK, U.S.A. (Shinagawa Intercity Tower A, 2-15-1 Konan, Minato-ku, Tokyo) | 1,036 | 2.07 |
| STATE STREET BANK AND TRUST COMPANY 505019 (Standing Proxy: Custody Division, Tokyo branch of the Hong Kong and Shanghai Banking Corporation Limited) | AIB INTERNATIONAL CENTRE P.O.BOX 518 IFSC DUBLIN, IRELAND (3-11-1 Nihombashi, Chuo-ku, Tokyo) | 901 | 1.80 |
| Total | – | 24,689 | 49.19 |

Notes: 1. In addition to the above, the Company held 2,455 thousand treasury shares.

2. Of the above number of shares held, the number of shares in association with fiduciary activities is as follows:

| | |
|---|---|
| SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account) | 2,508 thousand shares |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,765 thousand shares |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,434 thousand shares |
| Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. | 1,315 thousand shares |

3. Mondrian Investment Partners Limited made the change report for the substantial shareholding report available for public inspection as of June 30, 2016, describing that this company held 2,663 thousand shares as of June 24, 2016. Since the Company could not confirm the actual number of shares held by this company as of March 31, 2018, it was not included in the above major shareholders.

| Name | Address | Number of shares, etc. held (Shares) | Shareholding ratio (%) |
|---|---|---|---|
| Mondrian Investment Partners Limited | Fifth Floor, 10 Gresham Street, London EC2V 7JD, United Kingdom | Shares 2,663,200 | 5.06 |

4. Sumitomo Mitsui Asset Management Company, Limited and its joint holder, Sumitomo Mitsui Banking Corporation made the change report for the substantial shareholding report available for public inspection as of November 22, 2016, describing that each of these companies held shares as follows as of November 15, 2016. Since the Company could not confirm the actual number of shares held by them as of March 31, 2018, they were not included in the above major shareholders.

| Name | Address | Number of shares, etc. held (Shares) | Shareholding ratio (%) |
|---|---|---|---|
| Sumitomo Mitsui Asset Management Company, Limited | Atago Green Hills MORI Tower 28F, 2-5-1 Atago, Minato-ku, Tokyo | Shares 231,300 | 0.44 |
| Sumitomo Mitsui Banking Corporation | 1-1-2 Marunouchi, Chiyoda-ku, Tokyo | Shares 2,508,000 | 4.76 |

5. NOMURA INTERNATIONAL PLC and its joint holder, Nomura Asset Management Co., Ltd., made the substantial shareholding report available for public inspection as of June 6, 2017, describing that each of these companies held shares as follows as of May 31, 2017. Since the Company could not confirm the actual number of shares held by them as of March 31, 2018, they were not included in the above major shareholders.

| Name | Address | Number of shares, etc. held (Shares) | Shareholding ratio (%) |
|---|---|---|---|
| NOMURA INTERNATIONAL PLC | 1 Angel Lane, London EC4R 3AB, United Kingdom | Shares 143,828 | 0.27 |
| Nomura Asset Management Co., Ltd. | 1-12-1 Nihombashi, Chuo-ku, Tokyo | Shares 3,068,100 | 5.83 |

6. Mizuho Bank, Ltd. and its joint holders, Mizuho Securities Co., Ltd., Mizuho Trust & Banking Co., Ltd. and Asset Management One Co., Ltd. made the change report for the substantial shareholding report available for public inspection as of June 22, 2017, describing that each of these companies held shares as follows as of June 15, 2017. Since the Company could not confirm the actual number of shares held by them as of March 31, 2018, they were not included in the above major shareholders.

| Name | Address | Number of shares, etc. held (Shares) | Shareholding ratio (%) |
|---|---|---|---|
| Mizuho Bank, Ltd. | 1-5-5 Otemachi, Chiyoda-ku, Tokyo | Shares 1,315,200 | 2.50 |
| Mizuho Securities Co., Ltd. | 1-5-1 Otemachi, Chiyoda-ku, Tokyo | Shares 90,600 | 0.17 |
| Mizuho Trust & Banking Co., Ltd. | 1-2-1 Yaesu, Chuo-ku, Tokyo | Shares 429,000 | 0.81 |
| Asset Management One Co., Ltd. | 1-8-2 Marunouchi, Chiyoda-ku, Tokyo | Shares 1,034,700 | 1.97 |

## 2. Dividend policy

The Company considers returning profits to shareholders to be one of the top management issues. Our basic policy is to continue to pay a stable dividend from a comprehensive point of view based on consolidated financial performance and dividend payout ratio, etc., while striving to improve corporate value by making capital investments and carrying out research and development activities necessary for future growth and thus maintaining and strengthening its competitiveness.

The Company's basic policy on dividend payments is to pay dividends twice a year in the form of interim dividends and year-end dividends.

Decisions on year-end dividends are made by the General Meeting of Shareholders, and decisions on interim dividends are made by the Board of Directors.

Based on the foregoing policy, the Company paid a total dividend for the fiscal year under review of ¥42 per share (of which ¥21 was paid out as an interim dividend). This resulted in a dividend payout ratio of 21.7%.

The Company uses internal reserves to make investments for future business expansion, etc.

The Company stipulates in the Articles of Incorporation that it is able to pay an interim dividend, with September 30 as the record date, based on a resolution of the Board of Directors.

Dividends for the fiscal year under review were as follows.

| Resolution date | Total amount of dividends (Millions of yen) | Dividends per share (Yen) |
|---|---|---|
| Resolution at a Board of Directors meeting held on October 27, 2017 | 1,053 | 21 |
| Resolution at the Ordinary General Meeting of Shareholders held on June 19, 2018 | 1,053 | 21 |

## 3. Information about officers

Men: 13, Women: – (Percentage of female officers: –%)

| Title | Position | Name | Date of birth | Career summary | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| President and Representative Director | | Toshimichi Matsuda | December 9, 1952 | Mar. 1975 Joined the Company<br>Apr. 1996 President and Director of FCC (EUROPE) LTD.<br>Jun. 2001 Director and General Manager of Sales Division of the Company<br>Jun. 2005 Director, in charge of Sales and Purchasing of the Company<br>Jun. 2006 Director, in charge of Sales and Purchasing and Risk Management Officer of the Company<br>Apr. 2007 Director, Head of Sales and Purchasing, Head of business operation in China and Risk Management Officer of the Company<br>Jun. 2008 Managing Director, Head of Sales and Purchasing and Head of business operation in China of the Company<br>Jun. 2010 Managing Director, Head of Sales and Purchasing and Compliance Officer of the Company<br>Jun. 2011 Managing Director, Head of Sales and Compliance Officer of the Company<br>Jun. 2012 Senior Managing Director, Head of Sales and Compliance officer of the Company<br>Apr. 2013 Senior Managing Director of the Company<br>Jun. 2013 President and Representative Director of the Company (incumbent) | (Note 2) | 106 |
| Senior Managing Director | In charge of Sales and Head of business operation in China | Yoshitaka Saito | November 29, 1973 | Feb. 2009 Joined the Company<br>Jan. 2011 President and Director of FCC (INDIANA) Mfg., LLC. (currently FCC (INDIANA), LLC.) and President and Director of FCC (INDIANA), INC. (currently FCC (INDIANA), LLC.)<br>Jun. 2011 Director of the Company<br>Apr. 2012 Director and Head of business operation in North America of the Company<br>President and Director of FCC (North America), INC.<br>Jun. 2012 Managing Director and Head of business operation in North America of the Company<br>Apr. 2013 Managing Director and Head of business operation of motorcycles business of the Company<br>Apr. 2014 Managing Director, Head of Purchasing, Head of business operation in China and Risk Management Officer of the Company<br>Jun. 2018 Senior Managing Director, In charge of Sales and Head of business operation in China of the Company (incumbent) | (Note 2) | 148 |

| Title | Position | Name | Date of birth | Career summary | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| Managing Director | Head of business operation of automobiles business and in charge of New Business Development Division | Kazuhiro Itonaga | March 11, 1960 | Mar. 1982 Joined the Company<br>Apr. 2009 General Manager of R&D Division of the Company<br>Jun. 2009 Director and General Manager of R&D Division of the Company<br>Jun. 2010 Director, Head of Research and Development and General Manager of R&D Division of the Company<br>Jun. 2013 Managing Director, Head of Research and Development and General Manager of R&D Division of the Company<br>Apr. 2015 Managing Director, Head of business operation of automobiles business and Head of Research and Development of Automobile Components of the Company<br>Apr. 2016 Managing Director, Head of business operation of automobiles business of the Company<br>Nov. 2016 Managing Director, Head of business operation of automobiles business and in charge of New Business Development Division of the Company (incumbent) | (Note 2) | 21 |

| Title | Position | Name | Date of birth | Career summary | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| Managing Director | Head of business operation of motorcycles business, Head of Production of Motorcycle Components, Head of business operation in ASEAN and South America and Risk Management Officer | Kazuto Suzuki | May 27, 1961 | Apr. 1984 Joined the Company<br>Apr. 2009 General Manager of Corporate Planning Office of the Company<br>Jun. 2010 Director, Head of business operation in China and South America and General Manager of Corporate Planning Office of the Company<br>Jun. 2011 Director, Head of business operation in China and South America, General Manager of Corporate Planning Office and Risk Management Officer of the Company<br>Jan. 2012 Director, Head of business operation in China and South America and Risk Management Officer of the Company<br>Apr. 2012 Director, Head of Production Engineering, Head of business operation in China and South America and Risk Management Officer of the Company<br>Jun. 2012 Director, Head of Production of Motorcycle Components, Head of Production Engineering and Head of business operation in China and South America of the Company<br>Apr. 2013 Director, Head of business operation of motorcycles business in Japan, Head of business operation in China and South America and Risk Management Officer of the Company<br>Apr. 2014 Director, Head of business operation of motorcycles business, Head of business operation in ASEAN and India and Head of business operation in South America of the Company<br>Apr. 2016 Director, Head of business operation of motorcycles business, Head of Production of Motorcycle Components, Head of business operation in ASEAN and Head of business operation in South America of the Company<br>Jun. 2017 Managing Director, Head of business operation of motorcycles business, Head of Production of Motorcycle Components, Head of business operation in ASEAN and Head of business operation in South America of the Company<br>Jun. 2018 Managing Director, Head of business operation of motorcycles business, Head of Production of Motorcycle Components, Head of business operation in ASEAN and South America and Risk Management Officer of the Company (incumbent) | (Note 2) | 29 |

| Title | Position | Name | Date of birth | Career summary | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| Director | Head of Sales and Purchasing and General Manager of Sales Division | Terufumi Nishimura | December 5, 1960 | Jul. 1989 Joined the Company<br>Jan. 2011 General Manager of Sales Division of the Company<br>Apr. 2013 Executive Officer, Head of Sales and General Manager of Sales Division of the Company<br>Apr. 2015 Senior Executive Officer, Head of Sales and General Manager of Sales Division of the Company<br>Jun. 2018 Director, Head of Sales and Purchasing and General Manager of Sales Division of the Company (incumbent) | (Note 2) | 35 |
| Director | Head of Management and Administration, Compliance Officer and Chief Information Officer | Ryujiro Matsumoto | June 4, 1962 | Jul. 2005 Joined the Company<br>Jan. 2011 General Manager of FCC (THAILAND) CO., LTD.<br>Jun. 2011 Director, Head of Production of Motorcycle Components and Head of business operation in Asia of the Company<br>Jun. 2012 Director and Head of business operation in Asia of the Company<br>Apr. 2013 Director, Head of Management and Administration, General Manager of Corporate Planning Office, Compliance Officer and Chief Information Officer of the Company<br>Jun. 2013 Director, Head of Management and Administration, Compliance Officer and Chief Information Officer of the Company (incumbent) | (Note 2) | 15 |
| Director | Head of Production Engineering and Head of Environment and Safety | Atsuhiro Mukoyama | July 31, 1963 | Apr. 1984 Joined the Company<br>Apr. 2012 Head of Production of Automobile Components of the Company<br>Jun. 2012 Director and Head of Production of Automobile Components of the Company<br>Apr. 2013 Director and Head of business operation of automobiles business of the Company<br>Apr. 2015 Director, Head of Production Engineering and Head of Environment and Safety of the Company (incumbent) | (Note 2) | 19 |
| Director | Head of business operation in North America | Satoshi Nakaya | March 17, 1964 | Apr. 1986 Joined the Company<br>Jan. 2012 General Manager of Corporate Planning Office of the Company<br>Jun. 2012 Director, Head of Management and Administration, General Manager of Corporate Planning Office, Risk Management Officer and Chief Information Officer of the Company<br>Apr. 2013 Director, Head of business operation in North America of the Company President and Director of FCC (North America), INC. President and Director of FCC (INDIANA), LLC.<br>Apr. 2017 Director, Head of business operation in North America of the Company President and Director of FCC (North America), INC. (incumbent) | (Note 2) | 46 |

| Title | Position | Name | Date of birth | Career summary | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| Director | Head of production in North America and Deputy Head of Production Engineering (Casting) | Tomoyuki Goto | May 21, 1962 | Apr. 1987 Joined Honda Motor Co., Ltd.<br>Apr. 2017 Engineer of Power Train Strategy Planning Department, Production Operations of Honda Motor Co., Ltd.<br>Apr. 2018 Joined the Company, Assistant to President<br>Jun. 2018 Director, Head of production in North America and Deputy Head of Production Engineering (Casting) of the Company (incumbent) | (Note 2) | 15 |
| Director, Audit and Supervisory Committee Member (full time) | | Katsuyoshi Fukatsu | November 30, 1954 | Mar. 1977 Joined the Company<br>Apr. 2009 President and Director of FCC (INDIANA) Mfg., LLC. (currently FCC (INDIANA), LLC.)<br>Jun. 2009 Director and Head of business operation in North America of the Company<br>President and Director of FCC (INDIANA), INC. (currently FCC (INDIANA), LLC.)<br>Jun. 2010 President and Director of FCC (North America), INC.<br>Jun. 2012 Audit & Supervisory Board Member (full time) of the Company<br>Jun. 2016 Director, Audit and Supervisory Committee Member (full time) of the Company (incumbent) | (Note 3) | 47 |
| Director, Audit and Supervisory Committee Member | | Yoshinori Tsuji | April 17, 1959 | Mar. 1986 Graduated from The Legal Training and Research Institute of Japan<br>Apr. 1986 Registered as an attorney (Nagoya Bar Association)<br>Apr. 1987 Transferred registration to the Shizuoka Bar Association<br>Established Yoshinori Tsuji Law Office (to present)<br>Jun. 2007 Audit & Supervisory Board Member of the Company<br>Jun. 2016 Director, Audit and Supervisory Committee Member of the Company (incumbent) | (Note 3) | – |
| Director, Audit and Supervisory Committee Member | | Masahide Sato | February 10, 1964 | Oct. 1992 Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)<br>Apr. 1996 Registered as Certified Public Accountant<br>Sep. 2005 Established Masahide Sato Accounting Firm (to present)<br>Jun. 2010 Audit & Supervisory Board Member of the Company<br>Apr. 2015 Director of CRESTEC Inc. (incumbent)<br>Jun. 2016 Director, Audit and Supervisory Committee Member of the Company (incumbent) | (Note 3) | – |

| Title | Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|---|
| Director, Audit and Supervisory Committee Member | | Kazumoto Sugiyama | May 27, 1969 | Sep. 2006 | Graduated from The Legal Training and Research Institute of Japan | (Note 3) | – |
| | | | | Oct. 2006 | Registered as an attorney (Shizuoka Bar Association)<br>Joined Toshio Sugiyama Law Office (currently Sugiyama Law Office) | | |
| | | | | Sep. 2008 | President of Sugiyama Law Office (to present) | | |
| | | | | Jun. 2014 | Director of the Company | | |
| | | | | Jun. 2016 | Director, Audit and Supervisory Committee Member of the Company (incumbent) | | |
| | | | | Total | | | 481 |

Notes: 1. Mr. Yoshinori Tsuji, Mr. Masahide Sato and Mr. Kazumoto Sugiyama are Outside Directors.
2. One year from the conclusion of the Ordinary General Meeting of Shareholders held on June 19, 2018
3. Two years from the conclusion of the Ordinary General Meeting of Shareholders held on June 19, 2018

## 4. Status of corporate governance, etc.

(1) Status of corporate governance

Basic policy regarding corporate governance

Based on its corporate philosophy, the Company endeavors to enhance its corporate governance as one of the top management issues, aiming to build trust of its stakeholders, including shareholders, customers, employees, and local communities, conduct an agile and decisive decision-making in a fair and transparent way and pursue its continuous growth and an increase in corporate value over the medium- to long-term.

