TOYO KANETSU K.K.

Annual Report 2017

For the year ended March 31, 2017

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To Our Shareholders

The Toyo Kanetsu K.K. (TKK) Group was established in 1941 under the company creed: “Be creative, be good for the society.” Based on the technology we have built up since that time, we operate mainly in the Plant & Machinery Business and the Material Handling Systems Business. By supplying customers in various industrial fields with optimal products, systems, and services, we have earned their approval and trust while contributing to society and the environment.

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, the TKK Group celebrated 75 years since being founded. We wish to deeply thank all of our stakeholders, for without them this would not have been possible. Enthusiastic and committed to our work, and with a spirit of “Challenge & Change,” we look forward to years of sustained development and rising corporate value as the TKK Group advances toward its 100th anniversary.

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

June 2017

Toru Yanagawa
President
and Representative Director

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	Operating Profit
¥13,852 million	¥633 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	Operating Profit
¥21,711 million	¥1,981 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.

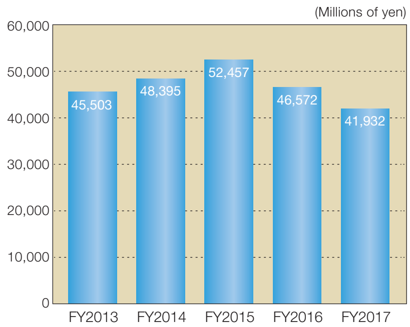
Other Business

Net Sales	Operating Profit
¥6,368 million	¥958 million

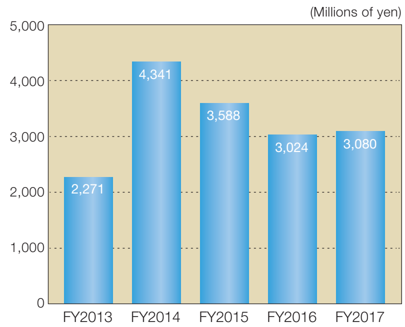
Construction on contract of social service facilities, rental housing, and others; manufacture and sale of industrial equipment such as balancers and winches; and real estate rental and property management.

*Before the elimination of inter-segment transactions.

