TOWA

ANNUAL REPORT

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A MESSAGE TO OUR SHAREHOLDERS

Greetings

Since its founding in Japan’s ancient capital, Kyoto, in April 1979, TOWA Corporation has consistently developed proprietary technologies and created numerous de facto standards. Our primary operations are composed of development, manufacturing and sales of resin encapsulation systems for semiconductors and singulation systems and precision molds for manufacturing semiconductors, as well as the manufacture and sales of fine plastic molded products. We maintain a leading share of the global market for our mainstay semiconductor resin encapsulation systems, which enjoy an excellent reputation with users.

Economic Overview

The Japan’s economy has continued to show mild recovery in this consolidated fiscal year owing to the various economic policies taken by the government as well as the Bank of Japan while the employment situation and the income environment have continued to improve. The US economy enjoyed an increase in personal consumption due to the improvement of employment environment. The European economy has moved steadily, supported by a smooth increase in personal consumption. Meanwhile, the overseas economic outlook has become more uncertain, especially with the slowdown of the Chinese economy and the stagnant domestic economic conditions of emerging economies of Asia.

Performance

In the semiconductor industry, large-scale corporate reorganizations have become active by way of M&A (merger/acquisition) globally, mainly in the United States and China. Companies in China, in particular, have actively sought to invest in and acquire foreign companies under the China’s national strategy of inviting the world leading semiconductor enterprises into the country. As for the demand for semiconductors, the market expansion of personal computer and smart phone, which are both driving forces, has slowed down for the short term, which caused some major semiconductor manufactures to make a downward revision to their capital investment plans. However, the continued growth is expected in a mid/long term because of the acceleration of the sales of automotive products and IoT (Internet of things).

Under such situations, our group has thrived to expand the sales of molding equipment in active manners, including PMC using the compression method, which was developed in-house. Further, we have successfully developed the “CPM series” which can be used for both granulated resin and liquid resin, taking advantage of state-of-the-art packaging technology such as FOWLP (Fan-Out Wafer Level Package), and we have initiated sales activities thereof.

Meanwhile, we have thrived to further expand the Total Solution Service (TSS) business after acquiring the molding business from the SEMES, which is one of the largest semiconductor equipment manufacturers in South Korea.

Further, we have been working on the promotion of our new business growth strategies, aiming to become a sound company not affected by the cyclical economic downturn in the semiconductor industry. We also have developed consumable business or businesses making use of micro processing, which is our core technology.

As a result of our initiatives mentioned above, the sales in this consolidated fiscal year has reached 22 billion 186 million yen (increased by 4.9% which is 1 billion 36 million yen against that of the previous consolidated fiscal year), the operating profit is 1 billion 940 million yen (decreased by 1.9% which is 38 million yen against that of the previous consolidated fiscal year), the recurring profit is 2 billion 57 million yen (decreased by 10.4%, which is 239 million yen against that of the previous consolidated fiscal year) and the net income attributable to equity owners of the parent is 1 billion 790 million yen (decreased by 7.4 % which is 143 million yen against that of the previous consolidated fiscal year).

Looking Ahead

The Japan's economy is projected to maintain its positive growth in fiscal 2016. A mild revival in the economic growth is expected in the first half, while slight accelerated growth in export is expected in the second half owing to the recovery of the overseas economy.

However, the global economy will continue to be influenced by the economy situation of the US and China. Rise of US interest rate and slowdown of Chinese economy will remain the matters of concern.

Demands for semiconductors that are utilized in personal computers, smart phones and digital consumer electronics tend to be stagnant, forcing semiconductor manufactures to be more cautious upon making capital investment decisions. On the other hand, the semiconductor market approaches the turning point of the packaging technology as a result of the acceleration of IoT (Internet of things) dissemination, such as development of faster wireless communication owing to the advanced functionalization of mobile terminals and transition to 3D structure (3D-IC) following the memory capacity expansion.

In light of such situations, our group is going to focus on the reduction of costs on our existing products as well as the expansion of sales of the state-of-the-art package which cannot be achieved without our compression technology that was developed in-house. We will also develop and commercialize molding equipment for the wafer level package which has drawn an attention as a packaging technology. We intend to expand the sales of said molding equipment, together with the singulation equipment, which is used in the process next to the molding process, by meeting the needs of the market widely. Meanwhile, for the business other than the semiconductor business that we have worked on in an effort to reduce the impact of the silicon cycle, we will establish a new business promotion team and focus on the establishment of the business.

We expect that the fine plastic molding business will make a steady growth, and we will continue to make our efforts to expand the business in the medical market which has been growing attributable to the advanced medical care and aging society.

Our group raised our long term vision “TOWA 10 Year Vision” in March 2014, and formulated a mid-term (3-year) management plan incorporating various measures and strategies which serve as a milestone to the achievement of said vision. We have implemented such measures and strategies aiming to expand our existing businesses, apply and implement the core technology and achieve business portfolio transformations by way of the creation of a “New Market”. Our group’s immediate challenges are as follows.

<u>Semiconductor Manufacturing Equipment Business</u>

(1) Sales expansion of molding equipment with compression technology and development to other fields

The transfer method has been a main stream method used in semiconductor molding. However, in the trend of increasing demand of larger, finer or denser substrates, necessity of commercialization of molding equipment using our in-house developed compression method that does not cause any resin streak has been increasing and it began to penetrate the market. We aim to develop equipment incorporating the compression technology as its core, and introduce it to other industries, while understanding the trend of the latest packages and customer needs.

(2) Improvement of market share in singularization apparatus

Singulation equipment is used to manufacture semiconductors in the singulation process which is installed after the molding process. This means that our customers using singulation equipment are also using molding equipment, which we keep the No. 1 in the market share. We aim to achieve the No.1 in the singulation equipment global market share as well now that it has been recognized that one of the largest challenges is the achievement of smaller devices following the expansion of the IoT industry, and the improvement of productivity has been called for.

(3) Challenge to the "new market" creation and commercialization

We have raised our core theme “Manufacturing of goods that enables us to create a market” in our Mid-Term (3-year) Management Plan aiming for our future growth. To achieve this, we will work harder to apply and introduce core technology, establish a total solution service, which is a whole new level business model as well as to launch consumable businesses. We are intent on developing businesses and expanding the scopes thereof through investments into new areas in active manners, without staying in the existing business scopes.

(4) Restructuring of business activity networks and activity forms

Meanwhile, we will clarify operations and roles of the head office, the sales offices and the agencies respectively, reinforce our sales activities and the profitability. We also aim for the establishment of a business model which enables our sales office to generate profit solely.