< Corporate philosophy >

"F.C.C. Co., Ltd. is committed to making a contribution to society by supplying products that make the best of ideas and technology to satisfy customers in every way, and which are also safe and environmentally friendly."

1) System of corporate governance

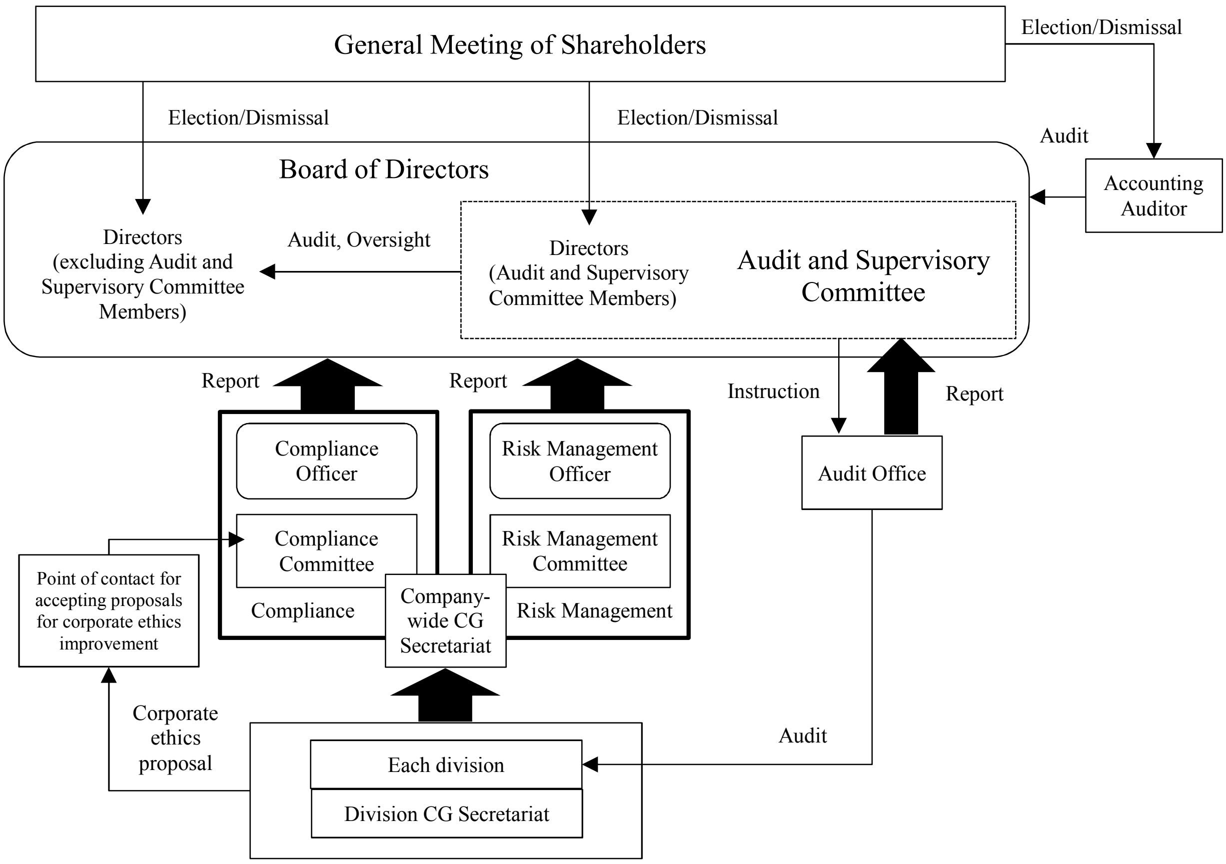
i) Summary of the system of corporate governance

Partial amendments to the Articles of Incorporation have been resolved at the 86th Ordinary General Meeting of Shareholders held on June 22, 2016. Consequently, the Company made the transition to a Company with an Audit and Supervisory Committee on the same date.

The Board of Directors comprises 13 Directors, of whom three are Outside Directors. In addition to making decisions on matters prescribed by laws and regulations and execution of important operations, the Board of Directors oversees the execution of duties of the Directors. The Audit and Supervisory Committee is composed of four Directors who are Audit and Supervisory Committee Members, of whom three are Outside Directors. In accordance with auditing policies, plans and division of responsibility established by the Audit and Supervisory Committee, each Audit and Supervisory Committee Member participates in meetings of the Board of Directors and other important meetings, and audits and oversees the execution of duties of the Board of Directors and the development and operation of the Company's internal control system by examining the status of operations and assets of the Company. Accounting Auditor has concluded an audit contract with Yasumori Audit Corporation pertaining to accounting audits in compliance with the Companies Act and Financial Instruments and Exchange Act and undergoes its audit.

The following diagram shows the relationships among the Company's organizations and internal control as of June 21, 2018.

[Diagram of corporate governance system]




ii) Reasons for adopting the system of corporate governance described above

With the aim of strengthening the oversight function of the Board of Directors, improving the transparency and soundness of management and accelerating decision-making, the Company has adopted an institutional design of a company with an Audit and Supervisory Committee. The Company has a Board of Directors to oversee the execution of duties of the Directors. The Board of Directors comprises Directors who are well versed in the operations of the Company and Outside Directors with an objective, broad-ranging and in-depth perspective. In light of its business contents and scale, the Company considers its current corporate structure as appropriate.

iii) Other matters regarding corporate governance

Basic policy regarding the internal control system

The Company resolved the following basic policy regarding the systems to ensure the proper execution of operations prescribed in the Companies Act at a meeting of the Board of Directors.

- System to ensure that the execution of duties by Directors and employees of the Company and Group companies complies with laws and regulations and the Articles of Incorporation

  The Company shall establish a code of conduct that is shared by the entire Group and implement it thoroughly to ensure that the execution of duties by Directors and employees complies with laws and regulations and the Articles of Incorporation and earns the trust of society.

  The Company shall establish a Compliance Committee in which a Compliance Officer serves as Chairman as an organization to control compliance. In addition, the Company shall establish an internal reporting system to promote compliance.

- System for storing and managing information on the execution of duties by the Company’s Directors

The Company shall establish various regulations based on the basic policy for information management, and appropriately store and manage information regarding the execution of duties by the Directors.

- Regulations and other systems for managing risk of losses of the Company and Group companies

The management risk of the entire Group shall be acknowledged and evaluated at a meeting of the Company's Board of Directors. The Board of Directors of the Company shall elect Directors to manage the acknowledged and evaluated management risk.

The Company shall establish a Risk Management Committee in which a Risk Management Officer serves as Chairman as an organization that controls risk management. The Risk Management Committee shall manage risks in daily operations and cross-functional risks of the entire Group.

- System to ensure the efficient execution of duties by Directors of the Company and Group companies

A meeting of the Board of Directors of the Company shall be held once or more in three months and on an extraordinary basis whenever necessary to take decisions on legally required matters and important operations, and oversee the execution of duties by the Directors.

The Company shall expedite and increase the efficiency of the management decision-making process using meetings such as management meetings and the executive officer system.

The Company shall draw up a medium-term management plan and annual business plan to manage the progress of operations and promote the effective use of management resources of the entire Group.

The Company shall establish segregation of duties, reporting lines, and other organizational standards in the regulations for executing duties, etc.

- System for reporting from Group companies to the Company and other systems to ensure the proper execution of operations within the corporate group comprising the Company and Group companies

The Company shall establish subsidiary management regulations, with the aim of properly managing Group companies in accordance with their scale of business and significance, etc.

The Company shall oblige Group companies to report to it on a regular basis and develop a system for having them report specified important matters promptly.

The internal audit office of the Company shall audit the Company and Group companies regularly or whenever necessary.

- Matters concerning Directors and employees who assist the Audit and Supervisory Committee of the Company in its duties

The Company shall establish the internal audit office as an organization to assist the duties of the Audit and Supervisory Committee. The Audit and Supervisory Committee shall have responsibility for the internal audit office, and the appointment, dismissal, personnel change, and revision of wages of employees in the internal audit office shall be determined by the Board of Directors upon consent of the Audit and Supervisory Committee. The Company shall not have Directors who assist the Audit and Supervisory Committee in its duties.

- System for reporting to the Audit and Supervisory Committee of the Company

Audit and Supervisory Committee Members shall attend meetings of the Board of Directors and other important meetings, and be allowed to request Directors and employees of the Company and Group companies to report to them whenever necessary.

Upon receiving a request from the Audit and Supervisory Committee for a report, the Director or employee shall report to it promptly and appropriately.

The Company shall establish an internal reporting system to ensure an appropriate system for reporting to the Audit and Supervisory Committee.

The Company shall develop a system to prohibit unfavorable treatment of a reporting party in its operation rules for the internal reporting system.

• Matters regarding the policy for handling expenses and debts incurred for executing duties by the Audit and Supervisory Committee Members of the Company

If the Audit and Supervisory Committee requests payment of expenses needed for executing its duties, the Company shall pay such expenses promptly.

The Audit and Supervisory Committee shall factor expenses deemed necessary for executing its duties into the budget in advance. Provided, however, that the Audit and Supervisory Committee shall be allowed to request reimbursement of emergency or extraordinary expenses after the fact.

• Other systems to ensure audits by the Audit and Supervisory Committee of the Company are conducted effectively

The Audit and Supervisory Committee shall exchange opinions with Representative Director, Directors and Accounting Auditor regularly or whenever necessary.

The Audit and Supervisory Committee shall conduct audits effectively by cooperating closely with the internal audit office.

iv) Overview of limited liability agreements

In accordance with the provisions of Article 427, paragraph 1 of the Companies Act, the Company has concluded agreements limiting the extent of any liability for statutory compensation as stipulated in Article 423, paragraph 1 of the said Act with the Directors who are Audit and Supervisory Committee Members. The limits on compensation stipulated in these agreements are the minimum amounts prescribed in Article 425, paragraph 1 of the said Act.

2) Internal audits and audits by the Audit and Supervisory Committee

• Internal audits

The Company has established the internal audit office as an organization to assist the duties of the Audit and Supervisory Committee. The Audit and Supervisory Committee has responsibility for the internal audit office, and the appointment, dismissal, personnel change, and revision of wages of employees in the internal audit office are determined by the Board of Directors upon consent of the Audit and Supervisory Committee.

The internal audit office audits the status of development and operations of internal controls of the entire Group with the aim of improving the effectiveness and efficiency of operations, increasing the reliability of financial reporting, ensuring compliance with laws and regulations relating to business activities, and protecting the Company’s assets.

This office’s six staff members, including the General Manager, carry out periodic and unscheduled audits in collaboration with the Audit and Supervisory Committee.

• Audits by the Audit and Supervisory Committee

The Audit and Supervisory Committee Members audit and oversee the execution of duties by the Directors, the development and operation of the Company’s internal control system, and other aspects of operations by, among other things, attending meetings of the Board of Directors and other important meetings, and examining the operations and assets of the Company. Such audits are carried out in accordance with auditing policies, plans, and division of responsibility established by the Audit and Supervisory Committee. The Company has a system where Audit and Supervisory Committee Members exchange opinions with Representative Director, Directors, and Accounting Auditor regularly or whenever necessary, and collaborate with the internal audit office to ensure the effectiveness of audits.

Outside Director Masahide Sato is a licensed CPA with considerable knowledge of finance and accounting.

3) Accounting audits

The Company's Accounting Auditor is Yasumori Audit Corporation. The following information covers the names of the certified public accountants involved in accounting audits of the operations of the Company and the number of assistant accountants who participated in audits.

• Names of CPAs who conducted audits:

Engagement partner: Satoru Saigusa

Engagement partner: Takashi Yamazaki

• Assistant accountants who participated in accounting audits:

Ten CPAs

4) Outside Directors

The Company has three Outside Directors.

No conflict of interest of any personal, financial, or commercial nature exists between the Company and Mr. Yoshinori Tsuji, Mr. Masahide Sato and Mr. Kazumoto Sugiyama.

The function and role of the Outside Directors in corporate governance of the Company is to provide management with objective advice related to corporate management from the standpoint of experts and objective viewpoints based on extensive experience.

Mr. Yoshinori Tsuji was elected as an Outside Director in the light of his specialized expertise and extensive experience of corporate legal affairs acquired as a lawyer.

Mr. Masahide Sato was elected as an Outside Director in the light of his specialized expertise and extensive experience of corporate finance and accounting affairs acquired as a certified public accountant.

Mr. Kazumoto Sugiyama was elected as an Outside Director in the light of his specialized expertise and extensive experience of corporate legal affairs acquired as a lawyer.

While the Company has not established any specific standards or policy regarding independence when electing Outside Directors, the Company gives due consideration to ensure that no conflict of interest exists between them and the Company's ordinary shareholders and that there is independence from the Company in view of the Companies Act, the standards set by financial instruments exchanges, and the like.

In accordance with the requirements of the Tokyo Stock Exchange, Mr. Yoshinori Tsuji, Mr. Masahide Sato and Mr. Kazumoto Sugiyama are designated as independent officers and are registered with the said stock exchange as such.

5) Remuneration, etc. for officers

i) Total amount of remuneration, etc., total amount of remuneration, etc. by type and number of payees by category

| Category | Total amount of remuneration, etc. (Millions of yen) | Total amount of remuneration, etc. by type (Millions of yen) | | Number of payees |
|---|---|---|---|---|
| | | Remuneration | Bonuses | |
| Directors (excluding Directors who are Audit and Supervisory Committee Members) | 214 | 176 | 37 | 8 |
| Directors, Audit and Supervisory Committee Members [Outside Directors] | 59 [11] | 59 [11] | – [–] | 5 [3] |
| Total [Outside Directors] | 273 [11] | 236 [11] | 37 [–] | 13 [3] |

Notes: 1. The amount of remuneration, etc. of Directors (excluding Directors who are Audit and Supervisory Committee Members) does not include employee salaries paid to persons who are concurrently Directors and employees.

2. At the 86th Ordinary General Meeting of Shareholders held on June 22, 2016, remuneration of Directors (excluding Directors who are Audit and Supervisory Committee Members) was capped at ¥500 million per year (which, however, does not include salaries paid for work performed as employees).
3. At the 86th Ordinary General Meeting of Shareholders held on June 22, 2016, remuneration of Directors who are Audit and Supervisory Committee Members was capped at ¥90 million per year.

ii) Policy for determining remuneration amounts paid to officers and the method of calculating such amount as well as the method of determination thereof

The Company sets remuneration, etc. for officers as an appropriate level for their duties and responsibilities so that it shall serve as sound and proper incentives. The amounts paid to Directors (excluding Directors who are Audit and Supervisory Committee Members) comprise the officer's remuneration of fixed amount paid in exchange for executing duties and bonuses paid in consideration of the Company's financial performance and economic and industry trends during the relevant fiscal year and set based on the Medium-Term Management Plan. The amounts paid to Directors who are Audit and Supervisory Committee Members consist solely of the officer's remuneration of fixed amount paid in exchange for executing duties. The amounts paid will be within the limit approved by resolution of the General Meeting of Shareholders. Those paid to Directors (excluding Directors who are Audit and Supervisory Committee Members) will be based on a resolution of the Board of Directors. Those paid to Directors who are Audit and Supervisory Committee Members will be based on deliberations among the Directors who are Audit and Supervisory Committee Members.

With the aim of promoting the Company's continuous growth and an increase in corporate value over the medium- to long-term by sharing interests with shareholders through the holding of the Company's shares, Directors (excluding Directors who are Audit and Supervisory Committee Members) contribute a portion of their fixed remuneration to Officers Stock Ownership Plan and acquire the Company's shares, while continuing its holding during their term and for a year after their retirement from office.