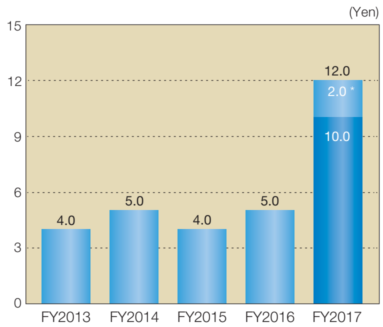
Net Sales



Operating Profit

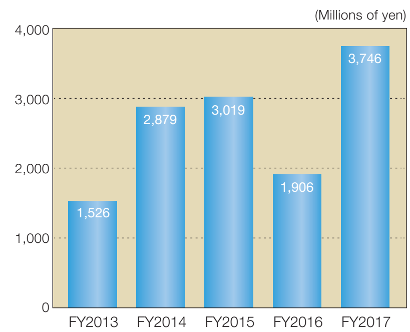


Cash Dividends per Share

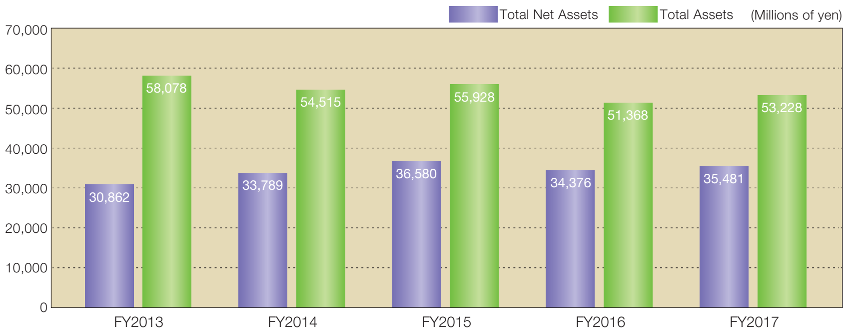


*Commemorative dividend

Profit Attributable to Owners of Parent



Total Net Assets / Total Assets



Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31

	Millions of yen				
	2017	2016	2015	2014	2013
For the Years Ended March 31:					
Net Sales	**¥41,932**	¥46,572	¥52,457	¥48,395	¥45,504
Plant & Machinery Business	**13,852**	22,788	29,425	26,903	24,027
Material Handling Systems Business	**21,711**	17,206	15,689	15,158	14,966
Other	**6,368**	6,577	7,341	6,333	6,511
Operating profit	**3,080**	3,024	3,588	4,341	2,272
Profit Attributable to Owners of Parent	**3,746**	1,906	3,019	2,879	1,527
Comprehensive Income	**3,923**	1,302	4,390	3,223	1,971
Cash Dividends	**1,150**	514	460	594	477
At March 31:					
Current Assets	**¥28,479**	¥29,995	¥33,463	¥33,841	¥37,149
Property, Plant and Equipment	**16,084**	13,661	13,577	12,912	13,655
Investments and Other Assets	**8,245**	7,340	8,504	7,368	6,810
Intangible Assets	**418**	370	382	393	465
Total Assets	**53,228**	51,368	55,928	54,515	58,079
Current Liabilities	**13,104**	12,866	15,570	16,724	23,169
Total Non-Current Liabilities	**4,642**	4,125	3,777	4,000	4,048
Shareholders' Equity	**33,978**	32,136	33,525	32,105	29,530
Accumulated Other Comprehensive Income	**1,503**	2,239	2,814	1,471	1,174
Non-Controlling Interests	**–**	–	240	212	158
Total Liabilities and Net Assets	**53,228**	51,368	55,928	54,515	58,079
Order Backlog	**24,485**	24,126	32,256	49,065	46,459

	Yen				
Per Share:	**2017**	2016	2015	2014	2013
Profit Attributable to Owners of Parent	**¥37.38**	¥17.45	¥26.08	¥24.18	¥12.53
Cash Dividends	**12.00**	5.00	4.00	5.00	4.00
Shareholders' Equity	**370.20**	333.91	315.91	282.18	257.71

	2017	2016	2015	2014	2013
Number of Shareholders	**11,360**	12,839	15,229	16,738	17,277
Number of Employees	**899**	884	753	742	787

Analysis of Operating Environment and Results

In fiscal 2017 (ended March 31, 2017), corporate earnings in Japan and the employment and income situations improved against a background of supportive economic policies, which helped to sustain a gradual economic recovery. On the other hand, global growth eased as the economies of China and other developing countries slowed. Also, the outlook remains uncertain due to Brexit, the Trump administration's policy directions, and other factors.

Our Plant & Machinery Business continued to face tough operating conditions. OPEC coordinated production cuts aimed at supporting oil prices, and the LNG market grew, led by China, India, and other developing countries. Nevertheless, these factors were not enough to stimulate growth in oil- and gas-related capital investment, such as increased construction or expansion of large tanks.

In the Material Handling Systems Business, labor shortages stemming from the falling birthrate and an aging population in Japan are increasing the need for automation. In particular, online shopping is likely to keep growing at a high rate. Also, strong demand for aviation is continuing an increase in airport construction projects and information system upgrade projects, so demand for distribution systems is trending upward.

In this business environment, the Material Handling Systems Business recorded positive sales growth, while sales for the Plant & Machinery Business fell because of a decline in orders for new installations. As a result, the Company's consolidated net sales totaled ¥41,932 million (down 10.0% year on year). Operating profit rose to ¥3,080 million (up 1.9%), mainly due to firm business conditions for the Material Handling Systems Business, and ordinary profit was ¥3,441 million (up 6.6%). Profit attributable to owners of the parent company was ¥3,746 million (up 96.5%). This large increase was mainly due to an extraordinary profit stemming from the sale of the land and building of the Company's former head office. Orders received in fiscal 2017 rose by 10.8% to ¥37,395 million.