On the other hand, we will provide services that meet the needs of respective countries/regions. In our Europe and the US hubs, we will cultivate needs in active manners and strive to shorten the development time by enhancing the lab function where experiments on prototypes and molding are performed and evaluation results by customers are received.

(5)Pursuit of high productivity manufacturing system

We will built a structure of production in the optimal locations for maximum efficiency as well as a structure of immediate shipments at our overseas manufacturing hubs by working with our partner companies. We will also reinforce our structures so as to manufacture and develop products at overseas manufacturing hubs in accordance with the needs of the respective countries/regions, procure parts locally, increase in-house production ratio aiming for further cost reductions, and shorten production start-up lead time.

(6) Development of global leaders

Currently, a large majority of our customers are foreign customers. The number of employees in the overseas hubs makes up of more than half of the total number of employees in the entire group. In such a global business environment, it is essential to foster a strong leader in respective hubs, in order to manage these global group companies effectively.

Therefore, we will also focus on the development of human resources who have not only expertise on technology and products, but also management capability.

Fine Plastic Molding Business

The fine plastic molding business consists of the manufacture and sales of molded products mainly for medical applications. We will continue working on the activities to gain our customers' trust by managing the manufacturing environment that has achieved a high degree of cleanliness and by maintaining products quality, while thriving to improve the quality further and expand our businesses.

We look forward to your continuing support and assistance in the future.
We would like to express our heartfelt appreciation for your support.

August 2016

Hirokazu Okada
President & CEO

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	***2016***	***2016***
ASSETS			
Current assets:	¥	¥	$
Cash on hand and at banks	6,127	**6,257**	**55,529**
Notes and accounts receivable :			
Trade	7,258	**7,436**	**65,992**
Less: Allowance for doubtful accounts	(7)	**(5)**	**(44)**
	7,251	**7,431**	**65,948**
Inventories	3,453	**3,281**	**29,118**
Deferred tax assets (Note 10)	76	**52**	**461**
Other current assets	501	**492**	**4,366**
Total current assets	17,408	**17,513**	**155,422**
Property, plant and equipment, at cost :			
Land	4,204	**4,476**	**39,723**
Buildings and structures	13,209	**13,663**	**121,255**
Machinery and equipment	12,618	**13,032**	**115,655**
Construction in progress	16	**148**	**1,313**
Less: Accumulated depreciation	(19,258)	**(19,822)**	**(175,914)**
Total property, plant and equipment	10,789	**11,497**	**102,032**
Other assets:			
Investment securities (Note 4)	2,576	**2,292**	**20,341**
Deferred income taxes (Note 10)	111	**103**	**914**
Other	851	**922**	**8,183**
Total other assets	3,538	**3,317**	**29,438**
Total assets	31,735	**32,327**	**286,892**

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

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	***2016***	***2016***
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:	¥	**¥**	**$**
Short-term borrowings (Note 6)	834	**270**	**2,396**
Current portion of long-term debt (Note 6)	1,591	**1,487**	**13,197**
Notes and accounts payable	2,572	**2,848**	**25,275**
Accrued expenses(Note 2(12))	787	**417**	**3,701**
Accrued income taxes	106	**263**	**2,334**
Deferred tax liabilities(Note 10)	63	**67**	**595**
Other current liabilities(Notes 2(11) and 6)	1,176	**1,387**	**12,309**
Total current liabilities	7,129	**6,739**	**59,807**
Long-term liabilities:			
Long-term debt (Note 6)	2,846	**2,901**	**25,745**
Liability for retirement benefits(Notes 2(13) and 7)	287	**377**	**3,346**
Deferred tax liabilities (Note 10)	405	**358**	**3,177**
Other long-term liabilities	7	**4**	**36**
Total long-term liabilities	3,545	**3,640**	**32,304**
Total liabilities	10,674	**10,379**	**92,111**
Contingent liabilities (Note 13)			
NET ASSETS			
Shareholders' equity (Note 8)			
Common stock			
Authorized: 80,000,000 shares			
Issued :			
25,021,832 shares at 31st March, 2016	8,933	**8,933**	**79,278**
Additional paid-in capital	462	**462**	**4,100**
Retained earnings	9,438	**10,979**	**97,435**
Less: Treasury stock at cost	(9)	**(9)**	**(80)**
Total shareholders' equity	18,824	**20,365**	**180,733**
Accumulated Other Comprehensive Income			
Unrealized gain (loss) on other securities	1,024	**940**	**8,342**
Translation adjustments	760	**287**	**2,547**
Retirement benefit adjustments	134	**(11)**	**(98)**
Total accumulated other comprehensive income	1,918	**1,216**	**10,791**
Non-controlling interests	319	**367**	**3,257**
Total net assets	21,061	**21,948**	**194,781**
Total liabilities and net assets	31,735	**32,327**	**286,892**

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Income

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2016

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	***2016***	***2016***
	¥	¥	$
Net sales	21,150	**22,187**	**196,903**
Cost of sales	14,674	**15,093**	**133,946**
Gross profit	6,476	**7,094**	**62,957**
Selling, general and administrative expenses (Notes 2(14) and 9)	4,497	**5,153**	**45,731**
Operating Income	1,979	**1,941**	**17,226**
Other income (expenses)			
Interest and dividend income	80	**67**	**595**
Interest expenses	(74)	**(55)**	**(488)**
Foreign exchange gains (losses)	237	**23**	**204**
Equity in earnings (losses) of affiliates	27	**38**	**337**
Gain(losses) on sales of investment securities	-	**109**	**967**
Gain on subsidiaries liquidation	35	-	-
Insurance income	125	**52**	**461**
Loss on fire	(55)	-	-
Provision for founder merit bonus	(300)	-	-
Other, net	47	**44**	**391**
Total other income (expenses)	122	**278**	**2,467**
Income before income taxes and non-controlling interests	2,101	**2,219**	**19,693**
Income taxes (Note 10)			
Current	134	**312**	**2,769**
Deferred	6	**18**	**160**
Net Income	1,961	**1,889**	**16,764**
Net Income attributable to non-controlling interests	27	**98**	**870**
Net Income attributable to owners of parent	1,934	**1,791**	**15,894**

			U.S. dollars (Note 1)
Amount per share of common stock (Note 2 (17)):	¥	¥	$
Net Income	77.35	71.60	0.64
Diluted net income	77.35	71.60	0.64
Cash dividends	10.00	10.00	0.09