6) Share ownership

i) Number of issues and total amount of balance sheet amount for investment shares whose purpose of holding is other than for net investment

Number of issues: 19

Total amount of balance sheet amount: ¥1,635 million

ii) Type of holding, issue, number of shares, balance sheet amount and purpose of holding for investment shares whose purpose of holding is other than for net investment

Fiscal year ended March 31, 2017

Specified investment shares

| Issue | Number of shares (Shares) | Balance sheet amount (Millions of yen) | Reason for shareholding |
|---|---|---|---|
| KANEMATSU CORPORATION | 3,701,000 | 740 | To maintain and strengthen business relationships |
| SUZUKI MOTOR CORPORATION | 52,500 | 242 | To maintain and strengthen business relationships |
| Mizuho Financial Group, Inc. | 532,169 | 108 | To maintain and strengthen business relationships |
| SHIMIZU CORPORATION | 39,000 | 38 | To maintain and strengthen business relationships |
| Sumitomo Mitsui Financial Group, Inc. | 5,755 | 23 | To maintain and strengthen business relationships |
| MUSASHI SEIMITSU INDUSTRY CO., LTD. | 6,000 | 17 | To maintain and strengthen business relationships |
| Nissin Kogyo Co., Ltd. | 4,500 | 8 | To maintain and strengthen business relationships |
| YAMABIKO CORPORATION | 4,556 | 5 | To maintain and strengthen business relationships |
| TANAKA SEIMITSU KOGYO CO., LTD. | 4,000 | 3 | To maintain and strengthen business relationships |
| Yutaka Giken Company Limited | 1,000 | 2 | To maintain and strengthen business relationships |
| G-TEKT CORPORATION | 2,400 | 4 | To maintain and strengthen business relationships |

Fiscal year ended March 31, 2018

Specified investment shares

| Issue | Number of shares (Shares) | Balance sheet amount (Millions of yen) | Reason for shareholding |
|---|---|---|---|
| KANEMATSU CORPORATION | 740,200 | 1,082 | To maintain and strengthen business relationships |
| SUZUKI MOTOR CORPORATION | 52,500 | 300 | To maintain and strengthen business relationships |
| Mizuho Financial Group, Inc. | 532,169 | 101 | To maintain and strengthen business relationships |
| SHIMIZU CORPORATION | 39,000 | 37 | To maintain and strengthen business relationships |
| Sumitomo Mitsui Financial Group, Inc. | 5,755 | 25 | To maintain and strengthen business relationships |
| MUSASHI SEIMITSU INDUSTRY CO., LTD. | 6,000 | 21 | To maintain and strengthen business relationships |
| Nissin Kogyo Co., Ltd. | 4,500 | 8 | To maintain and strengthen business relationships |
| YAMABIKO CORPORATION | 5,039 | 7 | To maintain and strengthen business relationships |
| TANAKA SEIMITSU KOGYO CO., LTD. | 4,000 | 3 | To maintain and strengthen business relationships |
| Yutaka Giken Company Limited | 1,000 | 2 | To maintain and strengthen business relationships |
| G-TEKT CORPORATION | 2,400 | 4 | To maintain and strengthen business relationships |

7) Matters normally requiring adoption of a resolution by the General Meeting of Shareholders, which may be decided by the Board of Directors

• Acquisition of own shares

To carry out capital policy in a flexible and timely manner in response to changes in the economic environment, the Company provides in its Articles of Incorporation that, in accordance with the provisions of Article 165, paragraph 2 of the Companies Act, it may acquire own shares through market transactions, etc. based on a resolution of the Board of Directors.

• Interim dividends

To make a flexible return of profits to shareholders, the Company provides in its Articles of Incorporation that, in accordance with Article 454, paragraph 5 of the Companies Act, it may pay dividends of surplus (interim dividends) based on a resolution of the Board of Directors.

• Exemption of Directors from liability

To create an environment where Directors are able to fulfill their expected roles adequately, the Company provides in its Articles of Incorporation that, pursuant to the provisions of Article 426, paragraph 1 of the Companies Act, it may exempt Directors (including former Directors) from liability as set forth in Article 423, paragraph 1 of the Companies Act within the limits stipulated by laws and regulations based on a resolution of the Board of Directors.

8) Number of Directors

The Company states in its Articles of Incorporation that it shall have no more than 20 Directors (of which, no more than 5 Directors are Audit and Supervisory Committee Members).

9) Requirements for election of Directors

The Company states in its Articles of Incorporation that adoption of resolutions for the election of Directors shall require that at least one-third of the shareholders entitled to execute voting rights be present, and that an affirmative vote be cast by a majority of such shareholders present. The Company also states in its Articles of Incorporation that cumulative voting shall not be used for the election of Directors.

10) Requirements for the adoption of special resolutions by the General Meeting of Shareholders

With the aim of ensuring the smooth operation of the General Meeting of Shareholders, the Company states in its Articles of Incorporation that the adoption of a special resolution based on Article 309, paragraph 2 of the Companies Act shall require that at least one-third of the shareholders entitled to execute voting rights be present, and that an affirmative vote be cast by at least two-thirds of such shareholders present.

(2) Details of audit fee, etc.

Details of remuneration to independent auditors

| Category | Fiscal year ended March 31, 2017 | | Fiscal year ended March 31, 2018 | |
|---|---|---|---|---|
| | Fees for audit certification services (Millions of yen) | Fees for non-audit services (Millions of yen) | Fees for audit certification services (Millions of yen) | Fees for non-audit services (Millions of yen) |
| Reporting company | 53 | – | 53 | – |
| Consolidated subsidiaries | – | – | – | – |
| Total | 53 | – | 53 | – |

## V. Financial information

### 1. Preparation policy of the consolidated and non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc. (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter the "Ordinance on Financial Statements, etc.").

The Company is qualified as a company submitting financial statements prepared in accordance with special provision and has prepared financial statements pursuant to the provisions of Article 127 of the Ordinance on Financial Statements, etc.

### 2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements for the fiscal year ended March 31, 2018 were audited by Yasumori Audit Corporation.

### 3. Special efforts to ensure the appropriateness of consolidated financial statements, etc., and development of a system for fair preparation of consolidated financial statements, etc. in accordance with IFRS

The Company is making special efforts to ensure the appropriateness of consolidated financial statements, and developing a system for the appropriate preparation of consolidated financial statements, in accordance with IFRS. The content thereof is as follows:

(1) To develop a system for ensuring correct understanding of accounting standards, etc. and appropriate responses to any changes in accounting standards, etc., the Company has joined the Financial Accounting Standards Foundation and attends seminars held by the foundation and audit corporations.

(2) For the adoption of IFRS, the Company keeps up with the latest accounting standards by obtaining press releases and standards published by the International Accounting Standards Board as needed. To prepare appropriate consolidated financial statements, etc. under IFRS, the Company has developed accounting policies of the Group in accordance with IFRS and performs accounting procedures based on these policies.

# 1. Consolidated financial statements, etc.

## (1) Consolidated financial statements

### 1) Consolidated statement of financial position

(Millions of yen)

| | Notes | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6, 26 | 23,474 | 25,230 |
| Trade and other receivables | 7, 26 | 26,986 | 28,855 |
| Other financial assets | 8, 26 | 1,294 | 2,339 |
| Inventories | 9 | 17,961 | 18,428 |
| Other current assets | 10 | 1,905 | 2,038 |
| Total current assets | | 71,620 | 76,892 |
| Non-current assets | | | |
| Property, plant and equipment | 11, 13, 29 | 74,521 | 72,942 |
| Goodwill and intangible assets | 12, 29 | 3,408 | 4,396 |
| Investments accounted for using the equity method | 14 | 140 | 117 |
| Other financial assets | 8, 26 | 9,389 | 12,561 |
| Deferred tax assets | 15 | 2,983 | 2,734 |
| Other non-current assets | 10 | 644 | 657 |
| Total non-current assets | | 91,087 | 93,410 |
| Total assets | | 162,708 | 170,302 |

(Millions of yen)

| | Notes | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|---|
| Liabilities and equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 17, 26 | 14,373 | 16,044 |
| Borrowings | 16, 26 | 13,266 | 16,179 |
| Other financial liabilities | 8, 26 | 103 | 128 |
| Income taxes payable | 15 | 2,095 | 2,784 |
| Other current liabilities | 10 | 5,812 | 6,006 |
| Total current liabilities | | 35,652 | 41,143 |
| Non-current liabilities | | | |
| Borrowings | 16, 26 | 4,040 | 365 |
| Other financial liabilities | 8, 26 | 607 | 448 |
| Defined benefit liability | 18 | 2,021 | 2,027 |
| Provisions | 19 | 36 | 33 |
| Deferred tax liabilities | 15 | 6,863 | 7,086 |
| Other non-current liabilities | 10 | 333 | 297 |
| Total non-current liabilities | | 13,901 | 10,258 |
| Total liabilities | | 49,553 | 51,402 |
| Equity | | | |
| Issued capital | 20 | 4,175 | 4,175 |
| Retained earnings | 20 | 104,908 | 112,828 |
| Treasury shares | 20 | (3,409) | (3,409) |
| Other components of equity | | 5,949 | 3,716 |
| Total equity attributable to owners of parent | | 111,624 | 117,311 |
| Non-controlling interests | | 1,530 | 1,589 |
| Total equity | | 113,155 | 118,900 |
| Total liabilities and equity | | 162,708 | 170,302 |

(Note) The accompanying notes are an integral part of these financial statements.

## 2) Consolidated statement of income

(Millions of yen)

| | Notes | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|---|
| Sales revenue | 4 | 157,217 | 173,174 |
| Cost of sales | | (132,648) | (142,877) |
| Gross profit | | 24,568 | 30,297 |
| Selling, general and administrative expenses | 21 | (13,109) | (15,070) |
| Other income | 22 | 766 | 657 |
| Other expense | 13, 22 | (989) | (1,831) |
| Operating profit | 4 | 11,236 | 14,052 |
| Finance income | 23 | 739 | 808 |
| Finance costs | 23 | (545) | (763) |
| Share of profit (loss) in investments accounted for using the equity method | 14 | (10) | (13) |
| Profit before income taxes | | 11,419 | 14,083 |
| Income tax expense | 15 | (3,921) | (4,160) |
| Profit | | 7,498 | 9,923 |
| | | | |
| Profit attributable to | | | |
| Owners of parent | | 7,204 | 9,691 |
| Non-controlling interests | | 294 | 231 |
| Profit | | 7,498 | 9,923 |
| | | | |
| Earnings per share | | | |
| (Attributable to owners of parent) | | | |
| Basic earnings per share (Yen) | 25 | 143.54 | 193.11 |
| Diluted earnings per share (Yen) | 25 | – | – |

(Note) The accompanying notes are an integral part of these financial statements.

### 3) Consolidated statement of comprehensive income

(Millions of yen)

| | Notes | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|---|
| Profit | | 7,498 | 9,923 |
| | | | |
| Other comprehensive income | | | |
| Components that will not be reclassified to profit or loss | | | |
| Remeasurements of defined benefit plans | 24 | 133 | 286 |
| Total | | 133 | 286 |
| | | | |
| Components that may be reclassified to profit or loss | | | |
| Changes in fair value of available-for-sale financial assets | 24 | 547 | 720 |
| Exchange differences of foreign operations | 24 | (1,097) | (2,988) |
| Share of other comprehensive income of associates accounted for using equity method | 14, 24 | (54) | (6) |
| Total | | (603) | (2,274) |
| Total other comprehensive income | | (470) | (1,988) |
| Comprehensive income | | 7,027 | 7,935 |
| | | | |
| Comprehensive income attributable to | | | |
| Owners of parent | | 6,763 | 7,744 |
| Non-controlling interests | | 264 | 190 |
| Comprehensive income | | 7,027 | 7,935 |

(Note) The accompanying notes are an integral part of these financial statements.

### 4) Consolidated statement of changes in equity

| | Note | Equity attributable to owners of parent | | | | |
|---|---|---|---|---|---|---|
| | | | | | Other components of equity | |
| | | Issued capital | Retained earnings | Treasury shares | Exchange differences of foreign operations | Changes in fair value of available-for-sale financial assets |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Balance as of April 1, 2016 | | 4,175 | 99,720 | (3,408) | 2,907 | 3,615 |
| Profit | | – | 7,204 | – | – | – |
| Other comprehensive income | | – | – | – | (1,114) | 540 |
| Total comprehensive income | | – | 7,204 | – | (1,114) | 540 |
| Purchase of treasury shares | 20 | – | – | (0) | – | – |
| Dividends | 20 | – | (2,007) | – | – | – |
| Increase (decrease) through changes in interests | | – | (141) | – | – | – |
| Transfer from other components of equity | | – | 133 | – | – | – |
| Total transactions with the owners | | – | (2,016) | (0) | – | – |
| Balance as of March 31, 2017 | | 4,175 | 104,908 | (3,409) | 1,792 | 4,156 |
| Profit | | – | 9,691 | – | – | – |
| Other comprehensive income | | – | – | – | (2,949) | 716 |
| Total comprehensive income | | – | 9,691 | – | (2,949) | 716 |
| Purchase of treasury shares | 20 | – | – | (0) | – | – |
| Dividends | 20 | – | (2,057) | – | – | – |
| Increase (decrease) through changes in interests | | – | – | – | – | – |
| Transfer from other components of equity | | – | 286 | – | – | – |
| Total transactions with the owners | | – | (1,771) | (0) | – | – |
| Balance as of March 31, 2018 | | 4,175 | 112,828 | (3,409) | (1,156) | 4,872 |

| | Note | Equity attributable to owners of parent | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | | Other components of equity | | Total | | |
| | | Remeasurements of defined benefit plans | Total | | | |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Balance as of April 1, 2016 | | – | 6,523 | 107,010 | 5,585 | 112,596 |
| Profit | | – | – | 7,204 | 294 | 7,498 |
| Other comprehensive income | | 133 | (440) | (440) | (30) | (470) |
| Total comprehensive income | | 133 | (440) | 6,763 | 264 | 7,027 |
| Purchase of treasury shares | 20 | – | – | (0) | – | (0) |
| Dividends | 20 | – | – | (2,007) | (1,359) | (3,366) |
| Increase (decrease) through changes in interests | | – | – | (141) | (2,960) | (3,101) |
| Transfer from other components of equity | | (133) | (133) | – | – | – |
| Total transactions with the owners | | (133) | (133) | (2,149) | (4,319) | (6,468) |
| Balance as of March 31, 2017 | | – | 5,949 | 111,624 | 1,530 | 113,155 |
| Profit | | – | – | 9,691 | 231 | 9,923 |
| Other comprehensive income | | 286 | (1,947) | (1,947) | (41) | (1,988) |
| Total comprehensive income | | 286 | (1,947) | 7,744 | 190 | 7,935 |
| Purchase of treasury shares | 20 | – | – | (0) | – | (0) |
| Dividends | 20 | – | – | (2,057) | (131) | (2,189) |
| Increase (decrease) through changes in interests | | – | – | – | – | – |
| Transfer from other components of equity | | (286) | (286) | – | – | – |
| Total transactions with the owners | | (286) | (286) | (2,057) | (131) | (2,189) |
| Balance as of March 31, 2018 | | – | 3,716 | 117,311 | 1,589 | 118,900 |

(Note) The accompanying notes are an integral part of these financial statements.

### 5) Consolidated statement of cash flows

(Millions of yen)

| | Note | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|---|
| Cash flows from (used in) operating activities | | | |
| Profit before income taxes | | 11,419 | 14,083 |
| Depreciation and amortization expense | | 12,182 | 12,766 |
| Impairment loss | | 650 | 1,454 |
| Finance income and finance costs | | (504) | (599) |
| Share of loss (profit) in investments accounted for using the equity method | | 10 | 13 |
| Loss (gain) on sales and retirement of non-current assets | | 59 | 133 |
| (Increase) decrease in inventories | | (263) | (1,156) |
| (Increase) decrease in trade and other receivables | | (1,573) | (2,619) |
| Increase (decrease) in trade and other payables | | 261 | 1,812 |
| Increase (decrease) in defined benefit liability | | 134 | 331 |
| Other | | 1,756 | 1,512 |
| Subtotal | | 24,132 | 27,732 |
| Interest and dividend income received | | 718 | 649 |
| Interest expenses paid | | (156) | (207) |
| Income taxes paid | | (2,436) | (4,312) |
| Income taxes refund and interest on refund received | | 1,907 | 259 |
| Net cash flows from (used in) operating activities | | 24,165 | 24,120 |
| Cash flows from (used in) investing activities | | | |
| Payments into time deposits | | (1,885) | (3,887) |
| Proceeds from withdrawal of time deposits | | 1,505 | 2,737 |
| Purchase of property, plant and equipment | | (14,650) | (14,199) |
| Proceeds from sales of property, plant and equipment | | 196 | 301 |
| Purchase of intangible assets | | (1,248) | (1,196) |
| Proceeds from sales of intangible assets | | 0 | 4 |
| Payments for acquisition of newly consolidated subsidiaries | | – | (791) |
| Proceeds from liquidation of subsidiaries and associates | | 377 | – |
| Payments of loans receivable | | (119) | (115) |
| Collection of loans receivable | | 170 | 196 |
| Purchase of other financial assets | | (54) | (2,070) |
| Proceeds from sales or redemption of other financial assets | | 0 | – |
| Other | | (137) | (100) |
| Net cash flows from (used in) investing activities | | (15,846) | (19,122) |
| Cash flows from (used in) financing activities | | | |
| Net increase (decrease) in short-term borrowings | | (1,004) | (365) |
| Payments for acquisition of interests in subsidiaries from non-controlling interests | | (3,101) | – |
| Purchase of treasury shares | | (0) | (0) |
| Cash dividends paid | 20 | (2,006) | (2,058) |
| Cash dividends paid to non-controlling shareholders | | (1,357) | (131) |
| Other | | (170) | (101) |
| Net cash flows from (used in) financing activities | | (7,641) | (2,657) |

| | Note | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|---|
| Net increase (decrease) in cash and cash equivalents | | 677 | 2,340 |
| Cash and cash equivalents at beginning of period | 6 | 23,450 | 23,474 |
| Effect of exchange rate change on cash and cash equivalents | | (653) | (584) |
| Cash and cash equivalents at end of period | 6 | 23,474 | 25,230 |

(Note) The accompanying notes are an integral part of these financial statements.

