# TOYO KANETSU K.K.

## Annual Report 2016

For the year ended March 31, 2016


# CONTENTS

Toyo Kanetsu K.K. and Consolidated Subsidiaries

# Consolidated Financial Highlights

For the years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 | **2016** |
| For the Years Ended March 31: | | | | | | |
| Net Sales | **¥46,572** | ¥52,457 | ¥48,395 | ¥45,504 | ¥40,733 | **$413,532** |
| Plant & Machinery Business | **22,788** | 29,425 | 26,903 | 24,027 | 23,625 | **202,344** |
| Material Handling Systems Business | **17,206** | 15,689 | 15,158 | 14,966 | 11,624 | **152,779** |
| Other | **6,577** | 7,341 | 6,333 | 6,511 | 5,484 | **58,399** |
| Operating Income | **3,024** | 3,588 | 4,341 | 2,272 | 1,474 | **26,851** |
| Profit Attributable to Owners of Parent | **1,906** | 3,019 | 2,879 | 1,527 | 714 | **16,924** |
| Comprehensive Income | **1,302** | 4,390 | 3,223 | 1,971 | 1,083 | **11,561** |
| Cash Dividends | **514** | 460 | 594 | 477 | 482 | **4,564** |
| At March 31: | | | | | | |
| Current Assets | **¥29,995** | ¥33,463 | ¥33,841 | ¥37,149 | ¥32,750 | **$266,338** |
| Property, Plant and Equipment | **13,661** | 13,577 | 12,912 | 13,655 | 12,579 | **121,301** |
| Investments and Other Assets | **7,340** | 8,504 | 7,368 | 6,810 | 5,920 | **65,174** |
| Intangible Assets | **370** | 382 | 393 | 465 | 244 | **3,285** |
| Total Assets | **51,368** | 55,928 | 54,515 | 58,079 | 51,493 | **456,117** |
| Current Liabilities | **12,866** | 15,570 | 16,724 | 23,169 | 18,593 | **114,242** |
| Total Non-Current Liabilities | **4,125** | 3,777 | 4,000 | 4,048 | 3,275 | **36,627** |
| Shareholders' Equity | **32,136** | 33,525 | 32,105 | 29,530 | 28,724 | **285,348** |
| Accumulated Other Comprehensive Income | **2,239** | 2,814 | 1,471 | 1,174 | 794 | **19,881** |
| Non-Controlling Interests | **–** | 240 | 212 | 158 | 107 | **–** |
| Total Liabilities and Net Assets | **51,368** | 55,928 | 54,515 | 58,079 | 51,493 | **456,117** |
| Order Backlog | **24,126** | 32,256 | 49,065 | 46,459 | 50,940 | **214,225** |

| | Yen | | | | | U.S. dollars |
|---|---|---|---|---|---|---|
| Per Share: | **2016** | 2015 | 2014 | 2013 | 2012 | **2016** |
| Profit Attributable to Owners of Parent | **¥17.45** | ¥26.08 | ¥24.18 | ¥12.53 | ¥5.93 | **$0.15** |
| Cash Dividends | **5.00** | 4.00 | 5.00 | 4.00 | 4.00 | **0.04** |
| Shareholders' Equity | **333.91** | 315.91 | 282.18 | 257.71 | 244.77 | **2.96** |

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Number of Shareholders | **12,839** | 15,229 | 16,738 | 17,277 | 17,189 |
| Number of Employees | **884** | 753 | 742 | 787 | 694 |

The U.S. dollar amounts in this annual report represent translations of Japanese yen at the rate of ¥112.62=$1.00, solely for readers' convenience.

# To Our Shareholders

The Toyo Kanetsu K.K.(TKK) Group has built up a considerable base of technology since it was established in 1941. By using this technology to provide industries with optimum products, systems, and services, we have not only gained the satisfaction and trust of our customers but also contributed to society and environmental protection.

Beginning in 1950, the Plant & Machinery Business employed high-grade welding technology to manufacture all-welded tanks. This technology enabled us to produce structurally superior tanks more safely and economically than before, and in larger sizes. Now the TKK Group has delivered more than 5,700 oil storage tanks and low-temperature LNG storage tanks all over the world, where they form an integral part of the global energy infrastructure.

Since 1955, the Material Handling Systems Business has followed a “customer first” policy in delivering its specialty sorting and picking systems and automated case storage systems to distribution centers, airports, and other facilities. We have long been a leader in constructing systems that respond flexibly to increasingly diversified and sophisticated needs.

The year of 2016 marks TKK’s 75th anniversary as a company. To continue contributing to social infrastructure with our advanced energy and distribution technology, all members of the TKK Group will work as one to fulfill the needs of our times in the spirit of “Challenge & Change.” We will renew the Group from within as we encounter new challenges on the way to a century of business.

In closing, I would like to thank you in advance for your understanding and continued support of our efforts.

June 2016

Toru Yanagawa
President and Representative Director

# Medium-Term Business Plan

The TKK Group has devised a medium-term business plan covering the fiscal years 2017–2019. Under the slogan "Challenge & Change," the Group will not be bound by conventional business domains and processes as it embarks on the following four management policies.

(1) Expansion of business domains
(2) Switch to a more profitable and competitive structure
(3) Launch of new businesses that build on the strengths of existing businesses
(4) Construction of a corporate governance system that enables appropriate risk-taking

Strategies to be adopted and issues to be addressed by our major businesses are as follows.

## Business Strategy

### ● Plant & Machinery Business

Low oil prices have led to the postponement or cancellation of some plant projects, while economic slowdowns in emerging countries, along with progress in energy-saving technologies, have lowered energy demand. Owing to these developments, we believe that the number of new projects will be limited in the short to medium term. Over the longer term, however, oil and gas demand should grow in accordance with rising populations and economic growth in emerging countries, leading to an increase in projects to construct or expand facilities. Using the following business policies will reinforce our ability to win orders and expand our business domains.

(1) Gaining projects in Southeast Asia and the Middle East
(2) Alliance strategy with facilities developers
(3) Entry into the small tank market
(4) Improvement of business productivity
(5) Shortening and standardization of project operations
(6) Expansion of the maintenance business

### ● Material Handling Systems Business

Demand for material handling systems is expected to keep growing based on expansion of the online shopping market due to the spread of smartphones, higher demand for airport facilities as inbound tourism to Japan increases, and expansion of the material handling market driven by the growth of emerging Asian economies. Within this demand, expectations are running high for more efficient systems that will reduce delivery time as well as systems that will reduce labor and energy inputs to counteract the effects of the decline in Japan's working-age population.

Under these business conditions, we will employ the following business strategies to construct a more profitable earning structure while providing products and services that answer the high-level needs of our customers.

(1) Expansion of sales where our systems have an advantage
(2) A stronger advance into the refrigeration and freezing field
(3) Expansion of business domains through alliances
(4) Reinforcement of the value chain from sales through maintenance
(5) Reinforcement of the maintenance business
(6) Development of future strategic products

On April 1, 2015, Toyo Kanetsu Solutions K.K., the core company in our Material Handling Systems Business, merged with its subsidiary and our sub-subsidiary, K-Techno Inc., which was in charge of maintenance work on material handling systems. The merger will enable the TKK Group to carry out higher-value-added work more efficiently and thus to steadily implement the business strategies described above.

### ●Development of New Products and Services, Launch of New Businesses That Build on Existing Strengths

In the Plant & Machinery Business, we are developing large liquefied hydrogen tanks to fill the needs of a low-carbon society. Hydrogen energy emits no $CO_2$ and is expected to play a major role in reducing mankind's environmental impact, and we anticipate the need for storage facilities.

In the Material Handling Systems Business, we are rising to the challenges presented by changing retail formats, progress in the Internet of Things (IoT), and the decline of Japan's working-age population. Our response is to construct next-generation systems that employ the IoT and robots.

Given our affinity with the energy industry and the numerous sales channels we have built up over the years, we are considering entry into the electric power business.

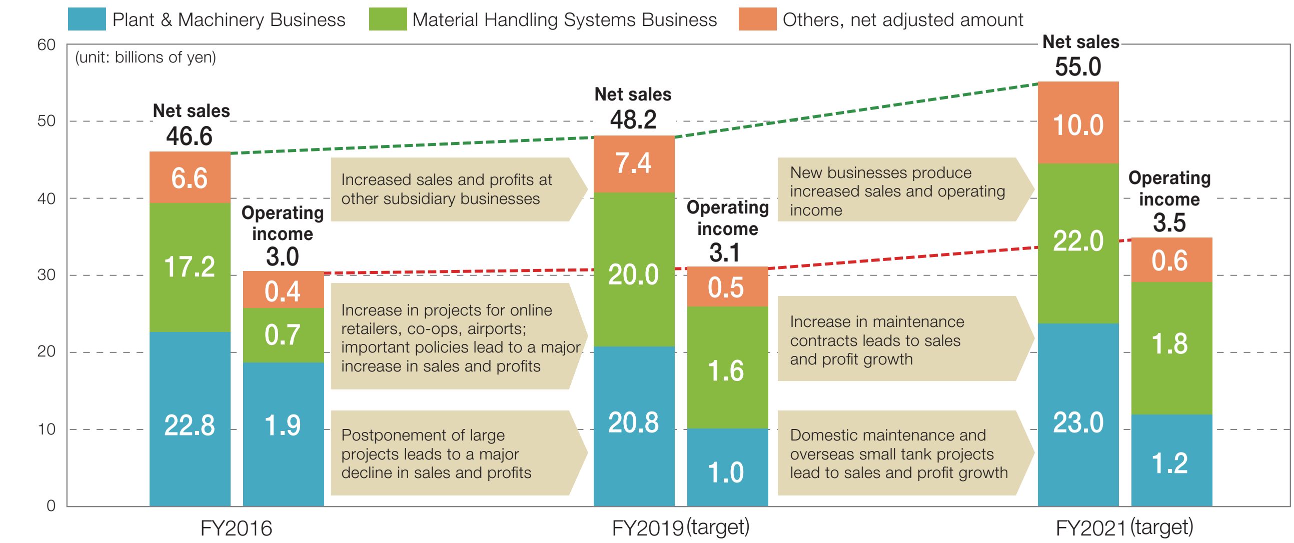
### Important Companywide Policies

To foster a corporate atmosphere of "Challenge & Change" and help us aim for sustained growth and development, we will implement the following policies in preparation for constructing a corporate governance system that enables appropriate risk-taking.

(1) Put governance guidelines into practice and make Board of Directors' meetings more functional
(2) Release information in a timely manner and raise TKK's image and name recognition
(3) Hold earnings explanation meetings and step up dialog with shareholders
(4) Reinforce Environmental, Social, Governance (ESG) initiatives
(5) Consider the Group's optimum organization based on medium- to long-term management issues and the business environment
(6) Optimize fund procurement aimed at both capital efficiency and management stability
(7) Foster a corporate atmosphere of "Challenge & Change"
(8) Train and strengthen the next generation of management
(9) Encourage women's activity and contributions in the workplace

Details of our consolidated earnings targets for fiscal 2019, the last year of the current medium-term business plan, and beyond that in fiscal 2021, are as follows.

### ■Consolidated Net Sales and Operating Income Targets by Segment




| | FY2016 | FY2019 (target) | FY2021 (target) |
|---|---|---|---|
| ROE | 5.4% | 6.5% | 6.7% |
| Dividend payout ratio | 28.6% | 20.0%–30.0% | — |
| Total return ratio | 131.9% | 50.0%–75.0% | — |
| Overseas sales ratio | 22.3% | 15.0% | 25.0% |
| New business sales ratio | — | — | 4.7% |

# Board of Directors, Audit & Supervisory Committee Members and Corporate Officers

## Directors

| | |
|---|---|
| President and Representative Director | Toru Yanagawa |
| Directors and Senior Corporate Officers | Isao Shimomae<br>Masayuki Takeda<br>Keisuke Kodama |
| Directors and Audit & Supervisory Committee Members | Kazuto Abe<br>Toshiaki Hiwatari<br>Tsuneo Nagai<br>Shigeharu Nakamura |

## Corporate Officers

| | |
|---|---|
| Senior Corporate Officers | Tetsuya Watanabe<br>Shiro Ito<br>Yukio Kurosaka |
| Corporate Officers | Yasuhiro Yamada<br>Hiroshi Ohgi<br>Hiromi Tanaka<br>Takeshi Yonehara |

# Lines of Business

Toyo Kanetsu K.K. (President: Toru Yanagawa) was established as Toyo Kanetsu Kogyo K.K. in May 1941 and soon began producing and selling industrial furnaces. Currently, the Plant & Machinery Business and Material Handling Systems Business are the two pillars of our operations.

### Plant & Machinery Business

Net sales
**¥22,788** million

Operating income
**¥1,921** million

Design, production, and installation of storage tanks for LNG, LPG, crude oil, and other gases and liquids, as well as all types of tank maintenance.

### Material Handling Systems Business

Net sales
**¥17,206** million

Operating income
**¥667** million

Development, design, and installation of distribution systems, especially those for sorting, picking, and conveyance, as well as all types of maintenance work on these systems.