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

Consolidated Statements of Comprehensive Income

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2016

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	***2016***	***2016***
	¥	¥	$
Net Income	1,961	**1,889**	**16,764**
Other Comprehensive Income			
Unrealized gain on other securities	514	**(84)**	**(745)**
Translation adjustment	473	**(507)**	**(4,499)**
Remeasurements of defined benefit plans	98	**(145)**	**(1,287)**
Total other comprehensive income	1,085	**(736)**	**(6,531)**
Comprehensive Income	3,046	**1,153**	**10,233**
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	2,985	**1,089**	**9,665**
Comprehensive income attributable to minority interests	61	**64**	**568**

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

Consolidated Statements of Shareholders' Equity

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2016

Millions of yen

	Shareholders' equity					*Accumulated other comprehensive income*			*Non-controlling interests*	
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Treasury stock*	*Unrealized gain on other securities*	*Translation adjustments*	*Retirement benefit adjustments*	*Non-controlling interests*	*Total net assets*
		¥	¥	¥	¥	¥	¥	¥	¥	¥
Balance at March 31, 2014	25,021,832	8,933	462	7,208	(9)	510	512	36	258	17,910
Cumulative effects of changes in accounting policies				546			(191)			355
Restated balance at March 31, 2014	25,021,832	8,933	462	7,754	(9)	510	321	36	258	18,265
Net Income	-	-	-	1,934	-	-	-	-	-	1,934
Cash dividends	-	-	-	(250)	-	-	-	-	-	(250)
Net increase of treasury stock	-	-	-	-	0	-	-	-	-	0
Net changes of items other than shareholders' equity	-	-	-	-	-	514	439	98	61	1,112
Balance at March 31, 2015	25,021,832	8,933	462	9,438	(9)	1,024	760	134	319	21,061
Net Income	-	-	-	1,791	-	-	-	-	-	1,791
Cash dividends	-	-	-	(250)	-	-	-	-	-	(250)
Net increase of treasury stock	-	-	-	-	0	-	-	-	-	0
Net changes of items other than shareholders' equity	-	-	-	-	-	(84)	(473)	(145)	48	(654)
Balance at March 31, 2016	25,021,832	8,933	462	10,979	(9)	940	287	(11)	367	21,948

Thousands of U.S.dollars (Note 1)

	Shareholders' equity					*Accumulated other comprehensive income*			*Non-controlling interests*	
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Treasury stock*	*Unrealized gain on other securities*	*Translation adjustments*	*Retirement benefit adjustments*	*Non-controlling interests*	*Total net assets*
		$	$	$	$	$	$	$	$	$
Balance at March 31, 2015	25,021,832	79,278	4,100	83,759	(80)	9,087	6,745	1,189	2,831	186,909
Net Income	-	-	-	15,894	-	-	-	-	-	15,894
Cash dividends	-	-	-	(2,218)	-	-	-	-	-	(2,218)
Net increase of treasury stock	-	-	-	-	0	-	-	-	-	0
Net changes of items other than shareholders' equity	-	-	-	-	-	(745)	(4,198)	(1,287)	426	(5,804)
Balance at March 31, 2016	25,021,832	79,278	4,100	97,435	(80)	8,342	2,547	(98)	3,257	194,781

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

Consolidated Statement of Cash Flows

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2016

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2015	***2016***	***2016***
Cash Flows from Operating Activities:	¥	¥	$
Net Income before income taxes and non-controlling interests	2,101	**2,219**	**19,693**
Adjustments for:			
Depreciation	1,199	**1,311**	**11,635**
Equity in earnings of affiliates	(27)	**(38)**	**(337)**
Amortization of goodwill	63	**42**	**373**
Interest and dividends income	(80)	**(67)**	**(595)**
Interest expenses	74	**55**	**488**
Foreign exchange losses (gains)	60	**20**	**177**
Increase (decrease) in provision for founder merit bonus	300	**(300)**	**(2,662)**
Loss (gain) on sales of investment securities	-	**(109)**	**(967)**
(Increase) decrease in trade notes and accounts receivable	(869)	**(266)**	**(2,361)**
(Increase) decrease in inventories	(170)	**56**	**497**
(Increase) decrease in other current assets	(123)	**109**	**967**
Increase (decrease) in notes and accounts payable	39	**398**	**3,532**
Increase(decrease) in accrued and other current liabilities	66	**146**	**1,296**
Loss on fire	55	-	-
(Gain)Loss on subsidiaries liquidation	(35)	-	-
Other, net	62	**(160)**	**(1,420)**
Sub-total	2,715	**3,416**	**30,316**
Interest and dividends received	81	**71**	**630**
Interest paid	(75)	**(57)**	**(506)**
Income taxes paid	(131)	**(175)**	**(1,553)**
Net cash provided by (used in) operating activities	2,590	**3,255**	**28,887**
Cash Flows from Investing Activities:			
Purchase of investment securities	(7)	**(7)**	**(62)**
Sale of investment securities	-	**309**	**2,742**
Purchase of shares of subsidiaries	(84)	-	-
Purchase of property, plant and equipment	(1,407)	**(2,061)**	**(18,291)**
Sale of property, plant and equipment	38	**4**	**35**
Payments for transfer of business	-	**(282)**	**(2,503)**
Other, net	30	**230**	**2,042**
Net cash provided by (used in) investing activities	(1,430)	**(1,807)**	**(16,037)**
Cash Flows from Financing Activities:			
Increase（decrease) in short-term borrowings	(777)	**(562)**	**(4,988)**
Proceeds from issuance of long-term debt	1,362	**1,552**	**13,774**
Repayments of long-term debt	(1,401)	**(1,491)**	**(13,232)**
Redemption of bonds	(100)	**(100)**	**(887)**
Purchase of treasury stock	**(0)**	**(0)**	**(0)**
Cash dividends	**(250)**	**(250)**	**(2,218)**
Cash dividends paid to non-controlling interests	-	**(16)**	**(142)**
Other,net	**(5)**	**(2)**	**(18)**
Net cash provided by (used in) financing activities	(1,171)	**(869)**	**(7,711)**
Effect of exchange rate changes on Cash and Cash Equivalents	94	**(169)**	**(1,500)**
Net increase(decrease) in Cash and Cash Equivalents	83	**410**	**3,639**
Cash and Cash Equivalents at Beginning of Period	5,534	**5,617**	**49,849**
Cash and Cash Equivalents at End of Period (Note2(3))	5,617	**6,027**	**53,488**

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

Notes to the Consolidated Financial Statements

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting Consolidated Financial Statements

TOWA CORPORATION (the ”Company”) and its domestic subsidiaries maintain their accounts and records in conformity with accounting principles and practices generally accepted in Japan (“JPGAAP”), which are different, in certain respects from the application and disclosures and disclosure requirements of International Financial Reporting Standards (“IFRS”).