**[Notes to consolidated financial statements]**

## 1. Reporting entity

F.C.C. CO., LTD. (hereinafter the "Company") is a public company incorporated under the laws of Japan. The addresses of the registered headquarters and major business offices have been disclosed on the website (http://www.fcc-net.co.jp/). The Company's consolidated financial statements were prepared with the end of the financial year on March 31, 2018 and consist of accounts of the Company and its subsidiaries as well as interests in its associates (hereinafter the "Group").

The Group is principally engaged in the sales and manufacture of motorcycle and automobile clutches.

## 2. Basis of preparation

(1) Applicable accounting standards

The consolidated financial statements of the Group have been prepared in accordance with IFRS as pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976), since all the requirements of a "Specified Company under Designated International Accounting Standards" set forth in Article 1-2 of this Ordinance have been fulfilled.

These consolidated financial statements were approved by the Board of Directors on June 19, 2018.

(2) Basis of measurement

As described in the note "3. Significant accounting policies," the consolidated financial statements of the Group have been prepared on the basis of cost, except for certain financial instruments, etc. that are measured at fair value.

(3) Functional currency and presentation currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency. All financial information presented is rounded down to the nearest million yen.

(4) Accounting standards and interpretations that have been published but not yet applied.

The following accounting standards and interpretations were newly established or amended by the approval date of the consolidated financial statements. The Group has not early applied these standards and interpretations.

The impact of application of these standards and interpretations is under consideration and cannot be estimated at this point.

| IFRS | | Mandatory effective date (fiscal year beginning on the date) | Timing of application by the Group | Overview of the new standard or amendment |
|---|---|---|---|---|
| IFRS 9 | Financial instruments | January 1, 2018 | Fiscal year ending March 31, 2019 | Amendment concerning classification, measurement and recognition of financial instruments, amendment of hedge accounting, etc. |
| IFRS 15 | Revenue from contracts with customers | January 1, 2018 | Fiscal year ending March 31, 2019 | Amendment concerning accounting treatment for revenue recognition |
| IFRS 16 | Leases | January 1, 2019 | Fiscal year ending March 31, 2020 | Amendment concerning accounting treatment for leases |

(5) Significant accounting estimates and judgments

In preparing IFRS-compliant consolidated financial statements, the management makes judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Because actual results may differ from these estimates, such estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the accounting period in which the estimate is revised and future periods that are affected.

Of items for which the management made estimates and judgments, those that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

Note 5. Business combinations
Note 13. Impairment loss
Note 15. Income taxes
Note 18. Employee benefits

**3. Significant accounting policies**

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group is deemed to control an entity when the Group has exposures or rights to variable returns arising from the Group's involvement in the investee and has an ability to affect those returns through power over the investee.

The acquisition date is the date when the Group obtained control, and the entity is consolidated from that date to the date when the Group loses the control.

If any accounting policies applied by a subsidiary differ from those applied by the Group, adjustments are made to the subsidiary's financial statements where needed.

The Group's balances of payables and receivables and transactions as well as unrealized gains or losses arising from intra-group transactions are offset in preparing the consolidated financial statements. Comprehensive income of subsidiaries is attributable to owners of parent and non-controlling interests, even if the balance of non-controlling interests is negative.

Accounts of all subsidiaries that comprise the Group were reflected in the consolidated financial statements with March 31 as the reporting date.

2) Associates

Associates are entities over which the Group has significant influence in terms of financial and marketing policies but which the Group does not control or jointly control.

Investments in associates are recognized at cost at the time of acquisition and subsequently accounted for using equity method.

(2) Business combinations

Business combinations are accounted for using the acquisition method. Considerations for acquisition are measured as the total of fair values of assets transferred and liabilities assumed in exchange for the control over the acquired entity and equity financial instruments on the acquisition date. If the consideration for acquisition exceeds fair values of identifiable assets and liabilities, the excess is recorded as goodwill in the consolidated statement of financial position. If the consideration for acquisition is less than those fair values, the shortfall is immediately recorded as revenue. Any change in ownership interests in subsidiaries that does not result in a loss of control is accounted for as equity transaction.

(3) Foreign currency translation

1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each entity in the Group using the exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of each fiscal year are translated into the functional currencies using the exchange rates at that date.

Foreign exchange differences arising from the translation or settlement are recognized as profit or loss.

2) Financial statements of foreign operations

To prepare consolidated financial statements, assets and liabilities of the Group's foreign subsidiaries, etc. are translated into Japanese yen using exchange rates at the end of the fiscal year. Profit or loss items are translated using the average exchange rate during the fiscal period, unless exchange rates fluctuate significantly during that period. If there is any significant fluctuation in exchange rates, the exchange rate on the transaction date is used.

Exchange differences on translation are recognized as other comprehensive income in the consolidated statement of comprehensive income and cumulative translation differences are included in other components of equity in the consolidated statement of financial position.

Cumulative translation differences of a foreign operation are reclassified to profit or loss when the Group loses control and significant influence over the foreign operation.

(4) Financial instruments

1) Financial assets

(i) Initial recognition and measurement

The Group recognizes financial assets when the Group becomes a relevant contracting party and classifies the financial assets into "financial assets at fair value through profit or loss," "held-to-maturity investments," "loans and receivables" or "available-for-sale financial assets." This classification is determined at initial recognition according to the nature and purpose for the acquisition.

Financial assets are measured at fair value at the time of initial recognition, and transaction costs that are directly attributable to the acquisition are added except for financial assets at fair value through profit or loss.

(a) Financial assets at fair value through profit or loss

When financial assets are designated as financial assets held for trading or at fair value through profit or loss, these financial assets are classified as "financial assets at fair value through profit or loss."

Financial assets classified as "financial assets at fair value through profit or loss" are measured at fair value and any related changes are recognized as profit or loss.

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has clear intention and ability to hold to maturity are classified as "held-to-maturity investments."

Held-to-maturity investments are measured by deducting impairment loss from amortized cost using the effective interest method, and interest income calculated using the effective interest method is recognized in profit or loss.

The Group holds no financial assets classified as "held-to-maturity investments."

(c) Loans and receivables

Non-derivative financial assets with fixed or determinable payments for which there is no quoted price in active markets are classified as "loans and receivables."

Loans and receivables are measured by deducting impairment loss from amortized cost using the effective interest method, and interest income calculated using the effective interest method is recognized in profit or loss.

(d) Available-for-sale financial assets

Non-derivative financial assets that are designated as “available-for-sale financial assets” or not classified as any of “financial assets at fair value through profit or loss,” “held-to-maturity investments” and “loans and receivables” are classified as “available-for-sale financial assets.”

Available-for-sale financial assets are measured at fair value with changes in fair value recognized as other comprehensive income.

Dividend income on available-for-sale financial assets is recognized as profit or loss. When an available-for-sale financial asset is derecognized or impairment loss is recognized, cumulative gains or losses that were recorded as other comprehensive income are reclassified to profit or loss.

(ii) Impairment of financial assets

For financial assets other than “financial assets at fair value through profit or loss,” the Group considers in each period whether there is objective evidence of impairment. When objective evidence for a financial asset indicates that a loss event arose after the initial recognition and negative effects of the loss event on estimated future cash flows of the financial asset can be reasonably predicted, impairment loss is recognized.

Objective evidence indicating that a financial asset is impaired includes significant financial difficulties of the issuer or debtor, default or delinquency in interest or principal payments, and a higher probability of bankruptcy or financial reorganization of the debtor. For equity financial instruments classified as “available-for-sale financial assets,” in cases where the fair value falls below the cost significantly or over a long period of time, it is also deemed that there is objective evidence of impairment.

When there is objective evidence of impairment for “loans and receivables” or “held-to-maturity investments,” a difference between the carrying amount of the asset and the present value after discounting estimated future cash flows at the initial effective interest rate is recognized as impairment loss in profit or loss.

For loans and receivables, impairment loss is recognized using allowance for credit losses. When subsequently the receivables are considered uncollectible, the carrying amount is directly reduced by offsetting it with allowance for credit losses. If any event that reduces impairment loss occurs after recognition of impairment loss, reversal of impairment loss is recognized in profit or loss.

When there is objective evidence of impairment for “available-for-sale financial assets,” cumulative losses that were recognized as other components of equity are reclassified to profit or loss. If fair value of an equity financial instrument that was classified as “available-for-sale financial assets” recovers after impairment, the amount of recovery is fully recognized as other comprehensive income.

(iii) Derecognition of financial assets

If contractual rights to cash flows arising from a financial asset are extinguished, or if a financial asset is transferred and substantially all risks and economic rewards relating to ownership of the asset are transferred, the financial asset is derecognized.

2) Financial liabilities

Financial liabilities are initially measured at fair value after the deduction of transaction costs, and subsequently measured at amortized cost using the effective interest method.

When a financial liability is extinguished, that is, the debt is dismissed, cancelled or expired, the Group derecognizes the financial liability.

3) Derivatives

The Group enters into currency swap contracts as risk management against fluctuations in foreign exchange rates.

As its policy, the Group does not conduct derivative transactions for speculative purposes.

Derivatives to which hedge accounting is not applied are classified as either "financial assets at fair value through profit or loss" or "financial liabilities at fair value through profit or loss" and they are accounted for in accordance with the aforesaid classification.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities or repayment terms of three months or less from the date of acquisition that are readily convertible to cash and subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at cost, or if lower, at net realizable value. Net realizable value is calculated by deducting estimated costs and estimated costs to sell required up to the completion from the estimated selling price in the normal course of business. The cost is calculated principally based on the progressive average inventory method and includes material costs, labor costs and manufacturing expenses.

(7) Property, plant and equipment

The cost model is applied in measurement of property, plant and equipment. Property, plant and equipment are recorded at the value calculated as cost less any accumulated depreciation and any accumulated impairment loss.

The cost of property, plant and equipment includes cost directly incidental to the acquisition of assets, and the initial estimated costs of dismantling and removing the assets and restoration costs for the places where the assets were located. Depreciation of these assets is started when the assets become available for use.

Maintenance costs arising on a daily basis for property, plant and equipment are recognized in profit or loss when incurred.

Depreciation expense for assets except for land and construction in progress is recorded by the straight-line method over the following estimated useful lives.

| | |
|---|---|
| Buildings and structures | 5 to 31 years |
| Machinery, equipment and vehicles | 3 to 9 years |
| Tools, furniture and fixtures | 2 to 6 years |

(8) Goodwill and intangible assets

1) Goodwill

Goodwill is recorded at the value calculated as cost less any accumulated impairment loss. Goodwill is not amortized. As a result of impairment test performed each fiscal year, impairment loss is recorded if necessary. Impairment loss of goodwill is recognized in the consolidated statement of income and not reversed subsequently.

2) Intangible assets

The cost model is applied in measurement of intangible assets. Intangible assets are recorded at the value calculated as cost less any accumulated amortization and any accumulated impairment loss.

(i) Properties for development

Expenditure incurred in development activities are capitalized only if it can be verified that all the following conditions are met:

- Technical practicability of completing the intangible asset so that the asset can be used or sold
- The entity's intention to complete the intangible asset and then use or sell the asset
- Ability to use or sell the intangible asset
- Highly probable method for the intangible asset to generate future economic benefits
- Usability of appropriate technical, financial and other resources necessary to complete development of the intangible asset and then use or sell the asset

• Ability to reliably measure expenditure attributable to the intangible asset during the development period

The amount of initial recognition of properties for development is the total of expenses arising in the period from the date when an intangible asset meets all the above recognition requirements for the first time to the completion of development. Properties for development are amortized using the straight-line method over a period in which funds spent for the development are expected to be recovered. The amortization method and useful life are reviewed at the end of each fiscal year and revised as needed.

(ii) Other intangible assets

Other intangible assets consist of software. Software is amortized using the straight-line method over its estimated useful life of five years from the time when it becomes usable. The amortization method and useful life are reviewed at the end of each fiscal year and revised as needed.

(9) Impairment

The Group assesses whether there is any indication of impairment at the end of each fiscal year for the carrying amounts of non-financial assets except for inventories and deferred tax assets. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill is estimated at the same time in each fiscal period.

The recoverable amount of an asset or a cash-generating unit is the higher of its value in use or its fair value less costs to sell. In calculation of value in use, estimated future cash flows are discounted to the present value using the pretax discount rate that reflects time value of money and risks inherent to the asset. Assets that are not individually tested for impairment are integrated in the smallest cash-generating unit that generates cash inflow substantially independent of cash inflow of other assets or asset groups through continued use. Impairment loss is recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the estimated recoverable amount.

For previously recognized impairment loss, the Group assesses whether there is any indication of a decrease or disappearance of the loss at each end of fiscal year. For assets or cash-generating units for which there is any indication of reversal of impairment loss, the recoverable amount is estimated, and the impairment loss is reversed if the recoverable amount exceeds the carrying amount. Reversal of impairment loss is recognized in profit or loss to the extent that the carrying amount assuming that impairment loss recognized for the asset in the past period had not existed is not exceeded. Impairment loss relating to goodwill is not reversed.

(10) Employment benefits

1) Defined benefit plans

For defined-benefit retirement benefit plans, the net amount of the present value of defined benefit obligations and the fair value of plan assets is recognized as liabilities or assets. The present value of defined benefit obligations and related service costs are, as a general rule, calculated using the projected unit credit method. The discount rate used to calculate the present value of defined benefit obligations is, as a general rule, determined by reference to the market yield on high quality corporate bonds as of the end of the fiscal year.

The Group recognizes remeasurements arising from defined-benefit retirement benefit plans as other comprehensive income and immediately transfers the amounts to retained earnings.

2) Defined contribution plans

Expenses for defined-contribution retirement benefits are recognized as current expenses at the amount of contributions required.

3) Multi-employer plans

Multi-employer plans, for which the amount of plan assets corresponding to the entity's own contributions cannot be calculated reasonably, are accounted for in the same manner as defined contribution plans.

4) Short-term employee benefits

Short-term employee benefits are expensed when an employee renders the related service.

Bonus accrual and paid absences are recognized as liabilities when the Group has legal or constructive obligations to pay them and when a reliable estimate of the amount of obligations can be made.

(11) Provisions

When there are present legal or constructive obligations as a result of past events, it is highly probable that outflows of resources with economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations, provisions are recognized by estimating expenditure necessary to settle the present obligations taking into account uncertainties related to the obligations at the end of the fiscal year.

If the time value of money for provisions is significant, the provisions are measured at discounted present value.

(12) Revenue

The Group is principally engaged in the sales and manufacture of motorcycle and automobile clutches. Revenue from the sales of these goods is recognized when the significant risks and economic value incidental to ownership of the goods have been transferred to the buyer, the Group retains neither continuing involvement nor effective control over the goods, it is probable that the future economic benefits will flow to the Group, and such benefits and the corresponding cost can be measured reliably. Normally, revenue is recognized at the time of delivery of goods.

Revenue is measured at fair value of the consideration received or receivable net of discounts, rebates and consumption taxes, etc.

(13) Government grants

Government grants are measured at fair value and recognized when there is reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received. Grants for expenses incurred are recorded as revenue in the fiscal year during which the expenses occurred. Grants for the acquisition of an asset are recorded as other income regularly over the useful life of the asset, and unearned grant income is recorded as deferred income in liabilities.

(14) Finance income and finance costs

Finance income principally consists of interest income, dividend income, gains on sales of financial assets and foreign exchange gains.

Interest income is recognized using the effective interest method when the income arises. Dividend income is recognized when the Group’s right to receive the income is established.

Finance costs principally consist of interest expense, losses on sales of financial assets and foreign exchange losses. Interest expense is recognized using the effective interest method when incurred.

(15) Income taxes

Income taxes consist of current taxes and deferred taxes. These taxes are recognized in profit or loss, except for those related to business combinations and items recognized directly in equity or other comprehensive income.