Segment results are as follows.

● Plant & Machinery Business

Some capital investment plans were postponed because of the cloudy market outlook, which limited orders for construction or expansion of tanks. We stepped up marketing efforts aimed at broadening our order domain, but they did not lead to large orders in fiscal 2017. In the maintenance field, the business environment was tough due to increasingly severe competition.

Against this background, consolidated net sales in this business decreased by 39.2% year on year to ¥13,852 million. Operating profit dropped by 67.0% to ¥633 million (before adjustment), while orders received declined by 34.0% to ¥8,182 million.

● Material Handling Systems Business

Amid increasing demand for material handling systems, we recorded new installation sales for the online and brick & mortar retail industries, as well as sales of facilities to co-ops. We not only recorded higher sales, but also steadily implemented important policies in our medium-term business plan, which lowered costs and greatly improved profitability.

As a result, consolidated net sales in this business increased by 26.2% year on year to ¥21,711 million, while operating profit rose by 197.0% to ¥1,981 million (before adjustment), and orders received grew by 45.3% to ¥28,486 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 3.2% year on year to ¥6,368 million, operating profit rose by 12.0% to ¥958 million (before adjustment), and orders received decreased by 58.4% to ¥726 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.

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

Business Strategy

[Plant & Machinery Business]

(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]

(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

[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

(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

Basic Plans for Capital Policy and Return to Shareholders

We see the return of profits to shareholders as one of our most important management issues. The optimal balance between financial soundness and shareholders' return is the point we aimed for in devising our shareholders' return policy. On November 11, 2016, we released the basic plan for our capital policy, which comprehensively takes into consideration aggressive investment to improve corporate value, profit distribution, and capital efficiency, based on our earnings projections and financial standing. From the viewpoint of enhancing TKK's return to shareholders, the policy we have put in place is as follows.

1. Consolidated dividend payout ratio

Before revision: Set at 20%-30% (but with a minimum of ¥5 per share)
After revision: Set at 30% or more (but with an annual minimum of ¥10 per share)

2. Consolidated total return ratio

Before revision: Set at 50%-75%. In addition to 1, share buybacks will be carried out flexibly, when necessary.
(However, the Company may not be held to this rule when it faces demand for a large amount of funds.)
After revision: Set at 100%. In addition to 1, share buybacks will be carried out flexibly, when necessary.
(However, the Company may not be held to this rule when it faces demand for a large amount of funds.)
This shareholders' return policy will be applied for the three years of the TKK Group's medium-term plan (fiscal years ending March 2017 – March 2019), and it will be reviewed when the three years are over. Based on these basic plans for capital policy and return to shareholders, we will raise capital efficiency, aiming for an ROE of 8% or higher in fiscal 2021.

Examples of Business Strategy Initiatives

[Plant & Machinery Business]

Participation in Gastech Japan 2017

From April 4 to April 7, 2017, TKK participated in Gastech Japan 2017, the world's largest natural gas and LNG industry event, held at Makuhari Messe in Chiba Prefecture.

At this gathering of leading global companies from both Japan and overseas, many of which are our customers, we highlighted displays showing our delivery record for LNG tanks and our advanced construction technology. Many visitors to Gastech Japan engaged in business talks with us and we fielded many enquiries, making the event a success.

As we approach the next recovery phase for LNG demand, we will strengthen customer relationships while responding better to customers' needs and expectations by, for example, shortening tank construction times so that the lead time is reduced from the capital investment decision to beginning operations. By developing highly dependable, price-competitive products and technologies, we will give TKK an even greater presence in the LNG market, which is forecast to expand over the long term.

[Material Handling Systems Business]

World-First Debut of Latest Airport Baggage Handling System

Based on the TKK Group's medium-term business plan (fiscal 2016-2018), we are focusing on sales of superior systems and expanding our business domains through alliances. From March 2 to 4, 2017, we and our local partner participated in CeMAT Southeast Asia, a distribution and logistics exhibition held in Indonesia.