The Company’s overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile, and the Company makes necessary adjustments to its consolidated accounting process in case there are considerable differences as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements of the Company are prepared on the basis of accounting principles generally accepted in Japan, as required by the Financial Instruments and Exchange Act of Japan.

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

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2016, which was ¥112.68 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and affiliates. All significant inter-company transactions, account balances and unrealized profits have been eliminated in consolidation. Fiscal year end of some subsidiaries is December 31, which differs from that of the Company, March 31, and the Company consolidate such subsidiaries using their provisional settlements as of March 31. Shown below are the significant subsidiaries and affiliates of the Company.

Subsidiaries

(All subsidiaries have been consolidated)

Name	Ownership	Country of Incorporation
BANDICK Corporation	100％	Japan
TOWATEC Co., Ltd.	100	Japan
TOWAM Sdn. Bhd.	100	Malaysia
TOWA (Suzhou) Co., Ltd.	100	China
TONGJIN Corporation	50	Korea
TOWA Asia-Pacific Pte. Ltd.	100	Singapore
TOWA (Shanghai) Co., Ltd.	100	China
TOWA TAIWAN Co., Ltd.	100	Taiwan
TOWA Jipal Technologies Co., Ltd.	60	Taiwan
TOWA Semiconductor Equipment Philippines Corp.	100	Philippines
TOWA KOREA CO., LTD	100	Korea
TOWA USA Corporation	100	The United States of America
TOWA Europe B.V.	100	Kingdom of the Netherlands
TOWA America Corporation ※１	100	The United States of America
TOWA Europe GmbH ※２	100	Germany

Affiliates

(All affiliates are accounted for by the equity method)

Name	Ownership	Country of Incorporation
Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd	20％	Japan

※１. Liquidation proceedings of TOWA America Corporation have been completed in the fiscal year ended March 31,2015 and its financial statement isn't consolidated into accompanying financial statement for 2015 and 2016.

※２. Liquidation proceedings of TOWA Europe GmbH have been completed in the fiscal year ended March 31,2015 and its financial statement isn't consolidated into accompanying financial statement for 2015 and 2016.

(2) Translation of Foreign Currency Items

In accordance with the Japanese accounting standard, every monetary assets and liabilities denominated in foreign currencies are principally translated into Japanese yen at the exchange rate in effect at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income.

With respect to financial statements of overseas subsidiaries, the balance sheet accounts are translated into Japanese yen at the exchange rates in effect at the balance sheet date except for shareholders' equity, which are translated at the historical rates. And revenue and expenses are translated at the average exchange rates. The differences resulting from translation in this manner are included in "Translation adjustments" which is listed in Accumulated Other Comprehensive Income in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

Components of cash and cash equivalents as of March 31, 2015 and 2016 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Cash on hand and at banks	¥ 6,127	¥6,257	$55,529
Less: Time deposits with deposit term of over three months	¥ 510	¥230	$2,043
Cash and cash equivalent at end of year	¥ 5,617	¥6,027	$53,486

(4) Securities

Securities are classified into four categories.

Categorization and valuation for investments in securities are as follows:-

1) Trading Securities

- Such securities held for the purpose of generating profits from short-term price movements.
- Unrealized gain/loss at the end of period resulting from the valuation by applying the fair value at such date is directly debited/credited to income;
- Such securities are treated in current assets in the balance sheet.

2) Held-to-maturity Debt Securities

- Debt securities whose maturity dates are predetermined and are to be redeemed at par, acquired with intention to hold to their maturity dates;
- The difference between the acquisition cost and the amount expected to gain at maturity is amortized or appreciated over the remaining period to maturity date. The amount amortized or appreciated is charged/credited to income for the respective period as interest expense or interest income, as the case may be.
- Unrealized loss will be required to be charged to income as impairment unless unrealized loss is expected to recover within a reasonable period.

3) Shares in equity of Subsidiaries and Affiliates

- Those securities are carried at cost unless such investment is regarded impaired.

4) Other Securities:

- Such securities other than those categorized in 1 to 3 above;
- Other Securities with market quotation are valued at such market price at the end of period, and those without market quotation are valued at cost.
- Unrealized gain/loss at the end of period resulting from such valuation is charged to Accumulated Other Comprehensive Income as “Unrealized gain/ (loss) on Other Securities” after netting off the deferred income taxes thereto.
- Unrealized loss which it incurred as the fair value is less than 50% of its acquisition cost will be required to be charged to income.

- Unrealized loss which it incurred as the fair value is 30% ~50% of its acquisition cost will be required to be charged to income unless the unrealized loss is expected to recover within a reasonable period.

The moving average method is applied for calculation of the costs of securities.

(5) Inventories

Inventories are mainly stated at the lower of cost or net selling value, the cost being determined by mainly specific identification method for finished products and work-in-process, by mainly moving-average method for raw materials and by the last purchase cost method for supplies.

(6) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries have provided the allowance based on the past uncollectible receivable experience for a certain reference period. Furthermore, for receivables which are from the debtors with financial difficulty, the allowance is provided for estimated unrecoverable amounts individually. Overseas subsidiaries have provided an allowance for doubtful accounts in the estimated amounts of possible bad debts.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation for property, plant and equipment of the Company and its domestic subsidiaries is calculated by applying declining-balance method, except for buildings acquired on and after April 1, 1998 which are applied the straight-line method, over the estimated useful lives.

The principal estimated useful lives are as follows:

Buildings and structures	3	～	50	years
Machinery and equipment	2	～	10	years

Depreciation for those of overseas subsidiaries is computed by the straight-line method.

(8) Leased Assets

Leased assets are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

However, finance lease transactions other than those in which titles to leased property are determined to be transferred to lessees, which transactions started on or before March 31, 2008, are stated by applying the accounting treatment applicable to ordinary operating lease transactions.

(9) Derivatives

The Company has entered into interest rate agreements to hedge the fluctuation of interest rate exposures, and not for speculative purposes. The instruments include interest rate swap agreements.