Current taxes are measured at the amount of expected tax payment to or expected tax refund from tax authorities. The amount of taxes is computed in accordance with tax rates and tax laws that are in effect or substantially in effect by the end of the fiscal year in countries where the Group conducts business activities and earns taxable profits or losses.

Deferred taxes are recognized for temporary differences between accounting carrying amounts of assets and liabilities as of the reporting date and amounts of them for tax purposes, unused tax losses and unused tax credits.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is highly probable that taxable profits will be available against which the deductible temporary differences could be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The carrying amount of deferred tax assets is reviewed in every period, and reduced by the amount of deferred tax assets for which taxable profit sufficient to use all or part of the deferred tax assets are unlikely to be earned. Unrecognized deferred tax assets are reassessed in every fiscal period and recognized to the extent that it is highly probable that deferred tax assets are realizable with future taxable profit.

Deferred tax assets and liabilities are not recorded for the following temporary differences:

- Temporary differences arising from initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations
- In cases where, for taxable temporary differences associated with investments in subsidiaries, timing of reversal can be controlled and it is highly probable that such temporary differences are not reversed in a foreseeable period

Deferred tax assets and liabilities are measured in accordance with tax rates and tax laws expected to be applied in the period in which the assets are realized or the liabilities are settled based on tax rates and tax laws that are in effect or substantially in effect at the end of the fiscal year.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

From the fiscal year under review, the Company and some of its domestic subsidiaries have applied the consolidated taxation system.

(16) Earnings per share (attributable to owners of parent)

Basic earnings per share are calculated by dividing profit or loss for the year attributable to ordinary equity holders of parent, by the weighted-average number of ordinary shares issued during the period that is adjusted by the number of treasury shares. Diluted earnings per share are not calculated because there are no potential ordinary shares with dilutive effects.

(17) Shareholders' equity

1) Ordinary shares

Ordinary shares issued by the Company are recorded at the issuance value in issued capital and share premium.

2) Treasury shares

When treasury shares are acquired, the consideration paid is recognized as deduction from equity. When treasury shares are sold, the difference between the carrying amount and consideration at the time of the sale is recognized as share premium.

## 4. Segment information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available, and whose operating results are regularly reviewed by the Board of Directors to make decisions about managerial resources to be allocated to the segments and assess their performances. In the Group, principally the Head of business operation of motorcycles business and the Head of business operation of automobiles business develop domestic and overseas comprehensive strategies and build businesses for the motorcycle clutches business and the automobile clutches business, respectively. Thus the Group has two reportable segments: "motorcycle clutches" and "automobile clutches." The motorcycle clutches segment manufactures clutches for motor cycles, scooters and ATVs and other products, while the automobile clutches segment manufactures clutches for manual and automatic transmission automobiles and other products.

(2) Revenue and performance for reportable segments

Fiscal year ended March 31, 2017

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| | Motorcycle clutches | Automobile clutches | Total | Adjustments | Consolidated |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Revenue | | | | | |
| External revenue | 73,294 | 83,922 | 157,217 | – | 157,217 |
| Intersegment revenue | – | – | – | – | – |
| Total | 73,294 | 83,922 | 157,217 | – | 157,217 |
| Depreciation and amortization expense | (4,367) | (7,814) | (12,182) | – | (12,182) |
| Other profit (loss) | (60,594) | (73,204) | (133,799) | – | (133,799) |
| Operating profit | 8,332 | 2,903 | 11,236 | – | 11,236 |
| Finance income | | | | | 739 |
| Finance costs | | | | | (545) |
| Share of profit (loss) in investments accounted for using the equity method | | | | | (10) |
| Profit before income taxes | | | | | 11,419 |

Note: Other profit (loss) includes ¥650 million of impairment loss (¥650 million for automobile clutches).

Fiscal year ended March 31, 2018

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| | Motorcycle clutches | Automobile clutches | Total | Adjustments | Consolidated |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Revenue | | | | | |
| External revenue | 82,936 | 90,238 | 173,174 | – | 173,174 |
| Intersegment revenue | – | – | – | – | – |
| Total | 82,936 | 90,238 | 173,174 | – | 173,174 |
| Depreciation and amortization expense | (4,685) | (8,081) | (12,766) | – | (12,766) |
| Other profit (loss) | (66,994) | (79,360) | (146,354) | – | (146,354) |
| Operating profit | 11,256 | 2,796 | 14,052 | – | 14,052 |
| Finance income | | | | | 808 |
| Finance costs | | | | | (763) |
| Share of profit (loss) in investments accounted for using the equity method | | | | | (13) |
| Profit before income taxes | | | | | 14,083 |

Note: Other profit (loss) includes ¥1,454 million of impairment loss (¥1,454 million for automobile clutches).

(3) Geographic information

The regional breakdown of revenue and non-current assets is as follows:

Revenue from external customers

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Japan | 18,235 | 19,051 |
| U.S. | 60,236 | 62,591 |
| Indonesia | 16,482 | 17,461 |
| India | 19,389 | 23,691 |
| Other | 42,874 | 50,377 |
| Total | 157,217 | 173,174 |

Notes: 1. Revenue is classified by country based on the location of customers.

2. Major countries belonging to "Other" category are Thailand, China, Brazil and Vietnam.

Non-current assets

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Japan | 22,627 | 22,077 |
| U.S. | 34,168 | 33,395 |
| China | 3,732 | 3,666 |
| Other | 18,046 | 18,811 |
| Total | 78,574 | 77,951 |

Notes: 1. Non-current assets are classified based on the location of assets and do not include financial assets, deferred tax assets and defined benefit assets.

2. Main countries belonging to "Other" category are Indonesia, Thailand, India and Vietnam.

(4) Information about major customers

Counterparties of which revenue accounts for 10% or more of revenue of the entire Group

| | Related segment | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|---|
| | | Millions of yen | Millions of yen |
| Honda Motor Co., Ltd. and its group | Motorcycle clutches | 35,555 | 39,588 |
| | Automobile clutches | 43,293 | 41,912 |
| Ford and its group | Automobile clutches | 26,082 | 28,748 |

## 5. Business combinations

Fiscal year ended March 31, 2017

(1) Summary of business combinations

The Company made an additional acquisition of 42% of shares in FCC (THAILAND) CO., LTD., a consolidated subsidiary of the Company, to further strengthen cooperation within the Group. As a result, the Group's ratio of voting rights of the said company was increased to 100%.

The resulting change in ownership interest arising from the additional acquisition was recorded as a decrease in retained earnings. Consequently, retained earnings decreased by ¥145 million.

Fiscal year ended March 31, 2018

(1) Summary of business combinations

1) Name and business description of the acquired company

Company name: Flint Co.,Ltd

Business description: Design, production and processing of precision press metal molds

2) Primary reason for the business combination

In order to promote product evolution in the Group's clutches business, and to promote the commercialization of next-generation businesses, we acquired the all of the shares of Flint Co.,Ltd, thereby making the company a wholly-owned subsidiary.

3) Date of the business combination

September 29, 2017

4) Legal form of the business combination

Share acquisition in exchange for cash

5) Percentage of voting rights acquired

100%

(2) Consideration for acquisition and breakdown thereof

| | Millions of yen |
|---|---|
| Cash | 903 |
| Total consideration for acquisition | 903 |

(3) Assets acquired and liabilities assumed

| | Millions of yen |
|---|---|
| Current assets | 305 |
| Non-current assets | 398 |
| Total assets | 704 |
| Current liabilities | 105 |
| Non-current liabilities | 185 |
| Total liabilities | 290 |
| Net assets | 413 |
| Goodwill | 489 |

(4) Impact on the Group's business results

Details have been omitted due to the fact that this will have minimal impact on the consolidated statement of income.

## 6. Cash and cash equivalents

Breakdown of Cash and cash equivalents

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Cash and deposits | 23,474 | 25,230 |

Note: Cash and cash equivalents recorded in the consolidated statement of financial position are equal to cash and cash equivalents recorded in the consolidated statement of cash flows.

## 7. Trade and other receivables

Breakdown of trade and other receivables

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Notes and accounts receivable - trade | 25,168 | 27,104 |
| Accounts receivable - other | 1,847 | 1,780 |
| Allowance for credit losses | (29) | (29) |
| Total | 26,986 | 28,855 |

Note: Information on management of credit risk and liquidity risk to "trade and other receivables" is provided in the note "26. Financial instruments."

## 8. Other financial assets and other financial liabilities

Breakdown of other financial assets

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Other current financial assets | | |
| Loans and receivables | 1,294 | 2,339 |
| | | |
| Other non-current financial assets | | |
| Financial assets at fair value through profit or loss (derivatives) | 36 | 46 |
| Loans and receivables | 1,304 | 3,296 |
| Allowance for credit losses | (55) | (60) |
| Available-for-sale financial assets | 8,103 | 9,277 |
| Total | 9,389 | 12,561 |

Breakdown of other financial liabilities

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Other current financial liabilities | | |
| Financial liabilities measured at amortized cost | | |
| Lease obligations | 103 | 128 |
| | | |
| Other non-current financial liabilities | | |
| Financial liabilities measured at amortized cost | | |
| Long-term accounts payable - other | 26 | 26 |
| Lease obligations | 580 | 421 |
| Total | 607 | 448 |

## 9. Inventories

Breakdown of inventories

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Finished goods | 3,442 | 3,770 |
| Work in process | 2,961 | 3,320 |
| Raw materials and supplies | 11,557 | 11,337 |
| Total | 17,961 | 18,428 |

The amounts of write-down of inventories recognized as expenses and inventories recognized as expenses

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Amount of write-down | 852 | 882 |
| Amount of inventories | 132,555 | 142,877 |

## 10. Other assets and liabilities

### Breakdown of other assets

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Other current assets | | |
| Accrued income taxes | 961 | 1,301 |
| Prepaid expenses | 433 | 325 |
| Suspense payments | 103 | 32 |
| Other | 406 | 379 |
| Total | 1,905 | 2,038 |
| Other non-current assets | | |
| Land use rights | 605 | 561 |
| Long-term prepaid expenses | 38 | 50 |
| Other | – | 45 |
| Total | 644 | 657 |

### Breakdown of other liabilities

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Other current liabilities | | |
| Accruals | 1,353 | 1,613 |
| Accrued bonuses | 1,662 | 1,890 |
| Other | 2,796 | 2,502 |
| Total | 5,812 | 6,006 |
| Other non-current liabilities | | |
| Deferred income | 175 | 168 |
| Other | 158 | 128 |
| Total | 333 | 297 |

## 11. Property, plant and equipment

Changes in cost and accumulated depreciation and impairment loss of property, plant and equipment, and carrying amount thereof

(1) Cost

| | Buildings and structures | Machinery, equipment and vehicles | Tools, furniture and fixtures | Land | Leased assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| April 1, 2016 | 37,824 | 105,157 | 14,625 | 7,456 | – | 10,050 | 175,114 |
| Acquisition | 116 | 3,824 | 1,292 | 197 | 749 | 11,673 | 17,852 |
| Disposal | (1,187) | (1,496) | (920) | – | – | (1,605) | (5,209) |
| Transfer of line items | 2,941 | 8,666 | 769 | 766 | – | (13,145) | – |
| Exchange differences on translation | (153) | (3,249) | 2,684 | 36 | – | (245) | (928) |
| Other | – | – | – | (248) | – | (0) | (249) |
| March 31, 2017 | 39,541 | 112,902 | 18,450 | 8,208 | 749 | 6,727 | 186,579 |
| Acquisition | 432 | 2,703 | 708 | 613 | – | 11,358 | 15,815 |
| Disposal | (143) | (2,583) | (419) | (1,023) | – | (331) | (4,501) |
| Transfer of line items | 2,205 | 4,495 | 890 | 19 | – | (7,611) | – |
| Exchange differences on translation | (1,080) | (5,654) | (849) | (70) | (39) | (448) | (8,142) |
| Other | (160) | 914 | 21 | 43 | – | (101) | 718 |
| March 31, 2018 | 40,795 | 112,778 | 18,801 | 7,791 | 710 | 9,592 | 190,469 |

(2) Accumulated depreciation and impairment loss

| | Buildings and structures | Machinery, equipment and vehicles | Tools, furniture and fixtures | Land | Leased assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| April 1, 2016 | 17,751 | 71,969 | 12,267 | 987 | – | 71 | 103,047 |
| Depreciation expense | 1,514 | 8,547 | 1,450 | – | 112 | – | 11,625 |
| Impairment loss | 218 | 1 | 0 | 427 | – | 2 | 650 |
| Disposal | (1,122) | (1,246) | (864) | – | – | – | (3,233) |
| Exchange differences on translation | (13) | (2,777) | 2,758 | – | – | – | (32) |
| Other | – | (0) | – | – | – | – | (0) |
| March 31, 2017 | 18,348 | 76,495 | 15,612 | 1,414 | 112 | 74 | 112,058 |
| Depreciation expense | 1,572 | 8,729 | 1,586 | – | 29 | – | 11,918 |
| Impairment loss | 683 | 629 | – | 141 | – | – | 1,454 |
| Disposal | 109 | (2,172) | (391) | (427) | – | – | (2,880) |
| Exchange differences on translation | (419) | (4,386) | (778) | – | – | – | (5,584) |
| Other | 122 | 418 | 19 | – | – | – | 560 |
| March 31, 2018 | 20,417 | 79,715 | 16,048 | 1,128 | 142 | 74 | 117,527 |

(3) Carrying amounts

| | Buildings and structures | Machinery, equipment and vehicles | Tools, furniture and fixtures | Land | Leased assets | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Balance as of April 1, 2016 | 20,072 | 33,187 | 2,358 | 6,469 | – | 9,979 | 72,066 |
| Balance as of March 31, 2017 | 21,192 | 36,406 | 2,838 | 6,793 | 637 | 6,652 | 74,521 |
| Balance as of March 31, 2018 | 20,377 | 33,063 | 2,752 | 6,662 | 568 | 9,518 | 72,942 |

Notes: 1. Depreciation expense of property, plant and equipment is recorded in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of income.

2. Information on commitments related to purchase of property, plant and equipment is provided in the note "29. Commitments."

## 12. Goodwill and intangible assets

Changes in cost and accumulated amortization and impairment loss of goodwill and intangible assets, and carrying amount thereof

(1) Cost

| | Goodwill | Intangible assets | | Total |
|---|---|---|---|---|
| | | Software | Properties for development | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| April 1, 2016 | 756 | 1,960 | 2,980 | 5,697 |
| Acquisition | – | 94 | – | 94 |
| Increase due to internal development | – | – | 1,153 | 1,153 |
| Disposal | – | (1) | (646) | (647) |
| Transfer of line items | – | – | – | – |
| Exchange differences on translation | – | 1 | – | 1 |
| Other | – | – | – | – |
| March 31, 2017 | 756 | 2,054 | 3,487 | 6,299 |
| Acquisition | 489 | 127 | – | 616 |
| Increase due to internal development | – | – | 1,068 | 1,068 |
| Disposal | – | (91) | (482) | (574) |
| Transfer of line items | – | – | – | – |
| Exchange differences on translation | – | (2) | – | (2) |
| Other | – | 5 | – | 5 |
| March 31, 2018 | 1,246 | 2,093 | 4,073 | 7,413 |

(2) Accumulated amortization and impairment loss

| | Goodwill | Intangible assets | | Total |
|---|---|---|---|---|
| | | Software | Properties for development | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| April 1, 2016 | – | 1,756 | 1,224 | 2,981 |
| Amortization expense | – | 67 | 489 | 556 |
| Impairment loss | – | – | – | – |
| Disposal | – | (1) | (646) | (647) |
| Exchange differences on translation | – | 0 | – | 0 |
| Other | – | – | – | – |
| March 31, 2017 | – | 1,823 | 1,067 | 2,890 |
| Amortization expense | – | 88 | 603 | 691 |
| Impairment loss | – | – | – | – |
| Disposal | – | (87) | (482) | (570) |
| Exchange differences on translation | – | 0 | – | 0 |
| Other | – | 4 | – | 4 |
| March 31, 2018 | – | 1,828 | 1,187 | 3,016 |

(3) Carrying amounts

| | Goodwill | Intangible assets | | Total |
|---|---|---|---|---|
| | | Software | Properties for development | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| April 1, 2016 | 756 | 203 | 1,755 | 2,716 |
| March 31, 2017 | 756 | 230 | 2,420 | 3,408 |
| March 31, 2018 | 1,246 | 264 | 2,885 | 4,396 |

Notes: 1. Amortization expense of software is recorded in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of income, while amortization expense of properties for development is recorded in "cost of sales."