With the goal of showing our technological prowess to Indonesian airport authorities, we introduced TKK's baggage handling system for airport visitors. We showed that TKK's system can sort baggage without harming individual pieces, and that it is equipped with a highly effective horizontal divider for use with inline screening (an automatic bomb detection system), for which demand is high at airports around the world. Teaming up with a partner that has an overwhelming share in baggage handling facilities at domestic airports, we are looking to expand sales in Southeast Asia and in this way expand our business domain.

[New Business]

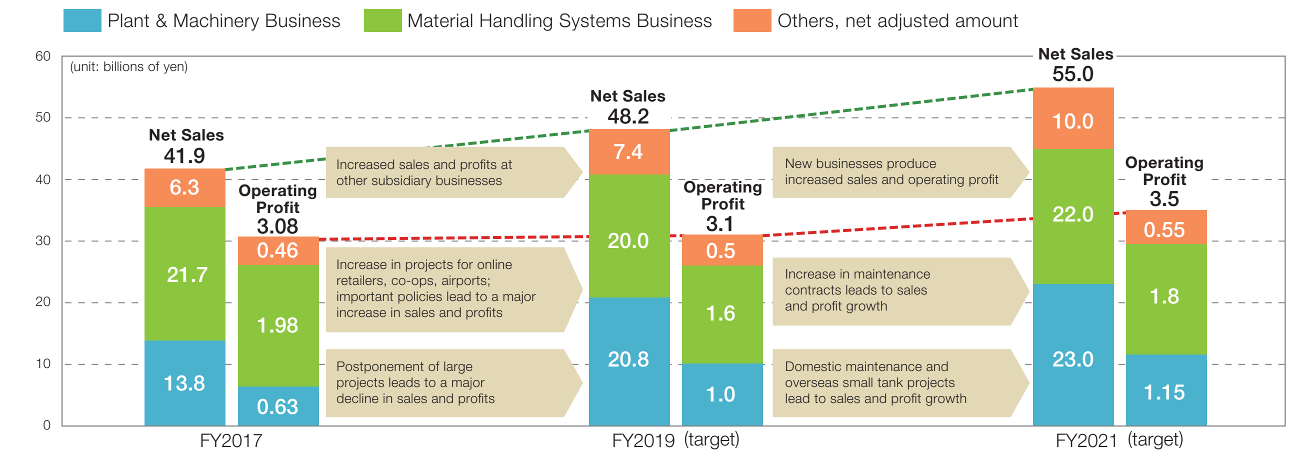
Development of New Products & Services, Launch of New Businesses That Build on Existing Strengths

In the Plant & Machinery Business, we set our sights on developing the market for thermal power plants fueled by liquid hydrogen. Our near-term goal is to build a large-scale 10,000 cubic meters liquefied hydrogen tank, which will greatly exceed the capacity of the largest existing model.

In the Material Handling Systems Business, we are making adjustments to include IoT and robotics in our next-generation distribution system prior to its market entry.

In the TKK Group's medium-term business plan, we allocated ¥4 billion to launching new businesses through M&As, investments in other companies, and obtaining new seed-stage businesses.