These instruments were accounted by the deferral hedge accounting. The Company has accounted for interest rate swap agreements by the exception accounting.

(10) Goodwill

Goodwill is amortized over a period of 3～5 years by the straight-line method.

(11) Product Warranties

The Company has accounted for the estimate amounts of maintenance expenses as the product warranties, which corresponded to the sales based on the prior track record for the outcome of maintenance expenses of the sold products during the period of warranty.

As of March 31, 2016, the liability for expected warranty costs was ¥107 million ($950thousand).

(12) Accrued Bonus

The Company and its subsidiaries provide for accrued bonuses to directors and employees for the expected payment of their bonuses for the current fiscal year to those directors and employees serving at the end of the fiscal year.

(13) Accounting for retirement Benefits

1) Allocation of expected retirement benefit payments

When calculating retirement benefit obligations, the benefit formula basis is used to allocate expected retirement benefit payments to the period as of the fiscal year-end.

2) Method for treating actuarial difference expenses

Actuarial differences are amortized by the declining-balance method over a period, which is within the estimated average remaining years of service of the eligible employees (mainly 10 years) and charged to income from the fiscal year following each respective incurrence.

3) Method for treating unrecognized actuarial difference

Unrecognized actuarial differences are recorded in remeasurements of defined benefit plans of accumulated other comprehensive income under net assets, after tax effects have been adjusted.

(14) Research and Development Costs

Research and development expenditure is charged to income when incurred.

(15) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local taxes and enterprise taxes. Enterprise taxes are deductible when paid for the computation of other taxes.

Deferred income taxes are recognized using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(16) Appropriation of Retained Earnings

Under the Japanese Corporate Law and the Articles of Incorporation of the Company, the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved by the Board of Directors, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year.

(17) Per Share Information

Net income per share and diluted net income per share are computed based on the weighted-average number of shares of common stock outstanding during each year and stock splits are reflected in the calculation of the weighted-average number of shares of common stock.

Cash dividend per share is the total of the per-share amounts of interim cash distribution and the year-end cash dividends for the income of the respective financial periods.

3. Change in Accounting Policies

(Adoption of the accounting standard for Business Combinations)

Effective from the fiscal year ended March 31, 2016, the Company adopted the Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013, hereinafter, “Business Combinations Standard”), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22, September 13, 2013, hereinafter, “Consolidated Financial Statements Standard”) and the Accounting Standard for Business Divestitures (ASBJ Statement No.7, September 13, 2013, hereinafter, “Business Divestitures Standard”) and others. Accordingly, the Company’s accounting policies have been changed; the difference arising from a change in the Company’s ownership interest in a subsidiary over which the Company continues to have control is recorded as capital surplus and acquisition-related costs are expensed in the consolidated fiscal year when they are incurred. In addition, for business combinations to be performed at and after the beginning of the fiscal year ended March 31, 2016, a method was changed to recognize an adjustment to the provisional amount arising from the finalization of the tentative accounting treatment relating to the allocation of acquisition cost in the consolidated financial statements for the quarter where the date of business combination belongs. In addition, the Company has changed the presentation of net income and other related items, and the presentation of “minority interests” to “non-controlling interests”. To reflect this change in presentation, the reclassification of accounts has been made to the consolidated financial statements for the fiscal year ended March 31, 2015 and the fiscal year ended March 31, 2016.

The Business Combinations Standard and others were adopted in accordance with transitional treatments stipulated in Paragraph 58-2 (4) of the Business Combinations Standard, Paragraph 44-5 (4) of the Consolidated Financial Statements Standard and Paragraph 57-4 (4) of the Business Divestitures Standard, and they have been prospectively adopted from the beginning of the fiscal year ended March 31, 2016.

There is no impact on the accompanying consolidated financial statements.

(Change in the Method for Translating the Income and Expenses of Overseas Subsidiaries into Japanese Yen)

Previously, the Company translated the income and expenses of overseas subsidiaries into yen at the spot exchange rates in effect as of the balance sheet date. But the Company considers that the method of using the average exchange rates of during the term may alleviate an effect caused by temporary exchange rate fluctuations to periodic profit or loss, and reflect the business results of foreign subsidiaries to the consolidated financial report much more clearly than using the spot exchange rates in effect as of the balance sheet date. Therefore the Company has changed the exchange rate to the average exchange rate during the period from the fiscal year ended March 31, 2016.

This change in accounting policy has been applied retrospectively, and the consolidated financial statements for the fiscal year ended March 31, 2015 are stated following retrospective application.

As a result, net sales decreased by ¥54 million ($480thousand), operating income increased by ¥308 million ($2,730thousand), income before income taxes and non-controlling interests decreased by ¥168 million ($1,487thousand) in the fiscal year ended March 31, 2015 compared with before the retrospective application.

In addition, as the cumulative effect was reflected in consolidated net assets at the beginning of the fiscal year ended March 31, 2015, the balance at the beginning of the period for the fiscal year ended March 31, 2015 increased by ¥190 million ($1,690thousand) for retained earnings while translation adjustments decreased by the same amount.

4. **Securities**

(1) The following is a summary of investments in affiliates and other securities at March 31, 2015:

Other securities:

	Millions of yen			
	2015			
	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 947	¥ 1,406	¥ 3	¥ 2,350
	¥ 947	¥ 1,406	¥ 3	¥ 2,350
Market value not available:				
Equity securities	3	-	-	3
Other securities total	¥ 950	¥ 1,406	¥ 3	¥ 2,353

Investments in affiliates:

	Millions of yen
	2015
	Book Value
Market value not available:	
Equity securities	¥ 223
	¥ 223
Total	¥ 2,576

(2) The following is a summary of investments in affiliates and other securities at March 31, 2016

Other securities:

	Millions of yen			
	2016			
	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥ 754	¥ 1,297	¥ 22	¥ 2,029
	¥ 754	¥ 1,297	¥ 22	¥ 2,029
Market value not available:				
Equity securities	3	-	-	3
Other securities total	¥ 757	¥ 1,297	¥ 22	¥ 2,032

Investments in affiliates:

	Millions of yen
	2016
	Book Value
Market value not available:	
Equity securities	¥ 260
	¥ 260
Total	¥ 2,292

Other securities:

	Thousands of U.S. dollars (Note 1)			
	2016			
	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$ 6,692	$ 11,510	$ 195	$ 18,007
	$ 6,692	$ 11,510	$ 195	$ 18,007
Market value not available:				
Equity securities	27	-	-	27
Other securities total	$ 6,719	$ 11,510	$ 195	$ 18,034