2. Information on commitments related to purchase of intangible assets is provided in the note "29. Commitments."

## 13. Impairment loss

(1) Breakdown of assets for which impairment loss is recognized by type

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Buildings and structures | 218 | 683 |
| Machinery and equipment, etc. | 2 | 629 |
| Land | 427 | 141 |
| Construction in progress | 2 | – |
| Total property, plant and equipment | 650 | 1,454 |
| Total impairment loss | 650 | 1,454 |

Note: The impairment loss is included and recorded in “other expense” in the consolidated statement of income.

(2) Cash-generating unit

The Group groups assets based on the smallest unit of asset groups identifiable as a unit generating cash inflow that is substantially independent of cash inflow of other assets or asset groups, by company and type of business. Idle assets that are not expected to be used in the future are determined by individual asset unit.

(3) Impairment loss

Fiscal year ended March 31, 2017

The Group has been proceeding with reorganization of the domestic business units to increase production efficiency and for risk management. As a result, due to transfer of the major manufacturing process to other production bases, land and buildings, etc. for Tenryu Factory were reduced to the recoverable amount and recorded as impairment loss (¥650 million) in other expense.

The recoverable amount is calculated with the value in use, obtained by discounting the estimated amount of cash flows based on the future business plan to the present value using the pretax weighted average cost of capital for the cash-generating unit.

Fiscal year ended March 31, 2018

The Group has worked to improve production efficiency through the reorganization of domestic production bases. However, after considering the business environment and profitability etc., of the domestic automobiles business, buildings, machinery and equipment, and land were reduced to the recoverable amount and recorded as impairment loss (¥1,454 million) in other expense.

The recoverable amount is calculated with the value in use, obtained by discounting the estimated amount of cash flows based on the future business plan to the present value using the pretax weighted average cost of capital for the cash-generating unit.

## 14. Investments accounted for using the equity method

Summary of financial information aggregating accounts of associates accounted for using the equity method

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Total carrying amount | 140 | 117 |

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Profit | (10) | (13) |
| Other comprehensive income | (54) | (6) |
| Comprehensive income | (64) | (19) |

Note: There is no associate that has quoted market prices of its shares.

## 15. Income taxes

(1) Deferred tax assets and liabilities

Breakdown of and changes in deferred tax assets and deferred tax liabilities by major cause

Fiscal year ended March 31, 2017

| | April 1, 2016 | Recognized through profit or loss | Recognized in other comprehen-sive income | Recognized directly in equity | Other | March 31, 2017 |
|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Deferred tax assets | | | | | | |
| Inventories | 834 | (33) | – | – | 134 | 935 |
| Accrued bonuses | 414 | (12) | – | – | – | 402 |
| Accruals | 92 | (13) | – | – | 137 | 216 |
| Non-current assets | 1,814 | (218) | – | – | (3) | 1,593 |
| Defined benefit liability | 514 | (5) | (49) | – | 70 | 529 |
| Other | 978 | 156 | – | – | (94) | 1,041 |
| Total | 4,650 | (126) | (49) | – | 244 | 4,718 |
| Deferred tax liabilities | | | | | | |
| Non-current assets | (5,332) | (16) | – | – | (431) | (5,779) |
| Available-for-sale financial assets | (1,557) | – | (245) | – | – | (1,802) |
| Retained surplus of overseas consolidated subsidiaries | (215) | (771) | – | – | – | (986) |
| Other | (107) | 112 | – | – | (34) | (30) |
| Total | (7,212) | (675) | (245) | – | (466) | (8,598) |

Fiscal year ended March 31, 2018

| | April 1, 2017 | Recognized through profit or loss | Recognized in other comprehen-sive income | Recognized directly in equity | Other | March 31, 2018 |
|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Deferred tax assets | | | | | | |
| Inventories | 935 | (229) | – | – | (2) | 703 |
| Accrued bonuses | 402 | 9 | – | – | – | 411 |
| Accruals | 216 | 0 | – | – | 0 | 216 |
| Non-current assets | 1,593 | 402 | – | – | 0 | 1,996 |
| Defined benefit liability | 529 | 278 | (89) | – | 0 | 717 |
| Other | 1,041 | (360) | – | – | 1 | 681 |
| Total | 4,718 | 100 | (89) | – | (1) | 4,727 |
| Deferred tax liabilities | | | | | | |
| Non-current assets | (5,779) | 1,940 | – | – | 34 | (3,804) |
| Available-for-sale financial assets | (1,802) | – | (310) | – | – | (2,112) |
| Retained surplus of overseas consolidated subsidiaries | (986) | (2,061) | – | – | – | (3,047) |
| Other | (30) | (84) | – | – | 0 | (114) |
| Total | (8,598) | (205) | (310) | – | 35 | (9,079) |

The amounts of unused tax losses and deductible temporary differences for which deferred tax assets have not been recognized are as follows:

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Unused tax losses | 5,025 | 5,875 |
| Deductible temporary differences | 195 | 762 |
| Total | 5,220 | 6,638 |

Expiration of unused tax losses for which deferred tax assets have not been recognized is as follows:

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| 1st year | – | – |
| 2nd year | – | – |
| 3rd year | – | – |
| 4th year | – | – |
| 5th year and onward | 5,025 | 5,875 |
| Total | 5,025 | 5,875 |

The total amount of taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized were ¥52,473 million as of March 31, 2017 and ¥40,501 million as of March 31, 2018. For these taxable differences, deferred tax liabilities have not been recognized since the Group may control timing of their reversal and there is high possibility that the temporary differences will not be reversed within a foreseeable period.

(2) Breakdown of income tax expense

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Current tax expense | 3,119 | 4,055 |
| Deferred tax expense | 801 | 104 |
| Total | 3,921 | 4,160 |

Fiscal year ended March 31, 2018

In accordance with the tax reform act enacted in the U.S. in December 2017, the federal corporate tax rate has been reduced to 21% from 2018. As a result, deferred tax liabilities decreased by ¥1,600 million.

In addition, deferred tax liabilities increased by ¥2,202 million as a result of additional recognition of taxable temporary differences associated with investments in subsidiaries, etc. for some overseas subsidiaries.

(3) Factors of differences between the effective statutory tax rate and the effective tax rate

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | % | % |
| Effective statutory tax rate | 30.2 | 30.2 |
| Non-deductible expenses in calculation of taxable profits | 2.5 | 1.7 |
| Unrecognized deferred tax assets | 1.7 | 5.4 |
| Tax credits | 1.5 | (0.5) |
| Difference from the applicable tax rate of overseas subsidiaries | (7.9) | (8.4) |
| Other | 6.3 | 1.1 |
| Effective tax rate | 34.3 | 29.5 |

## 16. Borrowings

Breakdown of borrowings

| | As of March 31, 2017 | As of March 31, 2018 | Average interest rate | Due |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | |
| Current | | | | |
| Financial liabilities measured at amortized cost | | | | |
| Current borrowings | 8,894 | 12,556 | 1.06 | – |
| Current portion of long-term borrowings | 4,371 | 3,623 | 0.82 | – |
| Total | 13,266 | 16,179 | | |
| Non-current | | | | |
| Financial liabilities measured at amortized cost | | | | |
| Long-term borrowings | 4,040 | 365 | 1.37 | April 2019 to April 2021 |
| Total | 4,040 | 365 | | |

Notes: 1. "Average interest rate" shows weighted average interest rate on the balance as of March 31, 2018.
2. "Due" shows the repayment due for the balance as of March 31, 2018.
3. For the breakdown of the balance of borrowings by due date, refer to the note "26. Financial instruments, (3) Financial risk management, 2) Liquidity risk management."

## 17. Trade and other payables

Breakdown of trade and other payables

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Notes and accounts payable - trade | 11,306 | 12,268 |
| Factoring payables | 1,679 | 1,119 |
| Accounts payable - other | 1,388 | 2,656 |
| Total | 14,373 | 16,044 |

## 18. Employee benefits

To provide for retirement benefits of employees, the Group has adopted funded and unfunded defined benefit plans and defined contribution plans and has joined Nihon Jidosha Buhin Kogyo Kosei Nenkin Kikin, which is a multi-employer corporate pension fund.

(1) Defined benefit plans

Under defined benefit plans, a lump-sum benefit or pension is granted based on salaries and periods of service.

1) Amounts recognized in the consolidated statement of financial position

The year-end balances of defined benefit obligations and plan assets, and defined benefit liability and defined benefit asset recognized in consolidated statement of financial position

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Funded defined benefit obligations | 8,250 | 8,847 |
| Plan assets | (7,308) | (7,773) |
| Subtotal | 941 | 1,074 |
| Unfunded defined benefit obligations | 1,079 | 907 |
| Net amount of liabilities and assets recognized in consolidated statement of financial position | 2,021 | 1,981 |
| | | |
| Defined benefit liability | 2,021 | 2,027 |
| Defined benefit asset | – | (45) |
| Net amount of liabilities and assets recognized in consolidated statement of financial position | 2,021 | 1,981 |

Note: Defined benefit assets are included in “other non-current assets” in the consolidated statement of financial position.

2) Amounts recognized as retirement benefit expenses

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Retirement benefit expenses for defined benefit plans | 762 | 776 |

3) Reconciliation of defined benefit obligations

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Defined benefit obligations at beginning of period | 8,969 | 9,329 |
| Service cost | 687 | 805 |
| Interest cost | 112 | 139 |
| Remeasurement | (56) | (112) |
| Retirement benefits paid | (377) | (315) |
| Exchange differences on translation | (4) | (91) |
| Defined benefit obligations at end of period | 9,329 | 9,755 |

Note: The weighted average duration of defined benefit obligations was 13.3 to 23 years as of March 31, 2017 and 12.8 to 21 years as of March 31, 2018.

4) Reconciliation of plan assets

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Plan assets at beginning of period | 7,065 | 7,308 |
| Interest income | 36 | 48 |
| Remeasurement | 131 | 217 |
| Contributions by the employer | 367 | 393 |
| Retirement benefits paid | (288) | (174) |
| Exchange differences on translation | (3) | (20) |
| Plan assets at end of period | 7,308 | 7,773 |

5) Composition of plan assets

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Debentures | 2,289 | 3,937 |
| Shares | 2,023 | 1,852 |
| Other | 2,995 | 1,983 |
| Total | 7,308 | 7,773 |

6) Major actuarial assumptions

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | % | % |
| Discount rate (Japan) | 0.5 | 0.4 |
| Discount rate (Overseas) | 4.0 to 8.6 | 2.8 to 7.7 |

7) Sensitivity analysis

The impact of 0.5% changes in the key actuarial assumption on defined benefit obligations is as follows:

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| 0.5% increase in the discount rate | (545) | (536) |
| 0.5% decrease in the discount rate | 596 | 582 |

Note: The sensitivity analysis is calculated in a manner that keeps assumptions other than variable factors constant and does not take into account interdependencies between the assumptions.

(2) Defined contribution plans

Amounts recognized as expenses for defined contribution plans

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Amount recorded as expenses | 235 | 252 |

(3) Multi-employer plan

To the multi-employer plan, the amount calculated by multiplying salaries in the period employees rendered services by a constant rate is contributed and contributions during the fiscal period are recognized as retirement benefit expenses in profit or loss.

The total amount of expenses recognized for the employees' pension fund that is a multi-employer plan, which is accounted for in the same manner as defined contribution plans, was ¥178 million in the previous fiscal year and ¥181 million in the fiscal year under review.

1) Latest funding position of multi-employer plan

| | As of March 31, 2016 | As of March 31, 2017 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Plan assets | 187,558 | 178,928 |
| Total of actuarial obligations for the purpose of pension financing calculation and minimum liability reserve | 188,657 | 178,704 |
| Difference | (1,099) | 223 |

2) Proportion of contributions by the Group to total contributions of the multi-employer plan

| | As of March 31, 2016 | As of March 31, 2017 |
|---|---|---|
| | % | % |
| Proportion of contributions by the Group | 5.7 | 5.9 |

## 19. Provisions

Breakdown of and changes in provisions

| | Asset retirement obligations |
|---|---|
| | Millions of yen |
| April 1, 2016 | 36 |
| Interest expense during the period in discounting | 0 |
| Decrease during the period (intended use) | – |
| Decrease during the period (reversal) | – |
| March 31, 2017 | 36 |
| Interest expense during the period in discounting | 0 |
| Decrease during the period (intended use) | – |
| Decrease during the period (reversal) | (3) |
| March 31, 2018 | 33 |

Note: To prepare for removal of toxic substances related to buildings, the Group recognizes and measures the provision by estimating asset retirement obligations based on the period in which the building is expected to be used in light of useful lives of fixtures inside the building and other factors, taking into account the status of each property individually and specifically. The payment is made in a period after one year or more passed from the end of each fiscal year.

## 20. Equity and other equity items

### (1) Issued capital

Breakdown of changes in number of shares authorized, number of shares issued and issued capital

| | Number of shares authorized | Number of shares issued | Issued capital |
|---|---|---|---|
| | Shares | Shares | Millions of yen |
| As of April 1, 2016 | 90,000,000 | 52,644,030 | 4,175 |
| Change during the period | – | – | – |
| As of March 31, 2017 | 90,000,000 | 52,644,030 | 4,175 |
| Change during the period | – | – | – |
| As of March 31, 2018 | 90,000,000 | 52,644,030 | 4,175 |

Note: All shares issued by the Company are ordinary shares with no rights limitations and without par value. Issued shares are fully paid up.

### (2) Retained earnings

Retained earnings consist of earned reserve and unappropriated retained surplus. Retained earnings include the amount of remeasurements of defined benefit plans recognized in other comprehensive income when the amount arose and immediately transferred to retained earnings, and cumulative exchange differences of foreign operations as of the date of transition to IFRS.

### (3) Treasury shares

Changes in the number and the amount of treasury shares are as follows:

| | Number of shares | Amount |
|---|---|---|
| | Shares | Millions of yen |
| As of April 1, 2016 | 2,455,724 | 3,408 |
| Change during the period | 85 | 0 |
| As of March 31, 2017 | 2,455,809 | 3,409 |
| Change during the period | 32 | 0 |
| As of March 31, 2018 | 2,455,841 | 3,409 |

Note: Changes during the period are due to purchase of shares less than one unit.

(4) Dividends

Fiscal year ended March 31, 2017

| Resolution date | Total amount of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|
| | Millions of yen | Yen | | |
| June 22, 2016 Ordinary General Meeting of Shareholders | 1,003 | 20.00 | March 31, 2016 | June 23, 2016 |
| October 31, 2016 Board of Directors meeting | 1,003 | 20.00 | September 30, 2016 | November 28, 2016 |

Fiscal year ended March 31, 2018

| Resolution date | Total amount of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|
| | Millions of yen | Yen | | |
| June 20, 2017 Ordinary General Meeting of Shareholders | 1,003 | 20.00 | March 31, 2017 | June 21, 2017 |
| October 27, 2017 Board of Directors meeting | 1,053 | 21.00 | September 30, 2017 | November 27, 2017 |

• Dividends for which record date is in the current fiscal year with effective date in the following fiscal year

Fiscal year ended March 31, 2017

| Resolution date | Total amount of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|
| | Millions of yen | Yen | | |
| June 20, 2017 Ordinary General Meeting of Shareholders | 1,003 | 20.00 | March 31, 2017 | June 21, 2017 |

Fiscal year ended March 31, 2018

| Resolution date | Total amount of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|
| | Millions of yen | Yen | | |
| June 19, 2018 Ordinary General Meeting of Shareholders | 1,053 | 21.00 | March 31, 2018 | June 20, 2018 |

## 21. Selling, general and administrative expenses

Breakdown of selling, general and administrative expenses

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Packing and shipping expenses | 1,588 | 1,721 |
| Personnel expenses | 4,568 | 4,941 |
| Depreciation and amortization expense | 391 | 435 |
| Research and development expense | 2,559 | 2,984 |
| Other | 4,000 | 4,987 |
| Total | 13,109 | 15,070 |

## 22. Other income and expense

### (1) Breakdown of other income

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Gain on sales of non-current assets | 133 | 49 |
| Grant income | 0 | 11 |
| Other | 632 | 596 |
| Total | 766 | 657 |

### (2) Breakdown of other expense

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Loss on sales and retirement of non-current assets | 193 | 182 |
| Impairment loss | 650 | 1,454 |
| Other | 145 | 194 |
| Total | 989 | 1,831 |

Note: Refer to the note “13. Impairment loss” for impairment loss.