### Other Business

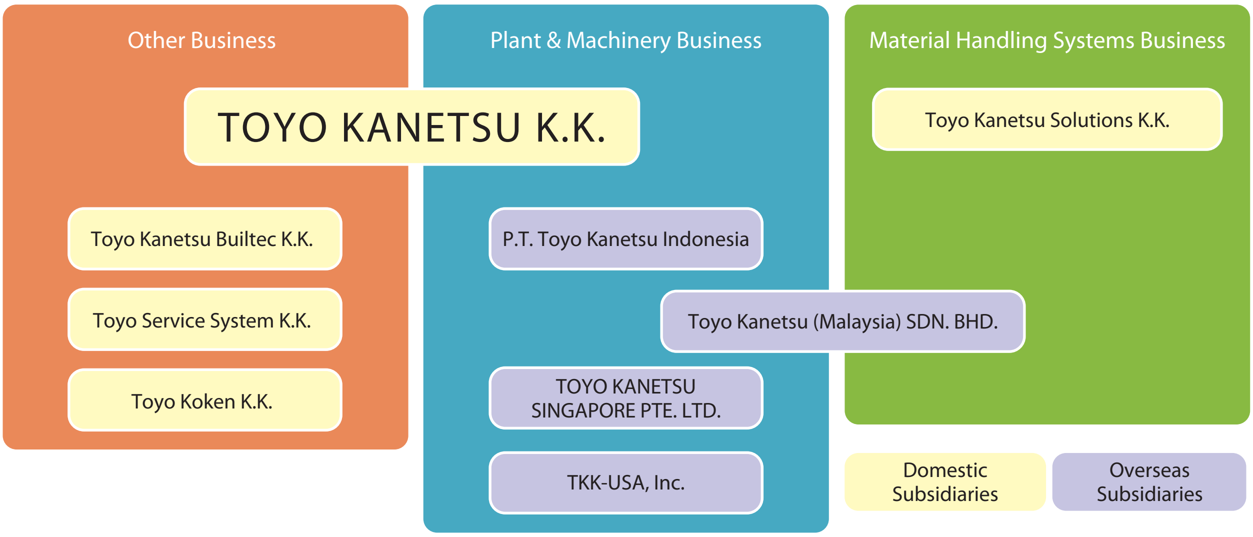
Net sales
**¥6,577** million *

Operating income
**¥855** million

Construction on contract of social service facilities, rental housing, and others; manufacture and sale of industrial equipment such as balancers and winches; and real estate rental and property management.

*Before the elimination of inter-segment transactions.

# TKK Group Companies




## Subsidiaries

### Domestic

#### Toyo Kanetsu Solutions K.K.

| | |
|---|---|
| Establishment | October 1, 2002 |
| Capital | ¥400 million |
| Business | Planning, design, manufacturing, construction, maintenance and sales of material handling systems |

#### Toyo Kanetsu Builtec K.K.

| | |
|---|---|
| Establishment | April 1, 2014 |
| Capital | ¥50 million |
| Business | Building construction business and provisional equipment operations |

#### Toyo Service System K.K.

| | |
|---|---|
| Establishment | September 19, 1986 |
| Capital | ¥60 million |
| Business | Building management, real estate, leasing operations and OA-related operations |

#### Toyo Koken K.K.

| | |
|---|---|
| Establishment | February 11, 1957 |
| Capital | ¥90 million |
| Business | Design, manufacturing and construction of winches and hoists, lift ladders, conveyors, balancers, industrial robots and other machinery |

### Overseas

#### P.T. Toyo Kanetsu Indonesia

| | |
|---|---|
| Establishment | September 9, 1974 |
| Capital | US$2 million |
| Business | Manufacturing and sales of tanks and steel framing |

#### Toyo Kanetsu (Malaysia) SDN. BHD.

| | |
|---|---|
| Establishment | April 13, 1992 |
| Capital | RM2 million |
| Business | Manufacturing and sales of storage tanks; manufacturing and sales of material handling system equipment and devices |

#### TOYO KANETSU SINGAPORE PTE. LTD.

| | |
|---|---|
| Establishment | August 8, 2006 |
| Capital | S$500,000 |
| Business | Manufacturing and sales of storage tanks, pressure vessels, and onshore and offshore steel structures |

#### TKK-USA, Inc.

| | |
|---|---|
| Establishment | June 7, 2003 |
| Capital | US$10,000 |
| Business | Manufacturing and sales of storage tanks, pressure vessels, and onshore and offshore steel structures |

# Analysis of Operating Environment and Results

In fiscal 2016 (ended March 31, 2016), improvements in corporate earnings and the employment environment supported a modest economic recovery in Japan, but the decline of resource prices and geopolitical instability contributed to a sense of stagnation in calendar 2016. While the U.S. and European economies generally stayed on a recovery path, China and many resource-dependent economies experienced a deepening slowdown.

Our Plant & Machinery Business should benefit over the long term from economic growth in emerging economies, especially in Southeast Asia, and from rising energy demand driven by population growth. In the short term, however, depressed oil prices and a looser LNG supply-demand relationship have led to postponement of some planned investments in oil- and gas- related facilities. Consequently, opportunities to construct or expand large tanks have dwindled.

The market for our Material Handling Systems Business is likely to grow due to the falling birthrate and an aging population, and lifestyle changes. As Internet access and ease of use improve, growth in online shopping will expand the market for our products. In addition, increasing inbound tourism to Japan is accompanied by rising demand for airline services, which leads to orders for new construction and renovation of airport facilities. Demand for the products of this business continues to expand.

In this business environment, the Material Handling Systems Business recorded positive sales growth in fiscal 2016, but not enough to offset the decline in the Plant & Machinery Business. Overall, the TKK Group's consolidated net sales totaled ¥46,572 million (down 11.2% year on year), operating income was ¥3,024 million (down 15.7%), and ordinary income was ¥3,227 million (down 17.1%). Profit attributable to owners of the parent company was ¥1,906 million, a decline of 36.8%, due in part to a large insurance payment received in the previous fiscal year for snow damage. Orders received in fiscal 2016 rose by 8.1% to ¥33,741 million.

Segment results are as follows.

**● Plant & Machinery Business**

In the maintenance market, we secured a steady stream of contracts, notably for modification works to floating-roof storage tanks made necessary by a partial revision of the Fire Service Act. In the new installation field, however, oil prices showed no sign of rising, and demand for oil- and gas-related facilities consequently failed to rise. We poured our energy into cost-reduction efforts and development of new construction methods while maintaining an emphasis on profitability in our marketing activity. As a result, large orders for new installations declined from the previous fiscal year.

Against this background, consolidated net sales in this business decreased by 22.6% year on year to ¥22,788 million. Operating income dropped by 31.1% to ¥1,921 million (before adjustment), while orders received declined by 6.6% to ¥12,387 million.

**● Material Handling Systems Business**

The material handling systems market remained intensely competitive. Our sales consisted mainly of Multishuttle automated case storage systems for online retailers and the logistics industry, and airport baggage handling systems. We made great strides toward improving profitability through the merger of a maintenance subsidiary and implementation of policies to raise procedural efficiency. These efforts coincided with our receipt of some large orders with high profit margins.

As a result, consolidated net sales in this business increased by 9.7% year on year to ¥17,206 million, while operating income rose by 66.0% to ¥667 million (before adjustment) and orders received grew by 18.9% to ¥19,604 million.

**● Other Businesses**

In businesses other than those above, we concentrated on improving results in a way suited to the characteristics of each business. Consolidated net sales declined by 10.4% year on year to ¥6,577 million, operating income rose by 6.9% to ¥855 million (before adjustment), and orders received increased by 20.3% to ¥1,748 million.

# Business Risks

The following risks may affect the business results, stock price and financial position of the TKK Group.

**Effect of the Global Economy and Energy Market Trends**

The Plant & Machinery Business, the TKK Group's mainstay business, is subject not only to global economic trends but also to economic and social conditions in oil- and gas-producing and consuming countries, energy and environmental policies in each country, and the prices of crude oil and LNG. Owing to these factors, some customers have halted, postponed, or reviewed their investment plans in ways that could adversely affect Plant & Machinery Business orders and the TKK Group's earnings and financial standing.

**Potential Risks Associated with International Activities and Overseas Advance**

The TKK Group conducts some operations in overseas markets, primarily those of the Plant & Machinery Business. Further, its subsidiary manufactures tank materials in Indonesia. These overseas operations carry inherent risks as stated below, and the TKK Group's business results and financial position may be adversely affected by such risks.

(1) Unexpected changes in laws and regulations
(2) Political and economic instability
(3) Difficulties in securing human resources
(4) Tax system revisions that could be unfavorable to the TKK Group
(5) Social confusion arising from acts of terror, war or any other factors

## Exchange Rate Fluctuations

The TKK Group's business activities include manufacturing products, selling materials and implementing construction operations overseas. Foreign-currency-denominated accounting items such as sales, expenses and assets are translated into Japanese yen for the purpose of preparing consolidated financial statements. The exchange rates used in currency conversion may affect the yen-denominated value. As most of our payments and receipts are denominated in U.S. dollars or euros, a stronger yen will adversely affect the TKK Group's business, while a weaker yen will favorably affect the TKK Group's business.

The TKK Group makes an effort to minimize the adverse effects of such exchange rate fluctuations by flexibly entering into forward exchange contracts or option contracts, and by implementing structural solutions such as using overseas manufacturing bases and internationally procuring raw materials. However, an unexpected change in exchange rates may adversely affect the TKK Group's business results and financial position.

## Project Execution

The business results of the TKK Group may be affected by situations where, for customer reasons, projects are suspended or postponed or the project content is otherwise altered.

Further, as our projects take the form of inclusive contracts, deterioration in project profitability may impact on business results in the event of a sudden change in the economic situation leading to unforeseen rises in equipment and material prices, transportation costs, construction costs or other expenses, or in the event of a natural disaster, outbreak of disease, serious accident or other eventualities.

## Intense Competition for Winning Orders

All of the major businesses of the TKK Group are being operated under the make-to-order type system, and the TKK Group is facing severe competition to win orders. Depending on the circumstances, we recognize the possibility that a competitor may disregard profitability and enter into price competition with the TKK Group. Although the TKK Group strives to reduce all kinds of costs and reinforce its price competitiveness, such unreasonable downward pressure on the TKK Group's earnings may adversely affect the TKK Group's business results and financial position.

## Disasters

The TKK Group takes necessary measures such as a daily check, drill and establishment of a contact system to continue it's business activities to prepare for fire, earthquakes or other large-scale natural disasters. In addition, major personal and property damages are adequately covered by insurance against such disasters. However, the TKK Group's business results and financial position may be adversely affected if projections are exceeded by the scale of the direct or indirect material damage or human injury, or by the burden of restoration costs or other expenses.

# Financial Section

For the years ended March 31, 2015 and 2016

The following "Consolidated financial statements, etc." is an English translation of the consolidated financial statements, etc. of Toyo Kanetsu Kabushiki Kaisha ("the Company"). The Company provides this translation for your reference and convenience only and without any warranty as to its accuracy or otherwise.

## Consolidated financial statements, etc.

### (1) Consolidated financial statements

#### (i) Consolidated balance sheet

| | | Previous fiscal period (As of March 31, 2015) | | Current fiscal period (As of March 31, 2016) | |
|---|---|---|---|---|---|
| | | (Millions of yen) | | (Millions of yen) | (Thousands of U.S. dollars) |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and deposits | *1 | 10,907 | *1 | 13,608 | 120,831 |
| Notes and accounts receivable - trade | | 10,256 | | 9,474 | 84,123 |
| Lease investment assets | | 1,444 | | 1,527 | 13,558 |
| Securities | | 3,700 | | 500 | 4,439 |
| Merchandise and finished goods | | 65 | | 55 | 488 |
| Work in process | *3 | 3,853 | | 2,644 | 23,477 |
| Raw materials and supplies | | 1,091 | | 1,310 | 11,632 |
| Accounts receivable - other | | 1,137 | | 101 | 896 |
| Deferred tax assets | | 455 | | 380 | 3,374 |
| Other | | 605 | | 414 | 3,676 |
| Allowance for doubtful accounts | | (54) | | (22) | (195) |
| Total current assets | | 33,463 | | 29,995 | 266,338 |
| Non-current assets | | | | | |
| Property, plant and equipment | | | | | |
| Buildings and structures, net | *4 | 2,190 | *4 | 2,325 | 20,644 |
| Machinery, equipment and vehicles, net | *4 | 1,603 | *4 | 1,208 | 10,726 |
| Tools, furniture and fixtures, net | *4 | 192 | *4 | 202 | 1,793 |
| Land | *4, *5 | 9,498 | *4, *5 | 9,427 | 83,706 |
| Construction in progress | | 91 | | 498 | 4,421 |
| Other, net | | 1 | | 0 | 0 |
| Total property, plant and equipment | *2 | 13,577 | *2 | 13,661 | 121,301 |
| Intangible assets | | 382 | | 370 | 3,285 |
| Investments and other assets | | | | | |
| Investment securities | | 7,379 | | 6,240 | 55,407 |
| Deferred tax assets | | 81 | | 41 | 364 |
| Net defined benefit asset | | 524 | | 390 | 3,462 |
| Other | | 865 | | 923 | 8,195 |
| Allowance for doubtful accounts | | (345) | | (256) | (2,273) |
| Total investments and other assets | | 8,504 | | 7,340 | 65,174 |
| Total non-current assets | | 22,464 | | 21,372 | 189,770 |
| Total assets | | 55,928 | | 51,368 | 456,117 |

| | | Previous fiscal period (As of March 31, 2015) | | Current fiscal period (As of March 31, 2016) | |
|---|---|---|---|---|---|
| | | (Millions of yen) | | (Millions of yen) | (Thousands of U.S. dollars) |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Notes and accounts payable - trade | | 2,646 | | 3,231 | 28,689 |
| Short-term loans payable | *4 | 2,518 | *4 | 2,357 | 20,928 |
| Current portion of long-term loans payable | *4 | 728 | *4 | 60 | 532 |
| Accrued expenses | | 3,304 | | 3,434 | 30,491 |
| Income taxes payable | | 1,215 | | 669 | 5,940 |
| Deferred tax liabilities | | 22 | | 10 | 88 |
| Advances received | | 3,635 | | 1,478 | 13,123 |
| Provision for bonuses | | 285 | | 275 | 2,441 |
| Provision for loss on order received | | 362 | | 521 | 4,626 |
| Provision for warranties for completed construction | | 255 | | 181 | 1,607 |
| Other | | 595 | | 646 | 5,736 |
| Total current liabilities | | 15,570 | | 12,866 | 114,242 |
| Non-current liabilities | | | | | |
| Long-term loans payable | *4 | 615 | *4 | 1,155 | 10,255 |
| Deferred tax liabilities | | 888 | | 607 | 5,389 |
| Deferred tax liabilities for land revaluation | *5 | 1,611 | *5 | 1,529 | 13,576 |
| Net defined benefit liability | | 350 | | 462 | 4,102 |
| Asset retirement obligations | | 224 | | 332 | 2,947 |
| Other | | 87 | | 39 | 346 |
| Total non-current liabilities | | 3,777 | | 4,125 | 36,627 |
| Total liabilities | | 19,348 | | 16,991 | 150,870 |
| Net assets | | | | | |
| Shareholders' equity | | | | | |
| Capital stock | | 18,580 | | 18,580 | 164,979 |
| Capital surplus | | 1,104 | | 1,273 | 11,303 |
| Retained earnings | | 18,797 | | 15,170 | 134,700 |
| Treasury shares | | (4,957) | | (2,887) | (25,634) |
| Total shareholders' equity | | 33,525 | | 32,136 | 285,348 |
| Accumulated other comprehensive income | | | | | |
| Valuation difference on available-for-sale securities | | 2,035 | | 1,788 | 15,876 |
| Revaluation reserve for land | *5 | 995 | *5 | 1,077 | 9,563 |
| Foreign currency translation adjustment | | (549) | | (639) | (5,673) |
| Remeasurements of defined benefit plans | | 334 | | 12 | 106 |
| Total accumulated other comprehensive income | | 2,814 | | 2,239 | 19,881 |
| Non-controlling interests | | 240 | | – | – |
| Total net assets | | 36,580 | | 34,376 | 305,238 |
| Total liabilities and net assets | | 55,928 | | 51,368 | 456,117 |