Investments in affiliates:

	Thousands of U.S. dollars (Note 1)
	2016
	Book Value
Market value not available:	
Equity securities	$ 2,307
	$ 2,307
Total	$ 20,341

5. Estimated Fair Value of Financial Instruments

As of March 31, 2015 and 2016, the book value and fair value of financial instruments and the differences between these figures are set forth in the table below. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2015		
	Book Value	Fair Value	Difference
Cash and deposits	¥ 6,127	¥ 6,127	¥ -
Notes and accounts receivable	7,258		
Less:Allowance for Doubtful Accounts	(7)		
	¥ 7,251	¥ 7,251	¥ -
Investment securities	2,350	2,350	-
Total assets	¥ 15,728	¥ 15,728	¥ -
Notes and accounts payable	2,572	2,572	-
Short-term borrowings	834	834	-
Bonds	240	241	1
Long-term borrowings	4,196	4,193	(3)
Total liabilities	¥ 7,842	¥ 7,840	¥ (2)
Derivative financial instruments	¥ -	¥ (20)	¥ (20)

	Millions of yen		
	2016		
	Book Value	Fair Value	Difference
Cash and deposits	¥ 6,257	¥ 6,257	¥ -
Notes and accounts receivable	7,436		
Less:Allowance for Doubtful Accounts	(5)		
	¥ 7,431	¥ 7,431	¥ -
Investment securities	2,029	2,029	-
Total assets	¥ 15,717	¥ 15,717	¥ -
Notes and accounts payable	2,848	2,848	-
Short-term borrowings	270	270	-
Bonds	140	141	1
Long-term borrowings	4,248	4,247	(1)
Total liabilities	¥ 7,506	¥ 7,506	¥ 0
Derivative financial instruments	¥ -	¥ (21)	¥ (21)

	Thousands of U.S. dollars (Note 1)		
	2016		
	Book Value	Fair Value	Difference
Cash and deposits	$ 55,529	$ 55,529	$ -
Notes and accounts receivable	65,992		
Less:Allowance for Doubtful Accounts	(44)		
	$ 65,948	$ 65,948	$ -
Investment securities	18,007	18,007	-
Total assets	$ 139,484	$ 139,484	$ -
Notes and accounts payable	25,275	25,275	-
Short-term borrowings	2,396	2,396	-
Bonds	1,242	1,251	9
Long-term borrowings	37,700	37,691	(9)
Total liabilities	$ 66,613	$ 66,613	$ 0
Derivative financial instruments	$ -	$ (186)	$ (186)

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2015 and 2016 were as follows, respectively.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Unlisted equity securities	¥ 226	¥ 263	$ 2,334

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in “Investment securities” in the preceding table.
The redemption schedule for bonds and long-term borrowings is disclosed in Note6.

6. Short-term Borrowings and Long-term Debt

Short-term borrowings represent loans from banks. The annual average interest rates applicable to short-term borrowings at March 31, 2015 are 0.9% and 2016 are 0.9%, respectively.

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

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Borrowings from financial institutions	¥ 4,196	¥ 4,248	$ 37,700
0.6% Yen Bonds due 2016	120	60	532
0.5% Yen Bonds due 2017	120	80	710
Other Long term liabilities	10	7	62
Less: Portion due within one year	(1,593)	(1,490)	(13,223)
	¥ 2,853	¥ 2,905	$ 25,781

The aggregate annual maturity of long-term debt after March 31, 2016 is summarized as follows:

Years ending March 31,	*Millions of Yen*	*Thousands of U.S. dollars (Note 1)*
2017	¥ 1,490	$ 13,223
2018	1,276	11,324
2019	822	7,295
2020 and thereafter	807	7,162
	¥ 4,395	$ 39,004

At March 31, 2015 and 2016, the following assets were pledged as collateral for short-term borrowings and long-term debt:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Principal of debt:			
Short-term borrowings	¥ 54	¥ -	$ -
Portion due within one year	11	5	44
Long-term borrowings	7	50	444
	¥ 72	¥ 55	$ 488
Assets pledged as collateral:			
Buildings and structures	¥ 148	¥ 162	$ 1,438
Machinery and equipment	0	0	0
Land	119	108	958
	¥ 267	¥ 270	$ 2,396

Regarding loan payables, the syndicate loan contract with limit of ¥375 million ($3,328 thousand), commitment line contracts with limits of ¥2,500 million ($22,187 thousand), and convertible term loan contract with limit of ¥75 million ($666 thousand) respectively include financial covenant terms. The contractor triggers acceleration and is enforced to repay the full principal and interest if the contractor breaches either of the following terms.

(Financial covenant terms included in the syndicate loan contract)

(1) The amount of Net Assets on the consolidated balance sheets at the end of each fiscal year and each semiannual period must be maintained ¥10,710 million ($95,048thousand) or more.

(2) The ordinary losses before depreciation in both consolidated statements of income for each fiscal year must not be existed in two successive periods after the fiscal year ended March 31, 2013.

(Financial covenant terms included in the commitment line contracts)

(1) The amount of Net Assets on the consolidated balance sheets at the end of each fiscal year and each semiannual period must be maintained ¥14,750 million ($130,902 thousand) or more.

(2) The ordinary losses in both consolidated statements of income for each fiscal year must not be existed in two successive periods after the fiscal year ended March 31, 2016.

(Financial covenant terms included in the convertible term loan contract)

(1) The amount of Net Assets on the consolidated balance sheets at the end of each fiscal year and each semiannual period must be maintained ¥10,710 million ($95,048 thousand) or more.

(2) The ordinary losses before depreciation in both consolidated statements of income for each fiscal year must not be existed after the fiscal year ended March 31, 2013.

7. Retirement Benefits

The Company and its consolidated subsidiaries have set up funded and unfunded defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Under the defined benefit pension plans, which are funded, lump-sum payments or pensions mainly based on the salary amount and service periods. Under the lump-sum payment plans, which are unfunded, lump-sum payments are provided mainly based on the salary amount and service periods.

Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense.