## 23. Finance income and finance costs

### (1) Breakdown of finance income

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Interest income | | |
| Cash and cash equivalents, loans and receivables | 487 | 558 |
| Dividend income | | |
| Available-for-sale financial assets | 214 | 236 |
| Other | 36 | 13 |
| Total | 739 | 808 |

### (2) Breakdown of finance costs

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Interest expense | | |
| Borrowings | 96 | 166 |
| Other | 101 | 29 |
| Foreign exchange losses | 347 | 568 |
| Total | 545 | 763 |

## 24. Other comprehensive income

Amount arising during year, reclassification adjustments to profit or loss and tax effects for each component of other comprehensive income

Fiscal year ended March 31, 2017

| | Amount arising | Reclassification adjustments | Before tax effects | Tax effects | Net of tax effects |
|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Components that will not be reclassified to profit or loss | | | | | |
| Remeasurements of defined benefit plans | 183 | – | 183 | (49) | 133 |
| Subtotal | 183 | – | 183 | (49) | 133 |
| Components that may be reclassified to profit or loss | | | | | |
| Changes in fair value of available-for-sale financial assets | 792 | – | 792 | (245) | 547 |
| Exchange differences of foreign operations | (1,097) | – | (1,097) | – | (1,097) |
| Share of other comprehensive income of associates accounted for using equity method | (54) | – | (54) | – | (54) |
| Subtotal | (358) | – | (358) | (245) | (603) |
| Total | (175) | – | (175) | (294) | (470) |

Fiscal year ended March 31, 2018

| | Amount arising | Reclassification adjustments | Before tax effects | Tax effects | Net of tax effects |
|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Components that will not be reclassified to profit or loss | | | | | |
| Remeasurements of defined benefit plans | 375 | – | 375 | (89) | 286 |
| Subtotal | 375 | – | 375 | (89) | 286 |
| Components that may be reclassified to profit or loss | | | | | |
| Changes in fair value of available-for-sale financial assets | 1,030 | – | 1,030 | (310) | 720 |
| Exchange differences of foreign operations | (2,988) | – | (2,988) | – | (2,988) |
| Share of other comprehensive income of associates accounted for using equity method | (6) | – | (6) | – | (6) |
| Subtotal | (1,964) | – | (1,964) | (310) | (2,274) |
| Total | (1,588) | – | (1,588) | (399) | (1,988) |

## 25. Earnings per share

Basis of calculating basic earnings per share attributable to ordinary equity holders

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Profit attributable to ordinary equity holders of parent (Millions of yen) | 7,204 | 9,691 |
| Weighted-average number of ordinary shares (Thousands of shares) | 50,188 | 50,188 |
| Basic earnings per share (Yen) | 143.54 | 193.11 |

Note: Information on diluted earnings per share is omitted due to an absence of potential shares.

## 26. Financial instruments

(1) Capital management

The Group's basic policy for capital risk management is to build and maintain the stable financial base in order to firmly maintain soundness and efficiency of the management and achieve sustainable growth. In line with this policy, the Group returns profits to shareholders through investments in effect, dividends and other means based on operating cash flows.

(2) Classification of financial assets and financial liabilities

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Financial assets | | |
| Financial assets at fair value through profit or loss (derivatives) | | |
| Other financial assets | 36 | 46 |
| Loans and receivables | | |
| Trade and other receivables | 26,986 | 28,855 |
| Other financial assets | 2,543 | 5,575 |
| Available-for-sale financial assets | | |
| Other financial assets | 8,103 | 9,277 |
| Cash and cash equivalents | 23,474 | 25,230 |
| Total financial assets | 61,144 | 68,986 |
| Financial liabilities | | |
| Financial liabilities at amortized cost | | |
| Trade and other payables | 14,373 | 16,044 |
| Borrowings | 17,306 | 16,545 |
| Other financial liabilities | 710 | 576 |
| Total financial liabilities | 32,391 | 33,166 |

(3) Financial risk management

The Group is exposed to financial risks (credit risks, liquidity risks and market risks) in the course of business activities. In order to avoid or mitigate these risks, the Group conducts risk management under certain policies. As its policy, the Group does not conduct derivative transactions for speculative purposes.

1) Credit risk management

Credit risks are risks that result in financial losses incurred by the Group when a customer becomes in default for contractual obligations.

Most clutch products manufactured and sold by the Group are for the automobile and motorcycle industries.

The certain customer group accounts for a large percentage of the Group's revenue. For the risks, the Group has a system where it manages due dates and outstanding balances for each business partner and periodically grasps information on the credit status of major business partners in accordance with its credit management regulations.

The carrying amount of financial assets after impairment loss presented in the consolidated financial statements is the maximum amount of exposure to credit risks to financial assets of the Group when the appraisal value of collateral obtained is not taken into account.

Age analysis of financial assets that were past due but not impaired as of the end of fiscal year

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Within one month past due | 359 | 579 |
| Over one month and within six months past due | 124 | 65 |
| Over six months and within one year past due | 21 | 12 |
| Over one year past due | 19 | 11 |
| Total | 524 | 668 |

The Group examines recoverability of trade receivables, etc. according to the credit status of business partners and recognizes allowance for credit losses. Changes in allowance for credit losses are as follows:

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Balance at beginning of period | 92 | 84 |
| Increase during the period | 4 | 21 |
| Decrease during the period (intended use) | (10) | (14) |
| Decrease during the period (reversal) | (0) | (1) |
| Other changes | (1) | (0) |
| Balance at end of period | 84 | 89 |

2) Liquidity risk management

Liquidity risks are risks of failure to make payments on the due date in situations when the Group is required to fulfill its repayment obligations for financial liabilities due. The Group manages liquidity risks by securing credit lines available at any time in financial institutions and continuously monitoring a cash flow plan and actual performance while raising appropriate funds for repayment.

Breakdown of the balances of financial liabilities by due date

As of March 31, 2017

| | Carrying amount | Contractual amount | Due within one year | Due after one year within two years | Due after two years within three years | Due after three years within four years | Due after four years within five years | Due after five years |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Trade and other payables | 14,373 | 14,373 | 14,373 | – | – | – | – | – |
| Borrowings | 17,306 | 17,454 | 13,386 | 3,719 | 348 | – | – | – |
| Other financial liabilities | 710 | 843 | 132 | 159 | 171 | 180 | 13 | 187 |
| Total | 32,391 | 32,672 | 27,892 | 3,878 | 520 | 180 | 13 | 187 |

As of March 31, 2018

| | Carrying amount | Contractual amount | Due within one year | Due after one year within two years | Due after two years within three years | Due after three years within four years | Due after four years within five years | Due after five years |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Trade and other payables | 16,044 | 16,044 | 16,044 | – | – | – | – | – |
| Borrowings | 16,545 | 16,651 | 16,283 | 348 | 18 | 1 | – | – |
| Other financial liabilities | 576 | 675 | 150 | 162 | 171 | 12 | 12 | 164 |
| Total | 33,166 | 33,371 | 32,478 | 510 | 190 | 14 | 12 | 164 |

3) Market risk management

(i) Exchange risks

Because the Group has business operations on a global basis, it is exposed to risks that transactions denominated in currencies other than its functional currency may affect profit and loss and cash flows and risks that equity and profit or loss may be affected when equity and profit or loss denominated in currencies other than its functional currency are translated into the functional currency, both due to currency fluctuations. The Group strives to mitigate these risks due to currency fluctuations by monitoring currency fluctuations.

• Sensitivity analysis of foreign exchange

For financial instruments held by the Group as of the reporting date, the impact of a 1% depreciation of Japanese yen against US dollars and renminbi on profit before income taxes in the consolidated statement of income is as follows.

The effects of translation of financial instruments denominated in the functional currency, assets and liabilities and revenue and expenses of foreign operations into yen are not included. This analysis is based on the assumption that other variable factors are constant.

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| US dollar | 145 | 147 |
| RMB | 35 | 39 |

(ii) Price fluctuation risks

Although the Group is exposed to risks of fluctuations in share prices, which arising from equity financial instruments (shares), these instruments are shares in companies with which the Group has business relationships and the Group grasps information on market prices of the shares quarterly.

• Sensitivity analysis on market prices

The impact of a 10% fluctuation in market prices of equity financial instruments held by the Group as of the end of fiscal year on other comprehensive income (before tax effects) was ¥734 million in the previous fiscal year and ¥836 million in the fiscal year under review.

This analysis is based on the assumption that other variable factors are constant.

(iii) Interest rate risks

Since borrowings are raised with fixed interest rates and interest rate risks are considered insignificant to the Group, the sensitive analysis of interest rates has not been performed.

(4) Fair value of financial instruments

1) Method of fair value measurement

*Financial assets and liabilities at fair value through profit or loss*

The fair value of derivatives to which hedge accounting is not applied is obtained from the counterparty financial institutions.

*Loans and receivables*

The carrying amounts of loans and receivables reasonably approximate the fair values, since the period to maturity is short or there is no significant difference between the contracted interest rate and the rate assumed if a similar contract is newly executed.

*Available-for-sale financial assets*

The fair values of listed shares are measured based on market prices at the end of the fiscal year. The fair values of unlisted shares are measured by a reasonable method.

*Cash and cash equivalents*

The carrying amounts of cash and cash equivalents reasonably approximate the fair values, since the period to maturity is short.

*Financial liabilities measured at amortized cost*

The fair values of borrowings are measured by the discounted cash flow method using the interest rate for the case where funds are borrowed under the same conditions with the same remaining period. The carrying amounts of liabilities other than the above reasonably approximate the fair values since they are principally settled in a short period of time.

2) Fair value hierarchy

The fair value hierarchy of financial instruments is categorized as follows:

Level 1: Fair value measured at the quoted price in active markets

Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price

Level 3: Fair value that is determined using a valuation technique including unobservable inputs

When multiple inputs are used for fair value measurement, the level of the fair value is determined based on the lowest level of significant input in the entire measurement of the fair value.

Transfers between levels of the fair value hierarchy are recognized as if they had occurred at the beginning of each quarter.

3) Carrying amount and fair value of financial instruments

| | As of March 31, 2017 | | As of March 31, 2018 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Long-term borrowings (Note 1) | 8,411 | 8,425 | 3,988 | 3,982 |

Notes: 1. Include current portion of long-term borrowings.

The fair value of long-term borrowings is in Level 2.

2. Financial instruments measured at fair value and financial instruments of which the fair value extremely approximates the carrying amount are not included in the above table.

4) Financial instruments measured at fair value on a recurring basis

Classification of financial instruments measured at fair value on a recurring basis based on the fair value hierarchy is as follows:

As of March 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss (derivatives) | – | 36 | – | 36 |
| Available-for-sale financial assets | | | | |
| Listed shares | 7,340 | – | – | 7,340 |
| Unlisted shares | – | – | 758 | 758 |
| Other | – | – | 4 | 4 |
| Total | 7,340 | 36 | 762 | 8,140 |

As of March 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss (derivatives) | – | 46 | – | 46 |
| Available-for-sale financial assets | | | | |
| Listed shares | 8,368 | – | – | 8,368 |
| Unlisted shares | – | – | 904 | 904 |
| Other | – | – | 4 | 4 |
| Total | 8,368 | 46 | 909 | 9,324 |

Note: No transfers between Level 1, Level 2 and Level 3 were made in one year ended March 31, 2017 and one year ended March 31, 2018.

Changes in financial instruments classified as Level 3 are as follows:

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Balance at beginning of period | 719 | 762 |
| Acquisition | – | 78 |
| Total gains and losses | | |
| Other comprehensive income | 43 | 68 |
| Balance at end of period | 762 | 909 |

Notes: 1. Gains and losses included in other comprehensive income relate to shares, etc. held as of the reporting date that were not traded at a market. These gains and losses are included in “changes in fair value of available-for-sale financial assets” and “exchange differences of foreign operations” in the consolidated statement of comprehensive income.

2. Financial assets classified as Level 3 mainly consist of unlisted shares. The fair values of unlisted shares are principally measured by valuation techniques based on net asset value, and results of the fair value measurement are approved by an appropriate authorized person.

## 27. Important subsidiaries

Status of important subsidiaries at the end of the fiscal year under review

| Name | Location | Principal contents of business | Ratio of voting rights holding (%) |
|---|---|---|---|
| KYUSHU F.C.C. CO., LTD. | Japan | Motorcycle and automobile clutches | 100 |
| TENRYU SANGYO CO., LTD. | Japan | Motorcycle clutches | 80.22 |
| Tohoku Chemical Industries, Ltd. | Japan | Motorcycle clutches | 100 |
| Flint Co.,Ltd | Japan | Motorcycle clutches | 100 |
| FCC (North America), INC. | U.S. | Administration of subsidiaries in the U.S. | 100 |
| FCC (INDIANA), LLC. | U.S. | Automobile clutches | 100<br>[100] |
| FCC (North Carolina), LLC. | U.S. | Motorcycle and automobile clutches | 100<br>[100] |
| FCC (Adams), LLC. | U.S. | Automobile clutches | 100<br>[100] |
| FCC AUTOMOTIVE PARTS DE MEXICO, S.A. DE C.V. | Mexico | Automobile clutches | 100<br>[40.60] |
| FCC (THAILAND) CO., LTD. | Thailand | Motorcycle and automobile clutches | 100<br>[0.07] |
| FCC (PHILIPPINES) CORP. | Philippines | Motorcycle and automobile clutches | 100 |
| F.C.C. (China) Investment Co., Ltd. | China | Administration of subsidiaries in China | 100 |
| CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD. | China | Motorcycle and automobile clutches | 100<br>[71.43] |
| CHU'S F.C.C. CO., LTD. (SHANGHAI) | China | Motorcycle clutches | 100 |
| CHINA FCC FOSHAN CO., LTD. | China | Automobile clutches | 100<br>[61.43] |
| FCC (TAIWAN) CO., LTD. | Taiwan | Motorcycle clutches | 70<br>[15] |
| FCC CLUTCH INDIA PRIVATE LTD. | India | Motorcycle and automobile clutches | 100 |
| PT. FCC INDONESIA | Indonesia | Motorcycle and automobile clutches | 100<br>[0.55] |
| FCC (VIETNAM) CO., LTD. | Vietnam | Motorcycle and automobile clutches | 90 |
| FCC DO BRASIL LTDA. | Brazil | Motorcycle and automobile clutches | 100 |

Note: The figures in brackets in the "Ratio of voting rights holding" column are indirect holding ratio included in the figures outside the brackets.

## 28. Related parties

(1) Related party transactions

Fiscal year ended March 31, 2017

| Type | Name | Description of relationship with the related party | Transaction amount | Unsettled amount |
|---|---|---|---|---|
| | | | Millions of yen | Millions of yen |
| Other affiliate | Honda Motor Co., Ltd. | Sale of the Company's products | 9,110 | 1,550 |

Note: Related party transactions are conducted on the basis of arm's length transactions.

Fiscal year ended March 31, 2018

| Type | Name | Description of relationship with the related party | Transaction amount | Unsettled amount |
|---|---|---|---|---|
| | | | Millions of yen | Millions of yen |
| Other affiliate | Honda Motor Co., Ltd. | Sale of the Company's products | 10,436 | 1,748 |

Note: Related party transactions are conducted on the basis of arm's length transactions.

(2) Remuneration for key management personnel

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Remuneration and bonuses | 304 | 312 |

Note: For the basic policy, etc. for remuneration of key management personnel, refer to "A. Company information, IV. Information about reporting company, 4. Status of corporate governance, etc., (1) Status of corporate governance, 5) Remuneration, etc. for officers."

## 29. Commitments

Breakdown of commitments related to expenditures at and after the end of the fiscal year

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Property, plant and equipment and intangible assets | 4,089 | 2,469 |

## 30. Subsequent events

Not applicable.