## (ii) Consolidated statement of income and comprehensive income

| | | Previous fiscal year (From April 1, 2014 to March 31, 2015) | | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|---|---|
| | | (Millions of yen) | | (Millions of yen) | (Thousands of U.S. dollars) |
| Net sales | | 52,457 | | 46,572 | 413,532 |
| Cost of sales | *1, *3 | 44,562 | *1, *3 | 39,361 | 349,502 |
| Gross profit | | 7,895 | | 7,211 | 64,029 |
| Selling, general and administrative expenses | *2, *3 | 4,306 | *2, *3 | 4,186 | 37,169 |
| Operating income | | 3,588 | | 3,024 | 26,851 |
| Non-operating income | | | | | |
| Interest income | | 50 | | 44 | 390 |
| Dividend income | | 195 | | 206 | 1,829 |
| Gain on sales of scraps | | 50 | | 59 | 523 |
| Reversal of allowance for doubtful accounts | | 1 | | 91 | 808 |
| Miscellaneous income | | 71 | | 88 | 781 |
| Total non-operating income | | 369 | | 489 | 4,342 |
| Non-operating expenses | | | | | |
| Interest expenses | | 15 | | 14 | 124 |
| Foreign exchange losses | | 4 | | 228 | 2,024 |
| Miscellaneous loss | | 47 | | 43 | 381 |
| Total non-operating expenses | | 66 | | 287 | 2,548 |
| Ordinary income | | 3,891 | | 3,227 | 28,653 |
| Extraordinary income | | | | | |
| Gain on sales of non-current assets | | 9 | | 14 | 124 |
| Insurance income | | 556 | | 8 | 71 |
| Other | | 8 | | 5 | 44 |
| Total extraordinary income | | 574 | | 29 | 257 |
| Extraordinary losses | | | | | |
| Loss on sales of non-current assets | | – | | 27 | 239 |
| Impairment loss | | – | *4 | 19 | 168 |
| Merger expenses | | – | | 25 | 221 |
| Head office relocation expenses | | – | | 11 | 97 |
| Other | | 6 | | 11 | 97 |
| Total extraordinary losses | | 6 | | 95 | 843 |
| Profit before income taxes | | 4,459 | | 3,161 | 28,067 |
| Income taxes - current | | 1,667 | | 1,011 | 8,977 |
| Income taxes - deferred | | (236) | | 253 | 2,246 |
| Total income taxes | | 1,430 | | 1,264 | 11,223 |
| Profit | | 3,028 | | 1,897 | 16,844 |
| Profit attributable to | | | | | |
| Profit attributable to owners of parent | | 3,019 | | 1,906 | 16,924 |
| Profit (loss) attributable to non-controlling interests | | 9 | | (9) | (79) |
| Other comprehensive income | | | | | |
| Valuation difference on available-for-sale securities | | 1,001 | | (246) | (2,184) |
| Revaluation reserve for land | | 164 | | 82 | 728 |
| Foreign currency translation adjustment | | 86 | | (109) | (967) |
| Remeasurements of defined benefit plans, net of tax | | 108 | | (321) | (2,850) |
| Total other comprehensive income | | 1,361 | | (594) | (5,274) |
| Comprehensive income | *5 | 4,390 | *5 | 1,302 | 11,561 |
| Comprehensive income attributable to | | | | | |
| Comprehensive income attributable to owners of parent | | 4,362 | | 1,331 | 11,818 |
| Comprehensive income attributable to non-controlling interests | | 27 | | (28) | (248) |

### (iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 18,580 | 1,104 | 16,373 | (3,951) | 32,105 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (594) | | (594) |
| Profit attributable to owners of parent | | | 3,019 | | 3,019 |
| Purchase of treasury shares | | | | (1,005) | (1,005) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | – | 2,424 | (1,005) | 1,419 |
| Balance at end of current period | 18,580 | 1,104 | 18,797 | (4,957) | 33,525 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of current period | 1,033 | 830 | (618) | 225 | 1,471 | 212 | 33,789 |
| Changes of items during period | | | | | | | |
| Dividends of surplus | | | | | | | (594) |
| Profit attributable to owners of parent | | | | | | | 3,019 |
| Purchase of treasury shares | | | | | | | (1,005) |
| Net changes of items other than shareholders' equity | 1,001 | 164 | 68 | 108 | 1,343 | 27 | 1,371 |
| Total changes of items during period | 1,001 | 164 | 68 | 108 | 1,343 | 27 | 2,790 |
| Balance at end of current period | 2,035 | 995 | (549) | 334 | 2,814 | 240 | 36,580 |

Current fiscal year (From April 1, 2015 to March 31, 2016)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 18,580 | 1,104 | 18,797 | (4,957) | 33,525 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (460) | | (460) |
| Profit attributable to owners of parent | | | 1,906 | | 1,906 |
| Purchase of treasury shares | | | | (3,004) | (3,004) |
| Retirement of treasury shares | | | (5,074) | 5,074 | – |
| Purchase of shares of consolidated subsidiaries | | 169 | | | 169 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | 169 | (3,627) | 2,069 | (1,388) |
| Balance at end of current period | 18,580 | 1,273 | 15,170 | (2,887) | 32,136 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of current period | 2,035 | 995 | (549) | 334 | 2,814 | 240 | 36,580 |
| Changes of items during period | | | | | | | |
| Dividends of surplus | | | | | | | (460) |
| Profit attributable to owners of parent | | | | | | | 1,906 |
| Purchase of treasury shares | | | | | | | (3,004) |
| Retirement of treasury shares | | | | | | | – |
| Purchase of shares of consolidated subsidiaries | | | | | | | 169 |
| Net changes of items other than shareholders' equity | (246) | 82 | (89) | (321) | (575) | (240) | (815) |
| Total changes of items during period | (246) | 82 | (89) | (321) | (575) | (240) | (2,204) |
| Balance at end of current period | 1,788 | 1,077 | (639) | 12 | 2,239 | – | 34,376 |

Current fiscal year (From April 1, 2015 to March 31, 2016)

(Thousands of U.S. dollars)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 164,979 | 9,802 | 166,906 | (44,015) | 297,682 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (4,084) | | (4,084) |
| Profit attributable to owners of parent | | | 16,924 | | 16,924 |
| Purchase of treasury shares | | | | (26,673) | (26,673) |
| Retirement of treasury shares | | | (45,054) | 45,054 | – |
| Purchase of shares of consolidated subsidiaries | | 1,500 | | | 1,500 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | 1,500 | (32,205) | 18,371 | (12,324) |
| Balance at end of current period | 164,979 | 11,303 | 134,700 | (25,634) | 285,348 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of current period | 18,069 | 8,835 | (4,874) | 2,965 | 24,986 | 2,131 | 324,809 |
| Changes of items during period | | | | | | | |
| Dividends of surplus | | | | | | | (4,084) |
| Profit attributable to owners of parent | | | | | | | 16,924 |
| Purchase of treasury shares | | | | | | | (26,673) |
| Retirement of treasury shares | | | | | | | – |
| Purchase of shares of consolidated subsidiaries | | | | | | | 1,500 |
| Net changes of items other than shareholders' equity | (2,184) | 728 | (790) | (2,850) | (5,105) | (2,131) | (7,236) |
| Total changes of items during period | (2,184) | 728 | (790) | (2,850) | (5,105) | (2,131) | (19,570) |
| Balance at end of current period | 15,876 | 9,563 | (5,673) | 106 | 19,881 | – | 305,238 |

### (iv) Consolidated statement of cash flows

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| | (Millions of yen) | (Millions of yen) | (Thousands of U.S. dollars) |
| Cash flows from operating activities | | | |
| Profit before income taxes | 4,459 | 3,161 | 28,067 |
| Depreciation | 806 | 765 | 6,792 |
| Amortization of long-term prepaid expenses | 3 | 2 | 17 |
| Impairment loss | – | 19 | 168 |
| Amortization of goodwill | 62 | 62 | 550 |
| Increase (decrease) in allowance for doubtful accounts | 29 | (121) | (1,074) |
| Increase (decrease) in net defined benefit liability | (19) | (78) | (692) |
| Decrease (increase) in net defined benefit asset | (76) | (148) | (1,314) |
| Increase (decrease) in provision for loss on order received | (50) | 186 | 1,651 |
| Increase (decrease) in provision for warranties for completed construction | (65) | (73) | (648) |
| Interest and dividend income | (246) | (250) | (2,219) |
| Interest expenses | 15 | 14 | 124 |
| Merger expenses | – | 25 | 221 |
| Head office relocation expenses | – | 11 | 97 |
| Foreign exchange losses (gains) | (301) | 286 | 2,539 |
| Loss (gain) on sales of investment securities | (8) | (5) | (44) |
| Loss (gain) on sales of non-current assets | (9) | 12 | 106 |
| Loss on retirement of non-current assets | 9 | 15 | 133 |
| Decrease (increase) in notes and accounts receivable - trade | (2,083) | 758 | 6,730 |
| Decrease (increase) in lease investment assets | (173) | (93) | (825) |
| Decrease (increase) in inventories | 1,621 | 997 | 8,852 |
| Decrease (increase) in advance payments | (121) | 38 | 337 |
| Decrease (increase) in accounts receivable - other | (933) | 987 | 8,763 |
| Increase (decrease) in notes and accounts payable - trade | 219 | 765 | 6,792 |
| Increase (decrease) in advances received | (2,200) | (2,137) | (18,975) |
| Other, net | (279) | 215 | 1,909 |
| Subtotal | 657 | 5,417 | 48,099 |
| Interest and dividend income received | 249 | 251 | 2,228 |
| Interest expenses paid | (14) | (14) | (124) |
| Payments for merger expenses | – | (25) | (221) |
| Payments for head office relocation expenses | – | (4) | (35) |
| Income taxes paid | (1,105) | (1,582) | (14,047) |
| Net cash provided by (used in) operating activities | (213) | 4,041 | 35,881 |
| Cash flows from investing activities | | | |
| Payments into time deposits | (87) | (0) | (0) |
| Proceeds from withdrawal of time deposits | 160 | 32 | 284 |
| Purchase of securities | (399) | – | – |
| Proceeds from sales and redemption of securities | 399 | 200 | 1,775 |
| Purchase of non-current assets | (1,379) | (1,175) | (10,433) |
| Proceeds from sales of non-current assets | 15 | 65 | 577 |
| Purchase of investment securities | (603) | (102) | (905) |
| Proceeds from sales and redemption of investment securities | 812 | 208 | 1,846 |
| Other, net | (37) | 4 | 35 |
| Net cash provided by (used in) investing activities | (1,120) | (766) | (6,801) |

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| | (Millions of yen) | (Millions of yen) | (Thousands of U.S. dollars) |
| Cash flows from financing activities | | | |
| Net increase (decrease) in short-term loans payable | (122) | (48) | (426) |
| Proceeds from long-term loans payable | 480 | 600 | 5,327 |
| Repayments of long-term loans payable | (535) | (728) | (6,464) |
| Purchase of treasury shares | (1,005) | (3,004) | (26,673) |
| Cash dividends paid | (592) | (459) | (4,075) |
| Net cash provided by (used in) financing activities | (1,774) | (3,640) | (32,321) |
| Effect of exchange rate change on cash and cash equivalents | 586 | (399) | (3,542) |
| Net increase (decrease) in cash and cash equivalents | (2,521) | (765) | (6,792) |
| Cash and cash equivalents at beginning of period | 16,893 | 14,372 | 127,614 |
| Cash and cash equivalents at end of period | *1 14,372 | *1 13,606 | 120,813 |

## *Notes*

**Basis of presenting the consolidated financial statements**

**1. Basis of presenting the consolidated financial statements**

The accompanying consolidated financial statements of the Company and its domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. The accounts of overseas-consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

**2. United States dollar amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥112.62 =U.S. $1.00, the approximate rate of exchange prevailing at March 31, 2016, has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

**Significant accounting policies for preparation of the consolidated financial statements**

**1. Disclosure of scope of consolidation**

Number of consolidated subsidiaries: 8 companies
Names of major consolidated subsidiaries are omitted since those names are described in “TKK Group Company.”
As of April 1, 2015, Toyo Kanetsu Solutions K.K., a consolidated subsidiary of the Company, absorbed K-Techno Inc., a sub-subsidiary of the Company, through an absorption-type merger.

**2. Disclosure about application of the equity method**

Not applicable

**3. Disclosure about fiscal years, etc. of consolidated subsidiaries**

Of the Company’s consolidated subsidiaries, P.T. Toyo Kanetsu Indonesia, TKK-USA, INC., TOYO KANETSU SINGAPORE PTE. LTD. and Toyo Kanetsu (Malaysia) SDN. BHD. have a closing date of December 31. In preparation of consolidated financial statements, their financial statements as of December 31 are used. However, for major transactions that occurred between that date and the consolidated balance sheet date, the necessary adjustments are made in the consolidated financial statements.

**4. Disclosure of accounting policies**

(1) Accounting policy for measuring significant assets

(i) Securities

a) Held-to-maturity bonds: Stated at amortized cost (straight-line method)

b) Available-for-sale securities

Available-for-sale securities with available fair market values are stated at fair value based on the market price or the like on the consolidated balance sheet date (valuation differences are directly charged or credited to net assets, and cost of securities sold is determined by the moving-average method).