(1) Defined benefit plans

1) The changes in defined benefit obligation for the year ended March 31, 2015 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Retirement benefit obligations at beginning of year	¥ 1,960	¥1,745	$ 15,486
Cumulative effects of changes in accounting policies	(355)	-	-
Restated balance, at beginning of year	1,605	1,745	15,486
Service cost	148	149	1,322
Interest cost	16	13	115
Actuarial (gain) loss	18	42	373
Retirement benefits paid	(47)	(44)	(390)
Others	5	(19)	(168)
Retirement benefit obligations at end of year	¥ 1,745	1,886	$ 16,738

2) The changes in plan assets for the year ended March 31, 2015 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Plan assets at beginning of year	¥ 1,196	¥1,458	$ 12,939
Expected return on plan assets	24	29	257
Actuarial gain (loss)	129	(72)	(639)
Contributions from the employer	132	137	1,216
Retirement benefits paid	(23)	(43)	(381)
Plan assets at end of year	¥ 1,458	1,509	$ 13,392

3) The balance of retirement benefit obligations and plan assets at fair value as of March 31, 2015 and 2016, liabilities and assets recognized in the consolidated balance sheet were as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Funded retirement benefit obligations	¥ 1,494	¥1,630	$ 14,466
Plan assets at fair value	(1,458)	(1,509)	(13,392)
	36	121	1,074
Unfunded retirement benefit obligations	251	256	2,272
Net liability recognized in the consolidated balance sheet	¥ 287	¥377	$ 3,346
Liability for retirement benefits	287	377	3,346
Net liability recognized in the consolidated balance sheet	¥ 287	¥377	$ 3,346

4) The components of retirement benefit expenses for the year ended March 31, 2015 and 2016 were as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Service cost	¥ 148	¥149	$ 1,322
Interest cost	16	13	115
Expected return on plan assets	(24)	(29)	(257)
Amortization of actuarial (gain) loss	(11)	(31)	(275)
Retirement benefit expenses	¥ 129	¥102	$ 905

5) Remeasurements of defined benefit plans in other comprehensive income (before tax effect) for the year ended March 31, 2015 and 2016 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Actuarial gain (loss)	¥99	¥ 142	$ 1,260
Total	¥99	¥ 142	$ 1,260

6) Unrecognized actuarial gain included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Unrecognized actuarial gain (loss)	¥ 126	¥ (17)	$ (151)
Total	¥ 126	¥ (17)	$ (151)

7) Plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2016 were as follows:

	2015	2016
Debt securities	37%	38%
Equity securities	41%	38%
General accounts at life insurance companies	18%	19%
Others	4%	5%
Total	100%	100%

The expected rate of return on plan assets is determined considering the allocation of the plan assets expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8) The major assumptions used in accounting for the above plans as follows:

	2015	2016
Discount rate	0.25%	(0.14%)
Expected long-term rates of return on plan assets	2.00%	2.00%
Expected pay raise rate	2.00%	2.00%

(2) Defined Contribution plans

Certain consolidated subsidiaries have defined contribution plans and amount of the contribution for the year ended March 31, 2015 and 2016 were ¥32million and ¥33million ($293thousand).

8. Shareholders' Equity

Under the Japanese Corporate Law the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors.

The Japanese Corporate Law requires that an amount equal to 10% or more of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in the legal reserve until an aggregate amount of additional paid-in capital and the legal reserve equals 25% of the amount of stated capital. The amount of total additional paid-in capital and legal reserve which exceeding 25% of stated capital can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

Under the Japanese Corporate Law, although the entire amount of the issue price of new shares is required to be accounted for as common stock a company may, by resolutions of its Board of Directors, account for an amount not exceeding one-half of the issue price of such new shares as additional paid-in capital.

9. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2015 and 2016 were ¥194million and ¥473million ($4,198 thousand), respectively.

10. Income Taxes

The company is subject to a number of different income taxes, which in the aggregate, result in a statutory tax rate in Japan of approximately 35.6% and 33.0% for the year ended of March 31, 2015 and 2016.

The deferred tax assets and deferred tax liabilities at March 31, 2015 and 2016 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2016
Deferred tax assets:			
Inventory write down	¥ 123	¥ 110	$ 976
Impairment loss of fixed assets	395	378	3,355
Retirement and severance benefits	133	109	967
Trial product for development	273	350	3,106
Net operating loss carried forward	717	447	3,967
Other, net	720	528	4,685
Valuation Allowance	(2,155)	(1,753)	(15,557)
	206	169	1,499
Deferred tax liabilities:			
Other, net	(487)	(439)	(3,896)
	(487)	(439)	(3,896)
Net deferred tax assets/(liabilities)	¥ (281)	¥ (270)	$ (2,397)

11. Other Comprehensive Income(Loss)

The reclassification adjustments and tax effects for components of other comprehensive income (loss) for the year ended March 31, 2015 and 2016 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2015	2016	2015
Unrealized gain on other securities:			
Amount arising during the year	¥ 715	¥ (19)	$ (169)
Reclassification adjustments for losses (gains) realized in net income	-	(109)	(967)
Before Tax effect	715	(128)	(1,136)
Tax effect	(201)	44	391
Total unrealized gain on other securities	514	(84)	(745)
Translation adjustments:			
Amount arising during the year	509	(507)	(4,499)
Reclassification adjustments for losses (gains) realized in net income	(36)	-	-
Total translation adjustments	473	(507)	(4,499)
Remeasurements of defined benefit plans:			
Amount arising during the year	110	(111)	(985)
Reclassification adjustments for losses (gains) realized in net income	(11)	(31)	(275)
Before Tax effect	99	(142)	(1,260)
Tax effect	(1)	(3)	(27)
Total remeasurements of defined benefit plans	98	(145)	(1,287)
Total other comprehensive income (loss)	¥ 1,085	¥ (736)	$ (6,531)

12. Leases

The Company and its consolidated subsidiaries and equity method affiliates have been utilizing finance lease arrangements other than those deemed to transfer the ownership of the leased property to the lessee to employ certain machinery and equipment.

The finance lease transactions, which do not transfer ownership to lessee, started before April 1, 2008 were accounted for as operating leases.

13. Contingent Liabilities

The Companies have no significant contingent liabilities.

14. Business Combinations

Business combination through acquisition for the year ended March 31, 2016.

(1) Overview of the business combination

(i) Company Name and description of acquired business
Name: SEMES Co., Ltd.
Description of acquired business: Molding business (Manufacturing, sales, modification and repair, after-sales service of semiconductor manufacturing equipment and precision mold)

(ii) Purpose of the acquisition
SEMES Co., Ltd. is the largest semiconductor manufacturing equipment manufacturer in Korea, which was established by the absorption of SECRON Co., Ltd. (for which the joint was cancelled and the transfer of shares were agreed in 2011 as the result of the consultation with Samsung Electronics Co., Ltd. (SAMSUNG hereafter)) the company established in the past as a joint venture with SAMSUNG in the molding business.
The company presumes that it will expectedly create a new business opportunities and bring synergy effect for it, a leading company in this industry, to acquire the molding business again.