**Opinion of independent auditors**

**Auditors: Yasumori Audit Corporation**
**Opinion: unqualified**

## 2. Non-consolidated financial statements, etc.

### (1) Non-consolidated financial statements

#### 1) Non-consolidated balance sheet

(Millions of yen)

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 938 | 1,267 |
| Notes receivable - trade | 3 | 0 |
| Electronically recorded monetary claims - operating | 154 | 186 |
| Accounts receivable - trade | 7,694 | 7,956 |
| Merchandise and finished goods | 835 | 1,026 |
| Work in process | 839 | 802 |
| Raw materials and supplies | 2,119 | 2,283 |
| Prepaid expenses | 62 | 60 |
| Short-term loans receivable from subsidiaries and associates | 19,170 | 20,425 |
| Deferred tax assets | 604 | 535 |
| Other | 2,197 | 2,692 |
| Allowance for doubtful accounts | (4) | (4) |
| Total current assets | 34,616 | 37,232 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 4,791 | 4,819 |
| Structures | 343 | 411 |
| Machinery and equipment | 5,334 | 4,348 |
| Vehicles | 44 | 44 |
| Tools, furniture and fixtures | 928 | 784 |
| Land | 4,679 | 3,943 |
| Construction in progress | 1,335 | 135 |
| Total property, plant and equipment | 17,458 | 14,487 |
| Intangible assets | | |
| Software | 103 | 139 |
| Software in progress | 47 | 6 |
| Other | 4 | 0 |
| Total intangible assets | 155 | 146 |
| Investments and other assets | | |
| Investment securities | 1,235 | 3,629 |
| Shares of subsidiaries and associates | 26,672 | 26,129 |
| Bonds of subsidiaries and associates | 5,846 | 5,846 |
| Investments in capital | 4 | 4 |
| Investments in capital of subsidiaries and associates | 3,069 | 3,069 |
| Long-term loans to employees | 147 | 130 |
| Long-term loans receivable from subsidiaries and associates | 5,581 | 3,594 |
| Long-term prepaid expenses | 12 | 0 |
| Other | 703 | 688 |
| Allowance for doubtful accounts | (46) | (31) |
| Total investments and other assets | 43,228 | 43,062 |
| Total non-current assets | 60,842 | 57,697 |
| Total assets | 95,458 | 94,930 |

(Millions of yen)

| | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes payable - trade | 379 | 234 |
| Accounts payable - trade | 2,658 | 3,104 |
| Factoring liabilities | 1,679 | 1,119 |
| Short-term loans payable | 13,266 | 16,160 |
| Accounts payable - other | 734 | 590 |
| Accrued expenses | 378 | 396 |
| Income taxes payable | 145 | 132 |
| Advances received | 27 | 2 |
| Deposits received | 46 | 122 |
| Provision for bonuses | 1,143 | 1,175 |
| Other | 75 | 47 |
| Total current liabilities | 20,536 | 23,085 |
| Non-current liabilities | | |
| Long-term loans payable | 4,040 | 327 |
| Deferred tax liabilities | 1,632 | 1,325 |
| Provision for retirement benefits | 661 | 750 |
| Asset retirement obligations | 32 | 29 |
| Other | 27 | 27 |
| Total non-current liabilities | 6,395 | 2,459 |
| Total liabilities | 26,931 | 25,545 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 4,175 | 4,175 |
| Capital surplus | | |
| Legal capital surplus | 4,555 | 4,555 |
| Other capital surplus | 10 | 10 |
| Total capital surpluses | 4,566 | 4,566 |
| Retained earnings | | |
| Legal retained earnings | 1,043 | 1,043 |
| Other retained earnings | | |
| Reserve for dividends | 1,600 | 1,600 |
| Reserve for advanced depreciation of non-current assets | 969 | 968 |
| General reserve | 48,500 | 50,500 |
| Retained earnings brought forward | 7,527 | 5,748 |
| Total retained earnings | 59,640 | 59,861 |
| Treasury shares | (3,409) | (3,409) |
| Total shareholders' equity | 64,973 | 65,193 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 3,553 | 4,191 |
| Total valuation and translation adjustments | 3,553 | 4,191 |
| Total net assets | 68,527 | 69,385 |
| Total liabilities and net assets | 95,458 | 94,930 |

## 2) Non-consolidated statements of income

(Millions of yen)

| | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 |
|---|---|---|
| Net sales | 36,756 | 39,663 |
| Cost of sales | | |
| Beginning finished goods | 777 | 835 |
| Cost of products manufactured | 27,393 | 28,327 |
| Purchase of finished goods | 1,112 | 890 |
| Total | 29,282 | 30,052 |
| Ending finished goods | 835 | 1,026 |
| Cost of finished goods sold | 28,447 | 29,026 |
| Gross profit | 8,308 | 10,636 |
| Selling, general and administrative expenses | | |
| Packing and delivery expenses | 779 | 808 |
| Salaries and allowances | 1,542 | 1,568 |
| Provision for bonuses | 213 | 257 |
| Retirement benefit expenses | 160 | 179 |
| Depreciation | 49 | 70 |
| Research and development expenses | 3,713 | 4,052 |
| Other | 1,717 | 1,722 |
| Total selling, general and administrative expenses | 8,176 | 8,659 |
| Operating profit | 131 | 1,977 |
| Non-operating income | | |
| Interest income | 408 | 521 |
| Interest on capital receivable | 60 | 41 |
| Interest on securities | 522 | 555 |
| Dividend income | 3,275 | 3,136 |
| Rental income | 49 | 35 |
| Commissions on equipment sales | 111 | 371 |
| Technical advisory fee | 95 | 133 |
| Other | 74 | 79 |
| Total non-operating income | 4,597 | 4,874 |
| Non-operating expenses | | |
| Interest expenses | 159 | 173 |
| Rent expenses | 29 | 28 |
| Foreign exchange losses | 267 | 739 |
| Other | 13 | 13 |
| Total non-operating expenses | 469 | 954 |
| Ordinary profit | 4,259 | 5,897 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 48 | 2 |
| Transfer pricing taxation adjustment | – | 255 |
| Total extraordinary income | 48 | 257 |
| Extraordinary losses | | |
| Loss on sales and retirement of non-current assets | 108 | 13 |
| Impairment loss | 650 | 1,454 |
| Loss on valuation of shares of subsidiaries and associates | – | 2,031 |
| Total extraordinary losses | 758 | 3,499 |
| Profit before income taxes | 3,549 | 2,655 |
| Income taxes - current | 805 | 890 |
| Income taxes - deferred | (162) | (512) |
| Total income taxes | 643 | 377 |
| Profit | 2,905 | 2,278 |

### 3) Non-consolidated statements of changes in shareholders' equity

Fiscal year ended March 31, 2017

(Millions of yen)

| | Shareholders' equity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | | | |
| | | | | | | Other retained earnings | | | | |
| | Capital stock | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Reserve for dividends | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | Total retained earnings |
| Balance at beginning of current period | 4,175 | 4,555 | 10 | 4,566 | 1,043 | 1,600 | 969 | 46,500 | 8,628 | 58,742 |
| Changes of items during period | | | | | | | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | | | | | | (0) | | 0 | – |
| Provision of general reserve | | | | | | | | 2,000 | (2,000) | – |
| Dividends of surplus | | | | | | | | | (2,007) | (2,007) |
| Profit | | | | | | | | | 2,905 | 2,905 |
| Purchase of treasury shares | | | | | | | | | | |
| Net changes of items other than shareholders' equity | | | | | | | | | | |
| Total changes of items during period | – | – | – | – | – | – | (0) | 2,000 | (1,100) | 898 |
| Balance at end of current period | 4,175 | 4,555 | 10 | 4,566 | 1,043 | 1,600 | 969 | 48,500 | 7,527 | 59,640 |

| | Shareholders' equity | | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at beginning of current period | (3,408) | 64,075 | 3,056 | 3,056 | 67,131 |
| Changes of items during period | | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | – | | | – |
| Provision of general reserve | | – | | | – |
| Dividends of surplus | | (2,007) | | | (2,007) |
| Profit | | 2,905 | | | 2,905 |
| Purchase of treasury shares | (0) | (0) | | | (0) |
| Net changes of items other than shareholders' equity | | | 497 | 497 | 497 |
| Total changes of items during period | (0) | 898 | 497 | 497 | 1,395 |
| Balance at end of current period | (3,409) | 64,973 | 3,553 | 3,553 | 68,527 |

Fiscal year ended March 31, 2018

(Millions of yen)

| | Shareholders' equity | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | | Retained earnings | | | | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | | | | Total retained earnings |
| | | | | | | Reserve for dividends | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | |
| Balance at beginning of current period | 4,175 | 4,555 | 10 | 4,566 | 1,043 | 1,600 | 969 | 48,500 | 7,527 | 59,640 |
| Changes of items during period | | | | | | | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | | | | | | (0) | | 0 | – |
| Provision of general reserve | | | | | | | | 2,000 | (2,000) | – |
| Dividends of surplus | | | | | | | | | (2,057) | (2,057) |
| Profit | | | | | | | | | 2,278 | 2,278 |
| Purchase of treasury shares | | | | | | | | | | |
| Net changes of items other than shareholders' equity | | | | | | | | | | |
| Total changes of items during period | – | – | – | – | – | – | (0) | 2,000 | (1,778) | 220 |
| Balance at end of current period | 4,175 | 4,555 | 10 | 4,566 | 1,043 | 1,600 | 968 | 50,500 | 5,748 | 59,861 |

| | Shareholders' equity | | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at beginning of current period | (3,409) | 64,973 | 3,553 | 3,553 | 68,527 |
| Changes of items during period | | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | – | | | – |
| Provision of general reserve | | – | | | – |
| Dividends of surplus | | (2,057) | | | (2,057) |
| Profit | | 2,278 | | | 2,278 |
| Purchase of treasury shares | (0) | (0) | | | (0) |
| Net changes of items other than shareholders' equity | | | 637 | 637 | 637 |
| Total changes of items during period | (0) | 220 | 637 | 637 | 858 |
| Balance at end of current period | (3,409) | 65,193 | 4,191 | 4,191 | 69,385 |

**[Notes to non-consolidated financial statements]**

**Significant accounting policies**

**1. Valuation basis and methods for assets**

(1) Valuation basis and methods for securities

Shares of subsidiaries and associates

Stated at cost determined by the weighted-average method

Available-for-sale securities (securities classified as other securities under Japanese GAAP)

Securities with readily determinable fair value

Stated at fair value based on market price and others as of the fiscal year-end date (unrealized gains and losses, net of applicable taxes, are recognized in a separate component of net assets, and costs of securities sold are determined by the weighted-average method).

Securities without readily determinable fair value

Stated at cost determined by the weighted-average method.

(2) Valuation basis and methods for inventories

Finished goods and work in process

Stated at cost determined by the weighted-average method (the carrying amounts in the non-consolidated balance sheet are calculated by the method in which carrying amounts are written down due to a decline in profitability of assets)

Raw materials and supplies

Stated at cost determined by the first-in, first-out method (the carrying amounts in the non-consolidated balance sheet are calculated by the method in which carrying amounts are written down due to a decline in profitability of assets)

**2. Depreciation methods for non-current assets**

(1) Property, plant and equipment

The straight-line method is applied.

Major useful lives are as follows:

| | |
|---|---|
| Buildings | 10 to 38 years |
| Machinery and equipment | 9 years |

(2) Intangible assets

The straight-line method is applied.

For software for internal use, the straight-line method based on the estimated usable period (five years) in the Company is applied.

**3. Recognition of reserves**

(1) Allowance for doubtful accounts

To cover losses from bad debts for trade receivables, loans, etc., allowance for doubtful accounts is provided in the amount expected to be uncollectible based on historical experience of bad debts for general receivables and individual collectability for specific receivables such as doubtful receivables.

(2) Provision for bonuses

To prepare for bonus payments to employees, provision for bonuses is provided based on the estimated amount of payments.

(3) Provision for retirement benefits

To prepare for payment of retirement benefits to employees, provision for retirement benefits is provided based on the estimated amounts of retirement benefit obligations and plan assets at the end of the fiscal year under review.

1) Method of attributing expected retirement benefits to periods

In calculation of retirement benefit obligations, the benefit formula basis is applied to attribute expected retirement benefits to periods up to the end of the fiscal year under review.

2) Amortization of actuarial gains or losses and past service cost

Past service cost is amortized on a straight-line basis from the fiscal year in which the cost occurred over a period equal to or less than the average remaining service period of eligible employees (five years) at the time of occurrence.

Actuarial gains or losses are amortized by the declining-balance method from the fiscal year in which the gains or losses occurred over a period equal to or less than the average remaining service period of eligible employees (mainly 16 years) at the time of occurrence in each fiscal year.

**4. Other significant matters for preparing financial statements**

(1) Accounting for retirement benefits

Accounting treatment for unrecognized actuarial gains or losses and unrecognized past service cost for retirement benefits are different from accounting treatment for them in the consolidated financial statements.

(2) Application of consolidated taxation system

From the fiscal year under review, the Company has applied the consolidated taxation system in Japan with the Company as the consolidated taxpayer parent company.

### 4) Supplementary statements

[Detailed schedule of property, plant and equipment and others]

(Millions of yen)

| Category | Type of assets | Balance at beginning of period | Increase in the period | Decrease in the period | Depreciation during the period | Balance at end of period | Accumulated depreciation |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | Buildings | 4,791 | 1,231 | 895<br>[683] | 308 | 4,819 | 7,249 |
| | Structures | 343 | 114 | 7 | 39 | 411 | 1,174 |
| | Machinery and equipment | 5,334 | 874 | 816<br>[629] | 1,043 | 4,348 | 18,636 |
| | Vehicles | 44 | 15 | 1 | 13 | 44 | 127 |
| | Tools, furniture and fixtures | 928 | 287 | 15 | 416 | 784 | 5,374 |
| | Land | 4,679 | – | 736<br>[141] | – | 3,943 | – |
| | Construction in progress | 1,335 | 754 | 1,954 | – | 135 | – |
| | Total | 17,458 | 3,278 | 4,426<br>[1,454] | 1,822 | 14,487 | 32,562 |
| Intangible assets | Telephone subscription right | 3 | – | 3 | – | – | – |
| | Right of using water facilities | 0 | – | – | 0 | 0 | 3 |
| | Software | 103 | 87 | – | 50 | 139 | 344 |
| | Software in progress | 47 | 7 | 48 | – | 6 | – |
| | Total | 155 | 94 | 51 | 51 | 146 | 348 |
| Investments and other assets | Long-term prepaid expenses | 12 | – | 11 | – | 0 | – |

(Note 1) The figure in brackets in the "Decrease in the period" column, which shows the number included in the figure outside the brackets, represents the amount of impairment loss recorded in the fiscal period.

(Note 2) Principal increases and decreases in the period are as follows:

Property, plant and equipment

[Increase]

| | | | |
|---|---|---|---|
| Buildings | Watagashima Factory | New establishment and refurbishment of Watagashima Factory | ¥1,212 million |
| Machinery and equipment | R&D Division | Testing apparatus and measuring instruments | ¥394 million |
| | Suzuka Factory | Manufacturing facilities for clutches | ¥194 million |

[Decrease]

| | | | |
|---|---|---|---|
| Buildings | Hamakita Factory | Impairment loss in accordance with the accounting standard for impairment loss of non-current assets | ¥421 million |
| | Watagashima Factory | Impairment loss in accordance with the accounting standard for impairment loss of non-current assets | ¥262 million |
| Machinery and equipment | Hamakita Factory | Impairment loss in accordance with the accounting standard for impairment loss of non-current assets | ¥372 million |

[Detailed schedule of allowances]

(Millions of yen)

| Category | Balance at beginning of period | Increase in the period | Decrease in the period | Balance at end of period |
|---|---|---|---|---|
| Allowance for doubtful accounts | 51 | 0 | 14 | 36 |
| Provision for bonuses | 1,143 | 1,175 | 1,143 | 1,175 |

**Opinion of independent auditors**

**Auditors: Yasumori Audit Corporation**
**Opinion: unqualified**

## VI. Overview of operational procedures for shares of the reporting company

| | |
|---|---|
| Fiscal year | From April 1 to March 31 |
| Ordinary General Meeting of Shareholders | June |
| Record date | March 31 |
| Record dates for dividends of surplus | September 30<br>March 31 |
| Number of shares per share unit | 100 shares |
| Purchase of shares less than one unit | |
| Office for handling business | (Special account)<br>1-2-1 Yaesu, Chuo-ku, Tokyo<br>Securities Agent Department, Head Office, Mizuho Trust & Banking Co., Ltd. |
| Shareholder register administrator | (Special account)<br>1-2-1 Yaesu, Chuo-ku, Tokyo<br>Mizuho Trust & Banking Co., Ltd. |
| Forwarding office | — |
| Handling charge for purchase | The amount separately stipulated as the amount equivalent to share brokerage fees |
| Method of public notice | Electronic public notice will be made. However, if it is impossible to publish public notices electronically because of an accident or other unavoidable circumstances, the public notices shall be made by publication in the Nihon Keizai Shimbun.<br>The Company's URL for public notice: http://www.fcc-net.co.jp/ |
| Special benefits for shareholders | • Content of the shareholder special benefit plan<br>Regional goodies worth ¥2,500 are offered to each shareholder holding 200 shares or more who is on the list of shareholders as of March 31 and September 30 every year. |

Note: Pursuant to the provision of the Company's Articles of Incorporation, the Company's shareholders may not exercise any right, in relation to their holding shares less than one unit, other than rights set forth in each item of Article 189, paragraph 2 of the Companies Act.