Available-for-sale securities without available fair market value are valued at cost determined by the moving-average method.

(ii) Derivatives

Derivatives are valued at fair value.

(iii) Inventories

a) Finished goods: Primarily, at cost using the first-in first-out method
(The value on the balance sheet is written down to reflect a decline in profitability.)

b) Work in process: Primarily, at cost using the specific identification method
(The value on the balance sheet is written down to reflect a decline in profitability.)

c) Raw materials: Primarily, at cost using the weighted-average method
(The value on the balance sheet is written down to reflect a decline in profitability.)

(2) Accounting policy for depreciation of significant assets

(i) Property, plant and equipment

The Company and its domestic consolidated subsidiaries use the declining balance method, and overseas consolidated subsidiaries use the straight-line method in accordance with provisions of accounting standards in their respective countries.

However, the Company and its domestic consolidated subsidiaries use the straight-line method to depreciate buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998.

The estimated useful lives of major items are as follows:

| | |
|---|---|
| Buildings and structures | 3 to 57 years |
| Machinery and equipment | 2 to 13 years |

(ii) Intangible assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the estimated useful life as internally determined (5 years).

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To cover losses from bad debts for notes and accounts receivable - trade, loans receivable and others, an allowance for doubtful accounts is provided based on historical experience of bad debts for general receivables. For specific receivables such as highly doubtful receivables, the collectibility is individually considered and the estimated amount of uncollectible accounts is provided as the allowance.

(ii) Provision for bonuses

To pay bonuses to employees, out of the estimated amount to be paid in the following fiscal year, an amount attributable to the current fiscal year is recorded.

(iii) Provision for loss on order received

To make provision for losses on orders received, as for existing construction, for which an amount of loss can be reasonably estimated at the end of the current fiscal year, an expected amount of loss in future is recorded as the provision.

(iv) Provision for warranties for completed construction

To cover costs of warranty against defects and after-sales service for completed construction, an amount is recorded based on the historical loss rate as well as consideration of an amount for individual construction that is expected to incur in future at the end of the current fiscal year.

(4) Method for accounting for retirement benefits

(i) Method of attributing estimated retirement benefits to periods

For the purpose of attributing estimated retirement benefits over the period up to the end of the current fiscal year in the calculation of retirement benefit obligations, the benefit formula method is applied.

(ii) Method of amortizing actuarial gain or loss and past service cost

Past service costs are recorded as an expense in the year they are incurred.

With regard to actuarial gain or loss, the amount is amortized by the straight-line method over a certain term within the average remaining service period of the eligible employees (5 years) for each applicable fiscal year, and expensed from the year following the year in which the gain or loss is recognized.

(5) Accounting policies for significant revenues and expenses

(i) Recognition of revenues and costs of completed construction contracts

The percentage-of-completion method is applied to construction showing certainty of performance on the progress made up until the end of the current fiscal year (the cost-to-cost method is applied to estimate the extent of progress toward completion), and the completed-contract method is applied to other construction.

(ii) Standards for recognition of revenues and expenses related to finance lease transactions

Sales and costs are recognized at the time of receiving lease payments.

(6) Accounting policy for hedging

(i) Method of hedge accounting

In principle, the deferral accounting is applied. The assignment method is applied to forward foreign exchange contracts that meet requirements thereof, and the exceptional treatment is applied to interest rate swaps that meet requirements thereof.

(ii) Hedging instruments and hedged items

Hedging instrument: ........... Forward foreign exchange contracts, Interest rate swaps
Hedged item: ...................... Forecast transactions denominated in foreign currencies and borrowings

(iii) Hedging policy

In accordance with the "Rules on Handling of Derivative Transactions" established by the Company, the Company and its consolidated subsidiaries (collectively, the "Group") do not enter into any derivative transaction for speculative purposes but use derivative transactions only to hedge exchange rate fluctuation risk and interest rate fluctuation risk.

(iv) Method of assessing the hedging effectiveness

The Group confirms effectiveness by comparing and examining cash flows of hedging instruments and hedged items in advance. However, the Group omits assessment of effectiveness on interest rate swaps to which the exceptional treatment is applied.

(7) Accounting policy for goodwill

Goodwill is amortized evenly over the period of 5 years.

(8) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents include cash in hand, readily available deposits and short-term investments with maturities of three months or less from the purchase date whose value is not subject to significant fluctuation risk.

(9) Other significant information for preparation of the consolidated financial statements

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

**Notes - Changes in accounting policies**

Application of Accounting Standard for Business Combinations

The Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013. Hereinafter, the "Statement No. 21."), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013. Hereinafter, the "Statement No. 22."), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013. Hereinafter, the "Statement No. 7."), etc. effective from the current fiscal year. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the current fiscal year, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the fiscal year to which the date of business combination belongs. In addition, the presentation method for "net income" and other related items was changed, and the presentation of "minority interests" was changed to "non-controlling interests." To reflect these changes, the Company has reclassified its consolidated financial statements for the previous fiscal year.

Application of the Statement No. 21, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Statement No. 21, Paragraph 44-5 (4) of the Statement No. 22 and Paragraph 57-4 (4) of the Statement No. 7. The Company is applying the said standard, etc. prospectively from the beginning of the current fiscal year.
This change did not affect operating income, ordinary income, profit before income taxes and basic earnings per share. Capital surplus, however, increased by ¥169 million ($1,500 thousand) and net assets per share increased by ¥1.65 ($0.01).

**Notes - Unapplied accounting standards**

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview

The "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26) was formulated on the occasion of the transferal of authority on the Japanese Institute of Certified Public Accountants' practical guidelines on accounting related to tax effect accounting and practical guidelines for auditing (sections related to accounting treatment) to the Accounting Standards Board of Japan (ASBJ). By still following the methods of classifying entities into five categories and assessing the amount of deferred tax assets recorded according to those classifications, ASBJ Guidance No. 26 basically follows the aforementioned practical guidelines' framework for assessing recoverability of deferred tax assets principally provided by the Japanese Institute of Certified Public Accountants Auditing Committee Report No. 66, "Auditing Treatment for Judgment of Recoverability of Deferred Assets." It does however make some necessary revisions to category criteria and a part of treatment on the amount of deferred tax assets recorded, and it provides guidance for the application of the "Accounting Standards for Tax Effect Accounting" (Business Accounting Council) for the recoverability of deferred tax assets.

(2) Scheduled date of adoption

The Company and its domestic consolidated subsidiaries will adopt the accounting standards to the consolidated financial statements for the fiscal years beginning on or after April 1, 2016.

(3) Impact of the adoption of the accounting standards

The Company considers the effects of applying the accounting standard to be immaterial.

**Notes - Changes in presentation**

Consolidated balance sheet

"Lease obligations" under current liabilities, which was set down separately until the previous fiscal year, has been included in "other" under current liabilities from the current fiscal year since significance of the amount has decreased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.
As a result, ¥0 million ($0 thousand) included in "lease obligations" under current liabilities in the consolidated balance sheet as of the end of the previous fiscal year has been reclassified to "other."

"Lease obligations" under non-current liabilities, which was set down separately until the previous fiscal year, has been included in "other" under non-current liabilities from the current fiscal year since significance of the amount has decreased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.
As a result, ¥0 million ($0 thousand) included in "lease obligations" under non-current liabilities in the consolidated balance sheet as of the end of the previous fiscal year has been reclassified to "other."

Consolidated statement of income and consolidated statement of comprehensive income

"Reversal of allowance for doubtful accounts" under non-operating income which was included in "miscellaneous income" under non-operating income for the previous fiscal year, has been set down separately from the current fiscal year since significance of the amount has increased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.
As a result, ¥72 million ($639 thousand) included in "miscellaneous income" under non-operating income in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year has been reclassified to "reversal of allowance for doubtful accounts" of ¥1 million ($8 thousand) and "miscellaneous income" of ¥71 million ($630 thousand).

"Provision of allowance for doubtful accounts" under non-operating expenses, which was set down separately for the previous fiscal year, has been included in "miscellaneous loss" under non-operating expenses from the current fiscal year since significance of the amount has decreased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.
As a result, ¥25 million ($221 thousand) included in "provision of allowance for doubtful accounts" under non-operating expenses in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year has been reclassified to "miscellaneous loss."

"Gain on sales of non-current assets" under extraordinary income included in "other" under extraordinary income for the previous fiscal year has been set down separately from the current fiscal year since significance of the amount has increased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.

As a result, ¥17 million ($150 thousand) included in "other" under extraordinary income in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year has been reclassified to "gain on sales of non-current assets" of ¥9 million ($79 thousand) and "other" of ¥8 million ($71 thousand).

"Loss on retirement of non-current assets" under extraordinary losses, which was set down separately for the previous fiscal year, has been included in "other" under extraordinary losses from the current fiscal year since significance of the amount has decreased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.
As a result, ¥6 million ($53 thousand) included in "loss on retirement of non-current assets" under extraordinary losses in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year has been reclassified to "other."

**Notes - Consolidated balance sheet**

*1. Use of a certain part of the Company's current deposits is restricted by a bank in return for its issuing a bank guarantee, which was provided by the Company to the Ministry of Economy and Planning of the United Arab Emirates in connection with corporate registration in the country.

The restricted deposits are as follows:

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Current deposit | ¥1 million (50,000 AED) | ¥1 million (50,000 AED) | $8 thousand |
| Time deposit | ¥33 million (380,000 BND) | ¥– million | $– thousand |

*2. Accumulated depreciation of property, plant and equipment are as follows:

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| | ¥13,166 million | ¥13,405 million | $119,028 thousand |

*3. Both inventories and provision for loss on order received with regard to construction contracts that are expected to result in losses are presented without offsetting one against the other. Of the inventories with regard to construction contracts that are expected to result in losses, the amount corresponding to the provision for loss on order received is as follows:

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Work in process | ¥0 million | ¥– million | $– thousand |

*4. Assets pledged and liabilities secured
Assets pledged and liabilities secured as collateral are as follows:
Assets pledged

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Buildings and structures | ¥498 million [¥475 million] | ¥464 million [¥464 million] | $4,120 thousand [$4,120 thousand] |
| Machinery, equipment and vehicles | 0 [0] | 0 [0] | 0 [0] |
| Tools, furniture and fixtures | 0 [0] | 0 [0] | 0 [0] |
| Land | 5,523 [5,458] | 5,523 [5,523] | 49,041 [49,041] |
| Total | 6,022 [5,934] | 5,988 [5,988] | 53,169 [53,169] |

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|

Liabilities secured

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Short-term loans payable | ¥1,025 million [¥956 million] | ¥427 million [¥427 million] | $3,791 thousand [$3,791 thousand] |
| Long-term loans payable | 480 [480] | 980 [980] | 8,701 [8,701] |
| Total | 1,505 [1,436] | 1,407 [1,407] | 12,493 [12,493] |

In the above table, figures in brackets present mortgages on factory foundation and the relevant debts. The amounts of land are after revaluation.

*5. In accordance with the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998), the Company revalues its land for business use and, as for the valuation difference, records an amount equivalent to tax relating to the valuation difference as “deferred tax liabilities for land revaluation” in the liabilities section and an amount after deducting said amount as “revaluation reserve for land” in the net assets section.

Method of revaluation – The Company revalues the land by the calculation method where a value based on the assessed value of fixed asset tax set forth in Article 2, Item 3 and road rating set forth in Article 2, Item 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Cabinet Order No. 119 promulgated on March 31, 1998) is reasonably adjusted.

Date of revaluation – March 31, 2002

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Difference between the year-end value of revaluated land and the book value after the revaluation | ¥(3,265) million | ¥(3,250) million | $(28,858) thousand |

**Notes - Consolidated statement of income and consolidated statement of comprehensive income**

*1. Provision for loss on order received included in cost of sales

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| | ¥64 million | ¥158 million | $1,402 thousand |

*2. Major components of selling, general and administrative expenses

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Salaries and allowances | ¥1,462 million | ¥1,407 million | $12,493 thousand |
| Bonuses | 429 | 325 | 2,885 |
| Provision for bonuses | 97 | 103 | 914 |
| Retirement benefit expenses | 88 | 80 | 710 |
| Provision of allowance for doubtful accounts | 4 | (30) | (266) |

*3. Total of research and development expenses included in general and administrative expenses and manufacturing costs

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| | ¥327 million | ¥352 million | $3,125 thousand |

*4. Impairment loss

The Group recorded impairment loss on the asset groups as follows:

Previous fiscal year (From April 1, 2014 to March 31, 2015)
Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)

| Location | Use | Type |
|---|---|---|
| Minami-Alps City, Yamanashi | Idle assets | Land |

In principle, the Group's assets for business use are grouped on the basis of the business, and the Group's idle assets are grouped by each asset.
For the fiscal year ended March 31, 2016, an impairment loss (¥19 million ($168 thousand)) was recorded under extraordinary losses since the Group recognized that land owned by the Group continued to be idle.
The recoverable amount of this asset group was measured based on the net realizable value.