(iii) Date of completion business combination
October 27, 2015

(iv) Legal form of business combination
Business transfer by cash

(v) Name of the company after business combination
TOWA KOREA CO., LTD

(vi) Main reason to decide the acquiring company
It is because TOWA KOREA CO., LTD, a wholly owned subsidiary of the Company, acquired the business enterprise with cash.

(2) Period for which the operating results of the acquired business are included in the Company's consolidated financial statements

October 27, 2015 to March 31, 2016

(3) The breakdown of acquisition cost for the acquired company

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Cash paid for the acquisition	288	2,556
Total acquisition costs	¥ 288	$ 2,556

(4) Major acquisition related cost

Lawyer's fees, etc.: ¥6million ($53 thousand)

(5) Goodwill

(i) Amount of goodwill
¥190million ($1,686 thousand)

(ii) Cause of goodwill
Anticipated future profitability in excess of net asset value

(iii) Method and period of amortization of goodwill
Straight line method over 5 years

(6) Assets acquired as of the acquisition date

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Non-current assets	98	870
Total assets	¥ 98	$ 870

(7) Effect on the consolidated statement of income assuming the acquisition was completed at the beginning of the fiscal year ended March 31, 2016 and the measurement method

Not presented due to the difficulty of a reasonable calculation.

15. Segment Information

(1) Segment by products

Year ended March 31, 2015	*Millions of Yen*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 19,940	¥1,210	¥ -	¥ 21,150
Inter-segment sales	-	-	-	-
	19,940	1,210	-	21,150
Cost of sales and Operating expenses	18,075	1,096	-	19,171
Operating income (loss)	¥ 1,865	¥ 114	¥ -	¥ 1,979
Ⅱ.Assets				
Total assets	¥ 30,070	¥ 1,665	¥ -	¥ 31,735
Depreciation and amortization	¥ 1,127	¥ 72	¥ -	¥ 1,199
Amortization of goodwill	¥ 63	¥ -	¥ -	¥ 63
Investments in associates accounted for using equity method	¥ 223	¥ -	¥ -	¥ 223
Capital expenditure	¥ 910	¥ 386	¥ -	¥ 1,296

Year ended March 31, 2016	*Millions of Yen*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 20,961	¥1,226	¥ -	¥ 22,187
Inter-segment sales	-	-	-	-
	20,961	1,226	-	22,187
Cost of sales and Operating expenses	19,127	1,119	-	20,246
Operating income	¥ 1,834	¥ 107	¥ -	¥ 1,941
Ⅱ.Assets				
Total assets	¥ 30,706	¥ 1,621	¥ -	¥ 32,327
Depreciation and amortization	¥ 1,205	¥ 106	¥ -	¥ 1,311
Amortization of goodwill	¥ 42	¥ -	¥ -	¥ 42
Investments in associates accounted for using equity method	¥ 260	¥ -	¥ -	¥ 260
Capital expenditure	¥ 1,961	¥ 35	¥ -	¥ 1,996

Year ended March 31, 2016	*Thousands of U.S. dollars (Note 1)*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	$ 186,023	$ 10,880	$ -	$ 196,903
Inter-segment sales	-	-	-	-
	186,023	10,880	-	196,903
Cost of sales and Operating expenses	169,746	9,931	-	179,677
Operating income	$ 16,277	$ 949	$ -	$ 17,226
Ⅱ.Assets				
Total assets	$ 272,506	$ 14,386	$ -	$ 286,892
Depreciation and amortization	$ 10,694	$ 941	$ -	$11,635
Amortization of goodwill	$ 373	$ -	$ -	$ 373
Investments in associates accounted for using equity method	$ 2,307	$ -	$ -	$ 2,307
Capital expenditure	$ 17,403	$ 311	$ -	$ 17,714

(2) Sales by region

Year ended March 31	*Millions of Yen* 2015	*Millions of Yen* 2016	*Thousands of U.S. dollars (Note 1)* 2016
Japan	¥ 3,701	¥ 3,310	$ 29,376
Overseas			
Asia	16,454	18,056	160,241
America	905	590	5,236
Other	90	231	2,050
Overseas total	17,449	18,877	167,527
Consolidated sales	¥ 21,150	¥ 22,187	$ 196,903

Corporate Information

as of June 29, 2016

Corporate Data

Corporate Name:	TOWA CORPORATION
Headquarters/Factory:	5 Kamichoshi-cho, Kamitoba, Minami-ku, Kyoto 601-8105, Japan
Eatablished:	April 17, 1979
Operations:	Develop, design, manufacture, and sell precision molds, manufacturing systems for electronic components, inspection systems for electronic components, precision-molded and assembly products, medical-use equipment, and electronic-communications equipment. Other related business.
Paid-in Capital:	¥8,932,627,777
Common Stock	
Authorized:	80,000,000
Issued Number of Shares:	25,021,832
Unit for Trading:	100
Stock Listings:	First Section of the Tokyo Stock Exchange
Transfer Agents:	Mizuho Trust & Banking Co., Ltd
Fiscal Year:	From April 1 to March 31
Number of Employees:	453
URL:	http://www.towajapan.co.jp
Subsidiaries and Affiliated Companies:	BANDICK Corporation TOWATEC Co., Ltd. TOWAM Sdn. Bhd. TOWA Asia-Pacific Pte. Ltd. TOWA Semiconductor Equipment Philippines Corp. TOWA USA Corporation TOWA Europe B.V. TOWA (Shanghai) Co., Ltd. TOWA (Suzhou) Co., Ltd. TOWA TAIWAN Co., Ltd. TOWA KOREA Co., Ltd.. TONGJIN Corporation TOWA-Jipal Technologies Co., Ltd. Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd.

Board of Directors

President & CEO
Hirokazu Okada

Executive Director
Hisaji Konishi

Director
Hiroshi Uragami
Yoshizumi Tamura

Director
Full-time Audit and Supervisory Committee Member
Hisayoshi Kobayashi

External Director
Audit and Supervisory Committee Member
Hajime Kuwaki
Daisuke Wake

TOWA CORPORATION
5 Kamichoshi-cho, Kamitoba, Minami-ku,
Kyoto 601-8105, Japan
TEL (075) 692-0250 FAX (075) 692-0270