*5. Reclassification adjustments and tax effects relating to other comprehensive income

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Valuation difference on available-for-sale securities: | | | |
| Amount recorded during the period | ¥1,306 million | ¥(517) million | $(4,590) thousand |
| Reclassified amount | – | (5) | (44) |
| Pre-adjustment of tax effect | 1,306 | (523) | (4,643) |
| Tax effect amount | (304) | 276 | 2,450 |
| Valuation difference on available-for-sale securities | 1,001 | (246) | (2,184) |
| Revaluation reserve for land: | | | |
| Amount recorded during the period | – | – | – |
| Reclassified amount | – | – | – |
| Pre-adjustment of tax effect | – | – | – |
| Tax effect amount | 164 | 82 | 728 |
| Revaluation reserve for land | 164 | 82 | 728 |
| Foreign currency translation adjustment: | | | |
| Amount recorded during the period | 86 | (109) | (967) |
| Reclassified amount | – | – | – |
| Pre-adjustment of tax effect | 86 | (109) | (967) |
| Tax effect amount | – | – | – |
| Foreign currency translation adjustment | 86 | (109) | (967) |
| Remeasurements of defined benefit plans, net of tax: | | | |
| Amount recorded during the period | 262 | (360) | (3,196) |
| Reclassified amount | (118) | (113) | (1,003) |
| Pre-adjustment of tax effect | 143 | (474) | (4,208) |
| Tax effect amount | (34) | 152 | 1,349 |
| Remeasurements of defined benefit plans, net of tax | 108 | (321) | (2,850) |
| Total other comprehensive income | 1,361 | (594) | (5,274) |

**Notes - Consolidated statement of changes in equity**

Previous fiscal year (From April 1, 2014 to March 31, 2015)

1. Matters concerning class and total number of issued shares, and class and number of treasury shares

(Thousands of shares)

| | Number of shares at beginning of period | Number of shares increased in period | Number of shares decreased in period | Number of shares at end of period |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares | 138,730 | – | – | 138,730 |
| Total | 138,730 | – | – | 138,730 |
| Treasury shares | | | | |
| Common shares (Note) | 19,736 | 3,960 | – | 23,697 |
| Total | 19,736 | 3,960 | – | 23,697 |

(Note) The number of common shares in treasury increased by 3,960 thousand shares due to purchase of treasury shares based on a resolution by the Board of Directors of 3,940 thousand shares and purchase of shares less than one unit of 20 thousand shares.

2. Matters concerning dividends

(1) Cash dividends paid

| Resolution | Class of shares | Total cash dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 27, 2014 | Common shares | ¥594 million | ¥5 | March 31, 2014 | June 28, 2014 |

(Note) The dividends per share include special dividends of ¥1.

(2) Dividends whose record dates are in the current fiscal year but whose effective dates fall in the next fiscal year

| Resolution | Class of shares | Total cash dividends | Source of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 26, 2015 | Common shares | ¥460 million | Retained earnings | ¥4 | March 31, 2015 | June 29, 2015 |

Current fiscal year (From April 1, 2015 to March 31, 2016)

1. Matters concerning class and total number of issued shares, and class and number of treasury shares

(Thousands of shares)

| | Number of shares at beginning of period | Number of shares increased in period | Number of shares decreased in period | Number of shares at end of period |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares | 138,730 | – | 23,700 | 115,030 |
| Total | 138,730 | – | 23,700 | 115,030 |
| Treasury shares | | | | |
| Common shares (Note) | 23,697 | 12,084 | 23,700 | 12,081 |
| Total | 23,697 | 12,084 | 23,700 | 12,081 |

(Notes) 1. The number of common shares in treasury increased by 12,084 thousand shares due to purchase of treasury shares based on a resolution by the Board of Directors of 12,063 thousand shares and purchase of shares less than one unit of 21 thousand shares.

2. The number of issued common shares decreased by 23,700 thousand shares and the number of common shares in treasury decreased by 23,700 thousand shares due to cancellation of treasury shares based on a resolution by the Board of Directors.

2. Matters concerning dividends

(1) Cash dividends paid

| Resolution | Class of shares | Total cash dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 26, 2015 | Common shares | ¥460 million [$4,084 thousand] | ¥4 [$0.03] | March 31, 2015 | June 29, 2015 |

(2) Dividends whose record dates are in the current fiscal year but whose effective dates fall in the next fiscal year

| Resolution | Class of shares | Total cash dividends | Source of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 29, 2016 | Common shares | ¥514 million [$4,564 thousand] | Retained earnings | ¥5 [$0.04] | March 31, 2016 | June 30, 2016 |

**Notes - Consolidated statement of cash flows**

*1. Reconciliation of ending balance of cash and cash equivalents with account balances per balance sheet

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Cash and deposits | ¥10,907 million | ¥13,608 million | $120,831 thousand |
| Restricted deposits | (35) | (1) | (8) |
| Money held in trust (Securities) | 3,500 | – | – |
| Cash and cash equivalents | 14,372 | 13,606 | 120,813 |

**Notes - Leases**

(Borrower)

Operating lease transactions

Future lease payments under non-cancelable operating leases

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Due within 1 year | ¥6 million | ¥7 million | $62 thousand |
| Due over 1 year | 13 | 15 | 133 |
| Total | 19 | 23 | 204 |

(Lender)

Finance lease transactions

(1) The components of lease investment assets

Current assets

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Lease payments receivable | ¥1,594 million | ¥1,648 million | $14,633 thousand |
| Estimated residual value | 71 | 76 | 674 |
| Amount equivalent to interest income | (221) | (197) | (1,749) |
| Lease investment assets | 1,444 | 1,527 | 13,558 |

(2) Amounts expected to be collected on lease payments receivable of lease investment assets after consolidated balance sheet date

Current assets

(Millions of yen)

| | Previous fiscal year (As of March 31, 2015) | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 4 years | Over 4 years to 5 years | Over 5 years |
| Lease investment assets | 491 | 397 | 383 | 238 | 83 | – |

(Millions of yen)

| | Current fiscal year (As of March 31, 2016) | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 4 years | Over 4 years to 5 years | Over 5 years |
| Lease investment assets | 530 | 515 | 370 | 215 | 16 | – |

(Thousands of U.S. dollars)

| | Current fiscal year (As of March 31, 2016) | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 4 years | Over 4 years to 5 years | Over 5 years |
| Lease investment assets | 4,706 | 4,572 | 3,285 | 1,909 | 142 | – |

**Notes - Financial instruments**

1. Status of financial instruments

(1) Policy on treatment of financial instruments

The Group raises funds necessary to run its business smoothly by borrowing from banks. In the case where the Group has temporary surplus funds, it invests them only in safe financial instruments.

The Group uses derivative transactions to hedge various risks described in (2) in accordance with the “Rules on Handling of Derivative Transactions” established by the Company and has a policy not to enter into any speculative transaction.

(2) Content and risks of financial instruments and risk management system therefor

The Group’s notes and accounts receivable - trade are subject to credit risk of its customers, and its certain receivables denominated in foreign currencies are subject to exchange rate fluctuation risk. The Group mitigates the credit risk of its customers by periodically confirming whether there is any overdue receivable using an aging schedule and other documents and the exchange rate fluctuation risk such as by borrowing in foreign currencies as needed.

The Company’s securities are subject to credit risk of its investees, but the Company invests surplus funds in safe financial instruments with high ratings thorough prescribed internal procedures.

The Group’s investment securities are subject to credit risk of its investees and market price fluctuation risk. They are equity securities of listed companies with which the Group has business relationships, most of which are categorized as available-for-sale securities, and the Group periodically ascertains the fair value thereof. Certain bond securities include hybrid financial instruments that were accounted for with embedded derivatives.

The Group’s notes and accounts payable - trade and accrued expenses are subject to liquidity risk, and its certain payables denominated in foreign currencies are subject to exchange rate fluctuation risk. The Group mitigates the liquidity risk by periodically preparing a schedule of cash receipts and disbursements and other documents and the exchange rate fluctuation risk by forward exchange contracts and other means as needed.

Of borrowings, short-term loans payable are primarily for daily business transactions, and long-term loans payable are primarily for temporary advances on large-scale projects. Variable-rate borrowings are subject to interest rate fluctuation risk, for most of the long-term loans payable, the Group uses interest rate swaps as hedging instruments for respective contracts in order to hedge the fluctuation risk of the interest rates to be paid and fix interest expenses. The Group limits interest rate swaps to those to which the exceptional treatment can be applied and omits assessment of hedge effectiveness thereon. The Group mitigates the liquidity risk by periodically preparing a schedule of cash receipts and disbursements and other documents.

The Group executes and manages derivative transactions in accordance with the Company’s Rules on Handling of Derivative Transactions and, when using derivatives, enters into transactions with financial institutions with high ratings to mitigate credit risk. Please see “Accounting policy for hedging” of “Disclosure of accounting policies” in “Significant accounting policies for preparation of consolidated financial statements” described above for the hedging instruments, hedging policy, method of assessing the hedging effectiveness and other information on hedge accounting.

(3) Supplementary explanation concerning fair values of financial instruments

Fair values of financial instruments comprise values based on market prices and reasonably measured values where market prices are unavailable. As several variable factors are incorporated in calculating the relevant fair value, the resulting amount may vary depending on the different preconditions employed. In addition, the contract amounts of derivative transactions, mentioned in “Notes - Derivatives” in Notes, should not be considered indicative of the sizes of the market risks involved in the derivative transactions.

2. Fair values of financial instruments

Carrying amounts on the consolidated balance sheet, fair values and differences therebetween of the financial instruments as of March 31, 2015 and 2016, are as shown below. However, financial instruments whose fair values are deemed to be extremely difficult to determine are not included therein (Note 2).

Previous fiscal year (As of March 31, 2015)

(Millions of yen)

| | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|
| (1) Cash and deposits | 10,907 | 10,907 | – |
| (2) Notes and accounts receivable - trade | 10,256 | | |
| Allowance for doubtful accounts (*) | (44) | | |
| | 10,212 | 10,212 | – |
| (3) Securities | 3,700 | 3,700 | – |
| (4) Investment securities | 6,453 | 6,457 | 3 |
| Total assets | 31,274 | 31,278 | 3 |
| (1) Notes and accounts payable - trade | 2,646 | 2,646 | – |
| (2) Short-term loans payable | 2,518 | 2,518 | – |
| (3) Accrued expenses | 3,304 | 3,304 | – |
| (4) Long-term loans payable (including within 1 year) | 1,343 | 1,351 | 8 |
| Total liabilities | 9,813 | 9,821 | 8 |
| Derivatives | | | |
| (1) Those not qualifying for hedge accounting | – | – | – |
| (2) Those qualifying for hedge accounting | – | – | – |
| Total derivatives | – | – | – |

(*) Amounts of allowance for doubtful accounts separately included in notes and accounts receivable - trade are excluded.

Current fiscal year (As of March 31, 2016)

(Millions of yen)

| | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|
| (1) Cash and deposits | 13,608 | 13,608 | – |
| (2) Notes and accounts receivable - trade | 9,474 | | |
| Allowance for doubtful accounts (*) | (19) | | |
| | 9,455 | 9,455 | – |
| (3) Securities | 500 | 500 | – |
| (4) Investment securities | 5,317 | 5,317 | 0 |
| Total assets | 28,880 | 28,880 | 0 |
| (1) Notes and accounts payable - trade | 3,231 | 3,231 | – |
| (2) Short-term loans payable | 2,357 | 2,357 | – |
| (3) Accrued expenses | 3,434 | 3,434 | – |
| (4) Long-term loans payable (including within 1 year) | 1,215 | 1,229 | 14 |
| Total liabilities | 10,238 | 10,252 | 14 |
| Derivatives | | | |
| (1) Those not qualifying for hedge accounting | – | – | – |
| (2) Those qualifying for hedge accounting | – | – | – |
| Total derivatives | – | – | – |

(Thousands of U.S. dollars)

| | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|
| (1) Cash and deposits | 120,831 | 120,831 | – |
| (2) Notes and accounts receivable - trade | 84,123 | | |
| Allowance for doubtful accounts (*) | (168) | | |
| | 83,954 | 83,954 | – |
| (3) Securities | 4,439 | 4,439 | – |
| (4) Investment securities | 47,211 | 47,211 | 0 |
| Total assets | 256,437 | 256,437 | 0 |
| (1) Notes and accounts payable - trade | 28,689 | 28,689 | – |
| (2) Short-term loans payable | 20,928 | 20,928 | – |
| (3) Accrued expenses | 30,491 | 30,491 | – |
| (4) Long-term loans payable (including within 1 year) | 10,788 | 10,912 | 124 |
| Total liabilities | 90,907 | 91,031 | 124 |
| Derivatives | | | |
| (1) Those not qualifying for hedge accounting | – | – | – |
| (2) Those qualifying for hedge accounting | – | – | – |
| Total derivatives | – | – | – |

(*) Amounts of allowance for doubtful accounts separately included in notes and accounts receivable - trade are excluded.

(Notes) 1. Calculation method of fair values of financial instruments and matters concerning short-term investment securities and derivatives

Assets

(1) Cash and deposits and (2) Notes and accounts receivable - trade

Because these accounts are settled in a short period, their fair values approximate their book values. Therefore, the fair values are based on the book values.

(3) Securities

Because this account has a short-term maturity, its fair value approximates its book value. Therefore, the fair value is based on the book value.

(4) Investment securities

Fair value of this account is based on the price on exchanges, the price provided by counterparty financial institutions or other prices. Please refer to "Notes - Securities" for the notes.

Liabilities

(1) Notes and accounts payable - trade, (2) Short-term loans payable and (3) Accrued expenses

Because these accounts are settled in a short period, their fair values approximate their book values. Therefore, the fair values are based on the book values.

(4) Long-term loans payable (including within 1 year)

Fair value of this account is determined by discounting the total amount of principal and interest at the interest rate available for a similar borrowing. Fair values of long-term loans payable with variable rates, to which the exceptional treatment for the interest rate swap is applied, are determined by discounting the total amount of principal and interest accounted for with the relevant interest rate swaps at the reasonably estimated interest rates applied to similar borrowings.

Derivatives

Please refer to "Notes - Derivatives" in Notes.

2. "Assets (4) Investment securities" do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥922 million ($8,186 thousand)) because there is no market price and their future cash flows cannot be estimated and accordingly it is extremely difficult to ascertain their fair values.
3. Projected redemption amounts for monetary claims and securities with maturities after the consolidated balance sheet date

Previous fiscal year (As of March 31, 2015)

(Millions of yen)

| | Due within 1 year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due over 10 years |
|---|---|---|---|---|
| Cash | 10,876 | – | – | – |
| Notes and accounts receivable - trade | 9,961 | 251 | – | – |
| Securities | 3,700 | – | – | – |
| Investment securities | | | | |
| Held-to-maturity bonds | – | 1,100 | – | – |
| Available-for-sale securities | – | 199 | – | – |
| Total | 24,537 | 1,551 | – | – |

Current fiscal year (As of March 31, 2016)

(Millions of yen)

| | Due within 1 year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due over 10 years |
|---|---|---|---|---|
| Cash | 13,588 | – | – | – |
| Notes and accounts receivable - trade | 9,455 | – | – | – |
| Securities | 500 | – | – | – |
| Investment securities | | | | |
| Held-to-maturity bonds | – | 600 | – | – |
| Available-for-sale securities | – | 87 | – | – |
| Total | 23,543 | 687 | – | – |

(Thousands of U.S. dollars)

| | Due within 1 year | Due after 1 year through 5 years | Due after 5 years through 10 years | Due over 10 years |
|---|---|---|---|---|
| Cash | 120,653 | – | – | – |
| Notes and accounts receivable - trade | 83,954 | – | – | – |
| Securities | 4,439 | – | – | – |
| Investment securities | | | | |
| Held-to-maturity bonds | – | 5,327 | – | – |
| Available-for-sale securities | – | 772 | – | – |
| Total | 209,048 | 6,100 | – | – |

4. Scheduled repayment amounts of long-term loans payable and other interest-bearing liabilities

Previous fiscal year (As of March 31, 2015)

(Millions of yen)

| | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 4 years | Over 4 years to 5 years |
|---|---|---|---|---|
| Long-term loans payable | 60 | 60 | 15 | 480 |

Current fiscal year (As of March 31, 2016)

(Millions of yen)

| | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 4 years | Over 4 years to 5 years |
|---|---|---|---|---|
| Long-term loans payable | 60 | 15 | 480 | 600 |

(Thousands of U.S. dollars)

| | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 4 years | Over 4 years to 5 years |
|---|---|---|---|---|
| Long-term loans payable | 532 | 133 | 4,262 | 5,327 |

**Notes - Securities**

1. Held-to-maturity bonds

Previous fiscal year (As of March 31, 2015)

(Millions of yen)

| | Type | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|---|
| Securities for which the fair value exceeds the carrying amount on the consolidated balance sheet | (1) Government bonds and municipal bonds, etc. | 100 | 100 | 0 |
| | (2) Corporate bonds | – | – | – |
| | (3) Other | 1,000 | 1,003 | 3 |
| | Subtotal | 1,100 | 1,104 | 4 |
| Securities for which the fair value does not exceed the carrying amount on the consolidated balance sheet | (1) Government bonds and municipal bonds, etc. | – | – | – |
| | (2) Corporate bonds | 100 | 99 | (0) |
| | (3) Other | 100 | 99 | (0) |
| | Subtotal | 200 | 199 | (0) |
| Total | | 1,300 | 1,303 | 3 |

Current fiscal year (As of March 31, 2016)

(Millions of yen)

| | Type | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|---|
| Securities for which the fair value exceeds the carrying amount on the consolidated balance sheet | (1) Government bonds and municipal bonds, etc. | – | – | – |
| | (2) Corporate bonds | 100 | 100 | 0 |
| | (3) Other | – | – | – |
| | Subtotal | 100 | 100 | 0 |
| Securities for which the fair value does not exceed the carrying amount on the consolidated balance sheet | (1) Government bonds and municipal bonds, etc. | – | – | – |
| | (2) Corporate bonds | – | – | – |
| | (3) Other | 1,000 | 999 | (0) |
| | Subtotal | 1,000 | 999 | (0) |
| Total | | 1,100 | 1,099 | (0) |

(Thousands of U.S. dollars)

| | Type | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|---|
| Securities for which the fair value exceeds the carrying amount on the consolidated balance sheet | (1) Government bonds and municipal bonds, etc. | – | – | – |
| | (2) Corporate bonds | 887 | 887 | 0 |
| | (3) Other | – | – | – |
| | Subtotal | 887 | 887 | 0 |
| Securities for which the fair value does not exceed the carrying amount on the consolidated balance sheet | (1) Government bonds and municipal bonds, etc. | – | – | – |
| | (2) Corporate bonds | – | – | – |
| | (3) Other | 8,879 | 8,870 | (0) |
| | Subtotal | 8,879 | 8,870 | (0) |
| Total | | 9,767 | 9,758 | (0) |

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

Previous fiscal year (As of March 31, 2015)

(Millions of yen)

<table>
<tr><th></th><th>Type</th><th>Carrying amount on the consolidated balance sheet</th><th>Acquisition cost</th><th>Difference</th></tr>
<tr><td rowspan="8">Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost</td><td>(1) Stocks</td><td>5,043</td><td>2,056</td><td>2,986</td></tr>
<tr><td>(2) Bonds</td><td></td><td></td><td></td></tr>
<tr><td>(i) Government bonds and municipal bonds, etc.</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>(ii) Corporate bonds</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>(iii) Other</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>(3) Other</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Subtotal</td><td>5,043</td><td>2,056</td><td>2,986</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td rowspan="7">Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost</td><td>(1) Stocks</td><td>110</td><td>178</td><td>(68)</td></tr>
<tr><td>(2) Bonds</td><td></td><td></td><td></td></tr>
<tr><td>(i) Government bonds and municipal bonds, etc.</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>(ii) Corporate bonds</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>(iii) Other</td><td>199</td><td>200</td><td>(0)</td></tr>
<tr><td>(3) Other</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Subtotal</td><td>310</td><td>378</td><td>(68)</td></tr>
<tr><td colspan="2">Total</td><td>5,353</td><td>2,435</td><td>2,918</td></tr>
</table>

(Note) "Available-for sale securities" in the above table do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥925 million) because there is no market value and accordingly it is extremely difficult to ascertain their fair values. In addition, "Available-for sale securities" do not include jointly operated designated money trusts (¥3,500 million) because they have short term maturities and their fair values approximate their book values.

Current fiscal year (As of March 31, 2016)

(Millions of yen)

| | Type | Carrying amount on the consolidated balance sheet | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost | (1) Stocks | 4,071 | 1,517 | 2,554 |
| | (2) Bonds | | | |
| | (i) Government bonds and municipal bonds, etc. | – | – | – |
| | (ii) Corporate bonds | – | – | – |
| | (iii) Other | – | – | – |
| | (3) Other | – | – | – |
| | Subtotal | 4,071 | 1,517 | 2,554 |
| Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost | (1) Stocks | 558 | 717 | (159) |
| | (2) Bonds | | | |
| | (i) Government bonds and municipal bonds, etc. | – | – | – |
| | (ii) Corporate bonds | – | – | – |
| | (iii) Other | 87 | 100 | (12) |
| | (3) Other | – | – | – |
| | Subtotal | 645 | 817 | (171) |
| Total | | 4,717 | 2,334 | 2,382 |

(Thousands of U.S. dollars)

| | Type | Carrying amount on the consolidated balance sheet | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities for which the carrying amount on the consolidated balance sheet exceeds the acquisition cost | (1) Stocks | 36,148 | 13,470 | 22,678 |
| | (2) Bonds | | | |
| | (i) Government bonds and municipal bonds, etc. | – | – | – |
| | (ii) Corporate bonds | – | – | – |
| | (iii) Other | – | – | – |
| | (3) Other | – | – | – |
| | Subtotal | 36,148 | 13,470 | 22,678 |
| Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost | (1) Stocks | 4,954 | 6,366 | (1,411) |
| | (2) Bonds | | | |
| | (i) Government bonds and municipal bonds, etc. | – | – | – |
| | (ii) Corporate bonds | – | – | – |
| | (iii) Other | 772 | 887 | (106) |
| | (3) Other | – | – | – |
| | Subtotal | 5,727 | 7,254 | (1,518) |
| Total | | 41,884 | 20,724 | 21,150 |

(Note) "Available-for sale securities" in the above table do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥922 million ($8,186 thousand)) because there is no market value and accordingly it is extremely difficult to ascertain their fair values.

3. Available-for-sale securities that were sold

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(Millions of yen)

| Type | Sales amount | Total gain on sales | Total loss on sales |
|---|---|---|---|
| (1) Shares | 12 | 8 | – |
| (2) Bonds | | | |
| (i) Government bonds and municipal bonds, etc. | – | – | – |
| (ii) Corporate bonds | – | – | – |
| (iii) Other | – | – | – |
| (3) Other | – | – | – |
| Total | 12 | 8 | – |

Current fiscal year (From April 1, 2015 to March 31, 2016)

(Millions of yen)

| Type | Sales amount | Total gain on sales | Total loss on sales |
|---|---|---|---|
| (1) Shares | 8 | 5 | – |
| (2) Bonds | | | |
| (i) Government bonds and municipal bonds, etc. | – | – | – |
| (ii) Corporate bonds | – | – | – |
| (iii) Other | – | – | – |
| (3) Other | – | – | – |
| Total | 8 | 5 | – |

(Thousands of U.S. dollars)

| Type | Sales amount | Total gain on sales | Total loss on sales |
|---|---|---|---|
| (1) Shares | 71 | 44 | – |
| (2) Bonds | | | |
| (i) Government bonds and municipal bonds, etc. | – | – | – |
| (ii) Corporate bonds | – | – | – |
| (iii) Other | – | – | – |
| (3) Other | – | – | – |
| Total | 71 | 44 | – |

**Notes - Derivatives**

1. Derivative transactions to which hedge accounting is not applied

   Not applicable

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Not applicable

(2) Interest rates

Previous fiscal year (As of March 31, 2015)

(Millions of yen)

| Classification | Type of derivative transaction, etc. | Principal hedged items | Contract amount | Portion of contract amount over 1 year | Fair value | Fair value calculation method |
|---|---|---|---|---|---|---|
| Exceptional treatment of interest rate swaps | Interest rate swap transactions Receive variable, pay fixed | Long-term loans payable | 1,175 | 615 | (Note) | (Note) |

(Note) The fair value of interest rate swaps that are accounted for using exceptional treatment is included in that of corresponding long-term loans payable, as those interest rate swaps are treated as an adjustment to long-term loans payable as hedged items.

Current fiscal year (As of March 31, 2016)

(Millions of yen)

| Classification | Type of derivative transaction, etc. | Principal hedged items | Contract amount | Portion of contract amount over 1 year | Fair value | Fair value calculation method |
|---|---|---|---|---|---|---|
| Exceptional treatment of interest rate swaps | Interest rate swap transactions Receive variable, pay fixed | Long-term loans payable | 1,115 | 1,055 | (Note) | (Note) |

(Thousands of U.S. dollars)

| Classification | Type of derivative transaction, etc. | Principal hedged items | Contract amount | Portion of contract amount over 1 year | Fair value | Fair value calculation method |
|---|---|---|---|---|---|---|
| Exceptional treatment of interest rate swaps | Interest rate swap transactions Receive variable, pay fixed | Long-term loans payable | 9,900 | 9,367 | (Note) | (Note) |

(Note) The fair value of interest rate swaps that are accounted for using exceptional treatment is included in that of corresponding long-term loans payable, as those interest rate swaps are treated as an adjustment to long-term loans payable as hedged items.

**Notes - Retirement benefits**

1. Summary of retirement benefit plans adopted

The Company and certain consolidated subsidiaries have defined benefit corporate pension plans as defined benefit plans, and certain consolidated subsidiaries have a small and medium sized enterprise retirement allowance cooperative plan and lump-sum retirement plans.

In addition, the Company and certain consolidated subsidiaries have defined contribution corporate pension plans.

The Company and certain consolidated subsidiaries participate in Nihon Sangyo Kikai Kougyo Kouseinenkin Kikin (pension fund of Japan industrial machinery manufacturers). For this fund, since the amount of pension plan assets corresponding to contributions by the respective companies cannot be reasonably calculated, the fund is accounted for similar to defined contribution plans.

Nihon Sangyo Kikai Kougyo Kouseinenkin Kikin provided approval for transfer of benefit obligation (future terms portion) on April 1, 2015.

2. Defined benefit plans

(1) Reconciliation between beginning balance and ending balance of retirement benefit obligations

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Beginning balance of retirement benefit obligations | ¥3,101 million | ¥3,075 million | $27,304 thousand |
| Service cost | 176 | 170 | 1,509 |
| Interest expenses | 48 | 44 | 390 |
| Unrecognized net actuarial gain or loss | 36 | 257 | 2,282 |
| Retirement benefits paid | (304) | (229) | (2,033) |
| Past service cost | – | 41 | 364 |
| Other | 17 | (16) | (142) |
| Ending balance of retirement benefit obligations | 3,075 | 3,342 | 29,675 |

(2) Reconciliation between beginning balance and ending balance of pension plan assets

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Beginning balance of pension plan assets | ¥3,040 million | ¥3,249 million | $28,849 thousand |
| Expected return on plan assets | 28 | 31 | 275 |
| Unrecognized net actuarial gain or loss | 312 | (112) | (994) |
| Amount of employer contribution | 169 | 326 | 2,894 |
| Retirement benefits paid | (301) | (219) | (1,944) |
| Other | – | (4) | (35) |
| Ending balance of pension plan assets | 3,249 | 3,271 | 29,044 |

(3) Retirement benefit obligations and pension plan assets at the end of the fiscal year and reconciliation of net defined benefit liability and net defined benefit asset on consolidated balance sheet

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Retirement benefit obligations under funded system | ¥2,995 million | ¥3,340 million | $29,657 thousand |
| Pension plan assets | (3,249) | (3,271) | (29,044) |
| | (253) | 69 | 612 |
| Retirement benefit obligations under unfunded system | 79 | 2 | 17 |
| Net amount of assets and liabilities stated in the consolidated balance sheet | (173) | 71 | 630 |
| Net defined benefit liability | 350 | 462 | 4,102 |
| Net defined benefit asset | (524) | (390) | (3,462) |
| Net amount of assets and liabilities stated in the consolidated balance sheet | (173) | 71 | 630 |

(4) Retirement benefit expenses and components thereof

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Service cost | ¥176 million | ¥170 million | $1,509 thousand |
| Interest expenses | 48 | 44 | 390 |
| Expected return on plan assets | (28) | (31) | (275) |
| Amortization of net actuarial gain or loss | (121) | (114) | (1,012) |
| Amortization of past service cost | – | 41 | 364 |
| Retirement benefit expenses pertaining to defined benefit plans | 74 | 111 | 985 |

(5) Remeasurements of defined benefit plans, net of tax on consolidated statement of income and comprehensive income

The components of remeasurements of defined benefit plans, net of tax (before tax effects deduction) are as follows:

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Past service cost | ¥– million | ¥– million | $– thousand |
| Actuarial gains and losses | 143 | (474) | (4,208) |
| Total | 143 | (474) | (4,208) |

(6) Remeasurements of defined benefit plans on consolidated balance sheet

The components of remeasurements of defined benefit plans (before tax effects deduction) are as follows:

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Unrecognized past service cost | ¥– million | ¥– million | $ – thousand |
| Unrecognized net actuarial gain or loss | (505) | (21) | (186) |
| Total | (505) | (21) | (186) |

(7) Pension plan assets

(i) Major components of pension plan assets

Ratio of major components for total pension plan assets is as follows:

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|
| Bonds | 31% | 29% |
| Shares | 34 | 31 |
| General account | 31 | 31 |
| Other | 4 | 9 |
| Total | 100 | 100 |

(ii) Method of establishing expected long-term rates of return on plan assets

In order to determine the expected long-term rates of return on plan assets, the current and forecast distribution of plan assets and the current and expected long-term rates of return from the diverse assets that comprise the plan assets are taken into consideration.

(8) Matters relating to the basis for actuarial calculations

Main basis for actuarial calculations

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Discount rate | 1.50% | 0.25% |
| Expected long-term rates of return on pension plan assets | 1.00% | 1.00% |

(Note) The Company applied a 1.50% discount rate in its calculation at the beginning of the current fiscal year. However, as a result of the review of the discount rate at the end of the fiscal year, the Company determined that a fluctuation in the discount rate would have material impact on the amount of retirement benefit obligations. Therefore, the discount rate was changed to 0.25%.

3. Defined contribution plans

The required contribution from the Company and its consolidated subsidiaries into the defined contribution pension plans was ¥40 million in the previous fiscal year and ¥42 million ($372 thousand) in the current fiscal year.

4. Multi-employer plan

The required contribution amount to the employees' pension fund plan under the multi-employer plan, which is accounted for in the same manner as a defined contribution plan, was ¥152 million in the previous fiscal year and ¥80 million ($710 thousand) in the current fiscal year.

(1) Funded status of multi-employer plan

| | Previous fiscal year (As of March 31, 2014) | Current fiscal year (As of March 31, 2015) | |
|---|---|---|---|
| Plan assets | ¥74,916 million | ¥83,744 million | $743,597 thousand |
| Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve | ¥100,891 million | ¥104,880 million | $931,273 thousand |
| Net amount | ¥(25,975) million | ¥(21,136) million | $(187,675) thousand |

(2) Group's proportion of total contributions to plan

Previous fiscal year 3.82% (From April 1, 2014 to March 31, 2015)

Current fiscal year 3.76% (From April 1, 2015 to March 31, 2016)

(3) Supplementary explanation

Major factors for the net amount in (1) above are the balance of past service liabilities (¥23,226 million as of March 31, 2014 and ¥22,875 million ($203,116 thousand) as of March 31, 2015) and deficit amount (¥2,749 million as of March 31, 2014 and ¥1,739 million ($15,441 thousand) as of March 31, 2015) for pension financing calculation. The principal and interest of past service liabilities in this plan are amortized equally over 20 years, and the Group recorded special contributions applied to such amortization (¥74 million for the previous fiscal year and ¥56 million ($497 thousand) for the current fiscal year) as expenses in the consolidated financial statements.

The deficit amount in pension financing (¥2,749 million as of March 31, 2014 and ¥1,739 million ($15,441 thousand) as of March 31, 2015) will be filled up as needed by an increase in the rate of special contributions or other methods based on recalculation of pension financing.

The proportions in (2) above are not consistent with the proportions actually funded by the Group.

**Notes - Share options, etc.**

Not applicable

## Notes - Tax effect accounting

1. Significant components of deferred tax assets and liabilities

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Deferred tax assets | | | |
| Tax loss carry-forward | ¥978 million | ¥881 million | $7,822 thousand |
| Accrued business tax | 89 | 53 | 470 |
| Net defined benefit liability | 108 | 141 | 1,251 |
| Provision for bonuses | 94 | 84 | 745 |
| Allowance for doubtful accounts | 100 | 85 | 754 |
| Provision for loss on order received | 107 | 140 | 1,243 |
| Loss on valuation of investment securities | 289 | 278 | 2,468 |
| Loss on valuation of investments in capital | 42 | 39 | 346 |
| Impairment loss | 186 | 181 | 1,607 |
| Depreciation | 79 | 26 | 230 |
| Asset retirement obligations | 72 | 101 | 896 |
| Other | 197 | 181 | 1,607 |
| Subtotal | 2,345 | 2,196 | 19,499 |
| Valuation reserve | (1,668) | (1,531) | (13,594) |
| Total deferred tax assets | 677 | 665 | 5,904 |
| Deferred tax liabilities | | | |
| Revaluation reserve for land | 1,611 | 1,529 | 13,576 |
| Valuation difference on available-for-sale securities | 879 | 602 | 5,345 |
| Other | 172 | 259 | 2,299 |
| Total deferred tax liabilities | 2,663 | 2,390 | 21,221 |

(Note) The net deferred tax assets as of March 31, 2015 and March 31, 2016 are included in the items below of the consolidated balance sheet.

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) | |
|---|---|---|---|
| Current assets－Deferred tax assets | ¥455 million | ¥380 million | $3,374 thousand |
| Non-current assets－Deferred tax assets | 81 | 41 | 364 |
| Current liabilities－Deferred tax liabilities | 22 | 10 | 88 |
| Non-current liabilities－Deferred tax liabilities | 888 | 607 | 5,389 |
| －Deferred tax liabilities for land revaluation | 1,611 | 1,529 | 13,576 |

2. Main components causing significant differences between the statutory effective tax rate and the actual effective tax rate after application of tax effect accounting

| | Previous fiscal year (As of March 31, 2015) | Current fiscal year (As of March 31, 2016) |
|---|---|---|
| Statutory effective tax rate | 35.64% | 33.06% |
| Adjustments | | |
| Increase/decrease in valuation reserve | (6.04) | (0.41) |
| Expenses not deductible for income tax purposes, such as entertainment expenses | 0.91 | 1.41 |
| Income not included for income tax purposes, such as dividends received | (0.44) | (0.27) |
| Per capita levy of inhabitant taxes | 0.73 | 1.27 |
| Effect of differences in tax rates applicable to subsidiaries from tax rate applicable to the Company | (0.60) | (0.21) |
| Adjustment of deferred tax assets at end of period resulting from tax rate changes | 1.26 | 1.08 |
| Amortization of goodwill | 0.50 | 0.65 |
| Retained earnings of overseas subsidiaries | – | 2.96 |
| Other | 0.11 | 0.23 |
| Actual effective tax rate | 32.07 | 39.77 |

3. Changes in the amounts of deferred tax assets and deferred tax liabilities due to changes in the rates of income taxes

On March 29, 2016, the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) were enacted in the Diet, and as a result, corporation tax rates were lowered, among other changes, from the fiscal year beginning on or after April 1, 2016. Consequently, the statutory tax rate used for calculating deferred tax assets and deferred tax liabilities has been reduced from the previous rate of 32.26% to 30.86% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2016, and to 30.62% for temporary differences expected to be reversed in and after the fiscal year beginning on April 1, 2018.

As a result of this change in tax rates, the amount of deferred tax liabilities (amount net of deferred tax assets) increased by ¥3 million ($26 thousand), the amount of income taxes - deferred increased by ¥34 million ($301 thousand), the amount of valuation difference on available-for-sale securities increased by ¥30 million ($266 thousand).

In addition, deferred tax liabilities for land revaluation decreased by ¥77 million ($683 thousand), and revaluation reserve for land increased by the same amount.

**Notes - Asset retirement obligations**

Of asset retirement obligations, items recorded on the consolidated balance sheet

a) Outline of asset retirement obligations
The asset retirement obligations of the Group are obligations in certain facilities for rent under the Ordinance on Prevention of Asbestos Hazards.

b) Calculation method for determining asset retirement obligation amount
The amount of asset retirement obligations was calculated assuming an estimated period of use of 31 years from acquisition, and using a discount rate from 2.2%.

c) Increase (decrease) in total asset retirement obligations

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Beginning balance | ¥300 million | ¥224 million | $1,988 thousand |
| Increase from purchase of property, plant and equipment | – | 107 | 950 |
| Reversal | (75) | – | – |
| Ending balance | 224 | 332 | 2,947 |

**Notes - Real estate for lease, etc.**

The Company and certain subsidiaries rent out a space such as in their business places as well as land mainly for rental housing and buildings in the Tokyo metropolitan area and other areas. Rental profit related to the real estate for rent, etc. for the previous fiscal year was ¥355 million (rent income is recorded in net sales, and rent expenses are recorded in cost of sales). Rental profit related to the real estate for rent, etc. for the current fiscal year was ¥310 million ($2,752 thousand) (rent income is recorded in net sales, and rent expenses are recorded in cost of sales).
Carrying amounts on the consolidated balance sheet, changes during period for the previous and current fiscal years and fair values of the real estate for rent, etc. are as follows:

(Millions of yen)

| | | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|---|
| Carrying amount on the consolidated balance sheet | | | |
| | Balance at beginning of period | 5,296 | 6,103 |
| | Increase (decrease) during period | 806 | (739) |
| | Balance at end of period | 6,103 | 5,364 |
| Fair value at end of period | | 4,090 | 3,684 |

(Thousands of U.S. dollars)

| | | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|---|
| Carrying amount on the consolidated balance sheet | | | |
| | Balance at beginning of period | 47,025 | 54,191 |
| | Increase (decrease) during period | 7,156 | (6,561) |
| | Balance at end of period | 54,191 | 47,629 |
| Fair value at end of period | | 36,316 | 32,711 |

(Notes)
1. Carrying amount on the consolidated balance sheet is calculated by subtracting accumulated depreciation and impairment loss from acquisition cost.
2. The increase (decrease) during period for the previous fiscal year primarily consist of an increase in rentable space (¥829 million) and decrease due to depreciation (¥22 million). The increase (decrease) during period for the current fiscal year primarily consist of a decrease in rentable space (¥693 million ($6,153 thousand)) and decrease due to depreciation (¥45 million ($399 thousand)).
3. Fair value of property whose amount has significance at the end of the period is an amount based on a value investigation report by an external real property appraiser, and that of other property whose amount has little significance is an amount based on an index which is believed to reflect a market value appropriately.

**Notes - Segment information, etc.**

**[Segment information]**

1. Description of reportable segments

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

The Group develops comprehensive business strategies and engages in business activities for respective products and services of divisions by product and service in the Company and of Toyo Kanetsu Solutions K.K., a subsidiary of the Company.

Accordingly, the Company is comprised of segments by product and service, and its reportable segments consist of “Plant & Machinery Business” and “Material Handling Systems Business.”

“Plant & Machinery Business” designs, builds, and executes construction works of, storage tanks for LNG, LPG, crude oil and other gas and liquid and provides maintenance services and other operations for these tanks. “Material Handling Systems Business” develops, designs, builds and executes construction works of, logistics systems focusing on sorting, picking and conveying systems and provides maintenance services and other operations for these systems.

2. Method of measurements of sales, profit (loss), asset, liability, and other items for each reportable segment

The accounting procedures for the reporting operating segments are nearly the same as those stated in “Significant accounting policies for preparation of the consolidated financial statements.” Profits of the reportable segments are based on operating income. Intersegment transactions are based on actual transaction amounts.

3. Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(Millions of yen)

| | Reportable segments | | | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|---|
| | Plant & Machinery Business | Material Handling Systems Business | Total | | | |
| Sales | | | | | | |
| Sales to external customers | 29,425 | 15,689 | 45,115 | 7,341 | – | 52,457 |
| Transactions with other segments | – | — | – | 466 | (466) | – |
| Total | 29,425 | 15,689 | 45,115 | 7,808 | (466) | 52,457 |
| Segment profit | 2,789 | 401 | 3,191 | 800 | (403) | 3,588 |
| Segment assets | 14,374 | 10,461 | 24,836 | 12,356 | 18,736 | 55,928 |
| Other items | | | | | | |
| Depreciation | 310 | 254 | 564 | 231 | 10 | 806 |
| Increase in property, plant and equipment, and intangible assets | 489 | 891 | 1,381 | 124 | 3 | 1,509 |

(Note) “Other” includes the building construction business, manufacturing and sales of industrial facilities and equipment, real estate rental operations, leasing operations and other operations.

Current fiscal year (From April 1, 2015 to March 31, 2016)

(Millions of yen)

| | Reportable segments: Plant & Machinery Business | Reportable segments: Material Handling Systems Business | Reportable segments: Total | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Sales to external customers | 22,788 | 17,206 | 39,995 | 6,577 | – | 46,572 |
| Transactions with other segments | – | – | – | 592 | (592) | – |
| Total | 22,788 | 17,206 | 39,995 | 7,170 | (592) | 46,572 |
| Segment profit | 1,921 | 667 | 2,588 | 855 | (419) | 3,024 |
| Segment assets | 12,888 | 14,340 | 27,229 | 8,173 | 15,965 | 51,368 |
| Other items | | | | | | |
| Depreciation | 249 | 314 | 563 | 174 | 26 | 765 |
| Increase in property, plant and equipment, and intangible assets | 298 | 687 | 985 | 181 | 22 | 1,189 |

(Thousands of U.S. dollars)

| | Reportable segments: Plant & Machinery Business | Reportable segments: Material Handling Systems Business | Reportable segments: Total | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Sales to external customers | 202,344 | 152,779 | 355,132 | 58,399 | – | 413,532 |
| Transactions with other segments | – | – | – | 5,256 | (5,256) | – |
| Total | 202,344 | 152,779 | 355,132 | 63,665 | (5,256) | 413,532 |
| Segment profit | 17,057 | 5,922 | 22,979 | 7,591 | (3,720) | 26,851 |
| Segment assets | 114,437 | 127,330 | 241,777 | 72,571 | 141,759 | 456,117 |
| Other items | | | | | | |
| Depreciation | 2,210 | 2,788 | 4,999 | 1,545 | 230 | 6,792 |
| Increase in property, plant and equipment, and intangible assets | 2,646 | 6,100 | 8,746 | 1,607 | 195 | 10,557 |

(Note) “Other” includes the building construction business, manufacturing and sales of industrial facilities and equipment, real estate rental operations, leasing operations and other operations.

4. Differences between total amounts for reportable segments and amounts in the consolidated financial statements and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

| Profit | Previous fiscal year | Current fiscal year |
|---|---|---|
| Reportable segments total | 3,191 | 2,588 |
| Profit of “other” | 800 | 855 |
| Corporate expenses (Note) | (425) | (432) |
| Other adjustments | 22 | 12 |
| Operating income in the consolidated financial statements | 3,588 | 3,024 |

(Thousands of U.S. dollars)

| Profit | Current fiscal year |
|---|---|
| Reportable segments total | 22,979 |
| Profit of “other” | 7,591 |
| Corporate expenses (Note) | (3,835) |
| Other adjustments | 106 |
| Operating income in the consolidated financial statements | 26,851 |

(Note) Corporate expenses mainly represent expenses related to administrative divisions such as the general affairs division, which are not attributable to the reportable segments.

(Millions of yen)

| Asset | Previous fiscal year | Current fiscal year |
|---|---|---|
| Reportable segments total | 24,836 | 27,229 |
| Assets of “other” | 12,356 | 8,173 |
| Corporate assets (Note) | 18,761 | 16,019 |
| Other adjustments | (25) | (53) |
| | 55,928 | 51,368 |

(Thousands of U.S. dollars)

| Asset | Current fiscal year |
|---|---|
| Reportable segments total | 241,777 |
| Assets of “other” | 72,571 |
| Corporate assets (Note) | 142,239 |
| Other adjustments | (470) |
| | 456,117 |

(Note) Corporate assets mainly represent assets related to divisions managing cash and deposits, investment securities and other assets of the Company, which are not attributable to the reportable segments.

**[Information associated with reportable segments]**

Previous fiscal year (From April 1, 2014 to March 31, 2015)

1. Information for each product and service

(Millions of yen)

| | Storage tank, etc. | Maintenance services of storage tanks | Logistics system equipment, etc. | Other | Total |
|---|---|---|---|---|---|
| Sales to external customers | 18,883 | 10,542 | 15,689 | 7,341 | 52,457 |

2. Information about geographical area

(1) Sales

(Millions of yen)

| Japan | Southeast Asia | Middle East | Oceania | Africa | Other | Total |
|---|---|---|---|---|---|---|
| 36,758 | 14,724 | 7 | 939 | 0 | 26 | 52,457 |

(Note) Sales are classified by country or region on the basis of construction sites.

(2) Property, plant and equipment

(Millions of yen)

| Japan | Southeast Asia | Oceania | Total |
|---|---|---|---|
| 12,049 | 1,527 | 0 | 13,577 |

3. Information for each of main customers

This information has been omitted since sales to a specific customer account for less than 10% of net sales in the consolidated statement of income.

Current fiscal year (From April 1, 2015 to March 31, 2016)

1. Information for each product and service

(Millions of yen)

| | Storage tank, etc. | Maintenance services of storage tanks | Logistics system equipment, etc. | Other | Total |
|---|---|---|---|---|---|
| Sales to external customers | 13,887 | 8,901 | 17,206 | 6,577 | 46,572 |

(Thousands of U.S. dollars)

| | Storage tank, etc. | Maintenance services of storage tanks | Logistics system equipment, etc. | Other | Total |
|---|---|---|---|---|---|
| Sales to external customers | 123,308 | 79,035 | 152,779 | 58,399 | 413,532 |

2. Information about geographical area

(1) Sales

(Millions of yen)

| Japan | Southeast Asia | Oceania | Other | Total |
|---|---|---|---|---|
| 36,171 | 8,923 | 1,068 | 409 | 46,572 |

(Thousands of U.S. dollars)

| Japan | Southeast Asia | Oceania | Other | Total |
|---|---|---|---|---|
| 321,177 | 79,231 | 9,483 | 3,631 | 413,532 |

(Note) Sales are classified by country or region on the basis of construction sites.

(2) Property, plant and equipment

(Millions of yen)

| Japan | Southeast Asia | Oceania | Total |
|---|---|---|---|
| 12,440 | 1,171 | 50 | 13,661 |

(Thousands of U.S. dollars)

| Japan | Southeast Asia | Oceania | Total |
|---|---|---|---|
| 110,459 | 10,397 | 443 | 121,301 |

3. Information for each of main customers

This information has been omitted since sales to a specific customer account for less than 10% of net sales in the consolidated statement of income.

**[Disclosure of impairment loss on non-current assets for each reportable segment]**

Previous fiscal year (From April 1, 2014 to March 31, 2015)

Not applicable

Current fiscal year (From April 1, 2015 to March 31, 2016)

(Millions of yen)

| | Reportable segments | | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|
| | Plant & Machinery Business | Material Handling Systems Business | | | |
| Impairment loss | – | – | 19 | – | 19 |

(Thousands of U.S. dollars)

| | Reportable segments | | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|
| | Plant & Machinery Business | Material Handling Systems Business | | | |
| Impairment loss | – | – | 168 | – | 168 |

(Note) The amount of “other” is an amount related to manufacturing and sales of industrial facilities and equipment.

**[Amortization and unamortized balance of goodwill for each reportable segment]**

Previous fiscal year (From April 1, 2014 to March 31, 2015)

(Millions of yen)

| | Reportable segments | | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|
| | Plant & Machinery Business | Material Handling Systems Business | | | |
| Amortization in the current fiscal year | – | – | 62 | – | 62 |
| Ending balance | – | – | 124 | – | 124 |

(Note) The amount of “other” is an amount related to manufacturing and sales of industrial facilities and equipment.

Current fiscal year (From April 1, 2015 to March 31, 2016)

(Millions of yen)

| | Reportable segments | | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|
| | Plant & Machinery Business | Material Handling Systems Business | | | |
| Amortization in the current fiscal year | – | – | 62 | – | 62 |
| Ending balance | – | – | 62 | – | 62 |

(Thousands of U.S. dollars)

| | Reportable segments | | Other (Note) | Adjustment | Total |
|---|---|---|---|---|---|
| | Plant & Machinery Business | Material Handling Systems Business | | | |
| Amortization in the current fiscal year | – | – | 550 | – | 550 |
| Ending balance | – | – | 550 | – | 550 |

(Note) The amount of "other" is an amount related to manufacturing and sales of industrial facilities and equipment.

**[Information associated with related parties]**

Subsidiaries and others

1. Related party transactions

   Not applicable

2. Notes concerning the parent company or important affiliated companies

   Not applicable

**Notes - Per share information**

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Net assets per share | ¥315.91 | ¥333.91 | $2.96 |
| Basic earnings per share | ¥26.08 | ¥17.45 | $0.15 |

(Note) 1. The amount of diluted earnings per share is not provided because there are no potential shares.

(Note) 2. The basis for calculation for basic earnings per share is as follows:

| | Previous fiscal year (From April 1, 2014 to March 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) | |
|---|---|---|---|
| Profit attributable to owners of parent | ¥3,019 million | ¥1,906 million | $16,924 thousand |
| Profit not relating to common shareholders | – | – | – |
| Profit attributable to owners of parent pertaining to common shares | 3,019 | 1,906 | 16,924 |
| Average number of outstanding common shares | 115,788 thousands shares | 109,260 thousands shares | |

**Notes - Significant events after reporting period**

Cancellation of treasury shares

The Company's Board of Directors made a resolution on May 12, 2016 for the Company to cancel treasury shares pursuant to the provision of Article 178 of the Companies Act, and cancelled those shares on May 25, 2016 according to the particulars stated below.

(1) Type of the cancelled shares

Common shares

(2) Total number of cancelled shares

12,000 thousand shares

## (v) Annexed consolidated detailed schedules

### Annexed consolidated detailed schedule of corporate bonds

Not applicable

### Annexed consolidated detailed schedule of borrowings

| Classification | Beginning balance (Millions of yen) [Thousands of U.S. dollars] | Ending balance (Millions of yen) [Thousands of U.S. dollars] | Average interest rate (%) | Repayment due |
|---|---|---|---|---|
| Short-term loans payable | ¥2,518 [$22,358] | ¥2,357 [$20,928] | 0.89 | – |
| Current portion of long-term loans payable | 728 [6,464] | 60 [532] | 1.35 | – |
| Long-term loans payable (excluding current portion) | 615 [5,460] | 1,155 [10,255] | 0.93 | Between 2017 and 2020 |
| Total | 3,863 [34,301] | 3,572 [31,717] | – | – |

(Notes) 1. In calculating the average interest rate, the weighted average interest rate on the ending balance of loans payable, is shown.

2. Repayment of long-term loans payable (excluding the current portion) scheduled within five years after the balance sheet date are as follows:

| | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years |
|---|---|---|---|---|
| Long-term loans payable | ¥60 million [$532 thousand] | ¥15 million [$133 thousand] | ¥480 million [$4,262 thousand] | ¥600 million [$5,327 thousand] |

### Annexed consolidated detailed schedule of asset retirement obligations

A schedule of asset retirement obligations has been omitted since matters to be stated in the schedule are stated as notes prescribed in Article 15-23 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

## (2) Other information

Quarterly information for the current fiscal year

| (Cumulative period) | First quarter (Cumulative) (From April 1, 2015 to June 30, 2015) | Second quarter (Cumulative) (From April 1, 2015 to September 30, 2015) | Third quarter (Cumulative) (From April 1, 2015 to December 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|---|---|
| Net sales (Millions of yen) | 10,572 | 23,287 | 34,272 | 46,572 |
| Profit before income taxes (Millions of yen) | 790 | 1,047 | 2,825 | 3,161 |
| Profit attributable to owners of parent (Millions of yen) | 478 | 541 | 1,747 | 1,906 |
| Basic earnings per share (Yen) | 4.23 | 4.83 | 15.73 | 17.45 |

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|---|---|---|---|---|
| Basic earnings per share (Yen) | 4.23 | 0.57 | 11.04 | 1.53 |

| (Cumulative period) | First quarter (Cumulative) (From April 1, 2015 to June 30, 2015) | Second quarter (Cumulative) (From April 1, 2015 to September 30, 2015) | Third quarter (Cumulative) (From April 1, 2015 to December 31, 2015) | Current fiscal year (From April 1, 2015 to March 31, 2016) |
|---|---|---|---|---|
| Net sales (Thousands of U.S. dollars) | 93,873 | 206,774 | 304,315 | 413,532 |
| Profit before income taxes (Thousands of U.S. dollars) | 7,014 | 9,296 | 25,084 | 28,067 |
| Profit attributable to owners of parent (Thousands of U.S. dollars) | 4,244 | 4,803 | 15,512 | 16,924 |
| Basic earnings per share (U.S. dollars) | 0.03 | 0.04 | 0.13 | 0.15 |

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|---|---|---|---|---|
| Basic earnings per share (U.S. dollars) | 0.03 | 0.00 | 0.09 | 0.01 |

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

June 29, 2016

To the Board of Directors of
Toyo Kanetsu Kabushiki Kaisha

GYOSEI & CO.

| | | |
|---|---|---|
| Representative Partner<br>Engagement Partner<br>Certified Public Accountant | Takayuki Nakagawa | (seal) |
| Representative Partner<br>Engagement Partner<br>Certified Public Accountant | Tetsuo Noguchi | (seal) |
| Engagement Partner<br>Certified Public Accountant | Satoshi Ogawa | (seal) |

**Audit of Financial Statements**

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying consolidated financial statements of Toyo Kanetsu Kabushiki Kaisha (the "Company") and its subsidiaries, which comprise the consolidated balance sheet as of March 31, 2016, and the consolidated statements of income and comprehensive income, the consolidated statement of changes in equity, cash flows for the fiscal year from April 1, 2015 to March 31, 2016, and significant accounting policies for preparation of the consolidated financial statements, other notes, and annexed consolidated detailed schedules, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

**Emphasis of Matter**

As stated in “Notes - Significant events after reporting period,” the Company’s Board of Directors made a resolution on May 12, 2016 for the Company to cancel treasury shares and cancelled those shares on May 25, 2016. This matter does not have any impact on our opinion.

**Audit of Internal Control**

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan, we have audited management’s report on internal control over financial reporting of the Company as of March 31, 2016.

**Management’s Responsibility for the Report on Internal Control**

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on management’s report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management’s report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management’s report on internal control. The procedures selected depend on the auditor’s judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management’s report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the management’s report on internal control referred to above, which represents that the internal control over financial reporting of the Company as of March 31, 2016 was effective, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

**Conflicts of Interest**

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

# Corporate Data

| | |
|---|---|
| Date of Establishment | May 16, 1941 |
| Common Stock | ¥18,580 million |
| Authorized Shares | 297,000,000 |
| Capital Stock Issued | 115,030,741 |
| Number of Shareholders | 12,839 |
| Security Traded | Tokyo Stock Exchange, First Section |
| Transfer Agent and Registrar | The Mitsubishi UFJ Trust and Banking Corporation<br>4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan |
| Annual Meeting | The annual meeting of shareholders is normally held in June in Tokyo, Japan |

# Directory

## Head Office

19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3333  Fax: +81-3-5857-3170
URL: http://www.toyokanetsu.co.jp/global/

### Plant & Machinery Business

Tel: +81-3-5857-3109  Fax: +81-3-5857-3173

### Material Handling Systems Business

(Toyo Kanetsu Solutions K.K. Head Office)
Tel: +81-3-5857-3126  Fax: +81-3-5857-3180

## Osaka Sales Office

1-9-2, Senrioka-Higashi, Settsu, Osaka 566-0011, Japan

### Plant & Machinery Business

Tel: +81-72-645-2520  Fax: +81-72-645-2532

### Material Handling Systems Business

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## Chiba Plant

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## Domestic Subsidiaries

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URL: http://www.tksl.co.jp/en

### Toyo Kanetsu Builtec K.K.

19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-3640-5164  Fax: +81-3-6800-3156
URL: http://www.web-tkb.com

### Toyo Service System K.K.

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### Toyo Koken K.K.

19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3161  Fax: +81-3-5857-3198
URL: http://www.toyokoken.co.jp/en

## Overseas Subsidiaries

### P.T. Toyo Kanetsu Indonesia

(Jakarta Head Office)
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### TOYO KANETSU SINGAPORE PTE. LTD.

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