■ Consolidated Net Sales and Operating Profit Targets by Segment



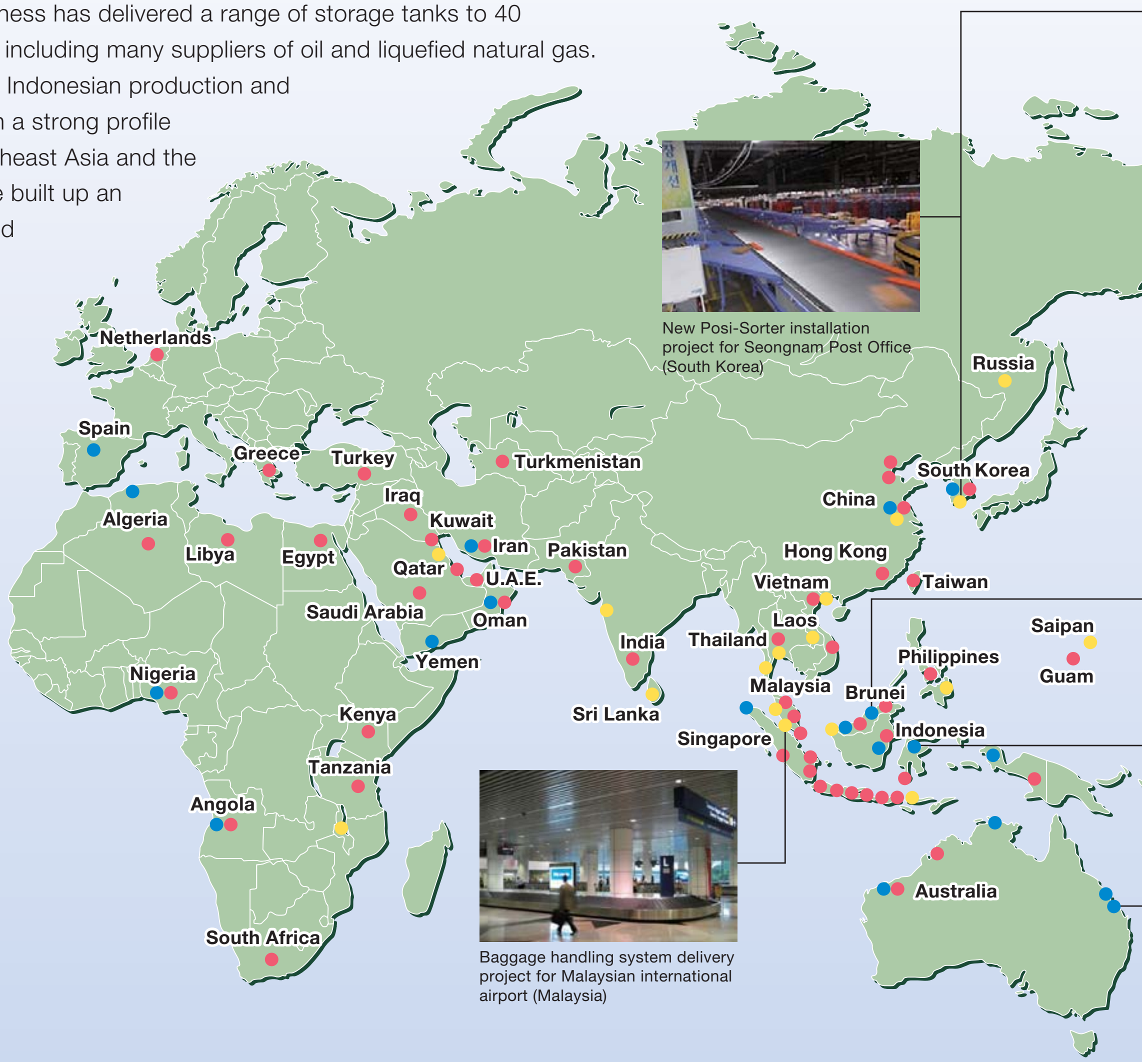
	FY2017	FY2019 (target)	FY2021 (target)
ROE	10.7%	7.2%	8.0%
Dividend payout ratio	32.1%	30% or higher	—
Total return ratio	108.6%	100% or higher	—
Overseas sales ratio	12.6%	15.0%	25.0%
New business sales ratio	—	—	4.7%

Overseas Delivery Record

Making Things Happen Worldwide

Our Plant & Machinery Business has delivered a range of storage tanks to 40 countries around the world, including many suppliers of oil and liquefied natural gas. We advantageously use our Indonesian production and processing base to maintain a strong profile overseas, especially in Southeast Asia and the Middle East, where we have built up an extensive delivery record and won favorable assessments in every country.

Our Material Handling Systems Business has delivered airport baggage handling systems in 17 countries.



New Posi-Sorter installation project for Seongnam Post Office (South Korea)

Baggage handling system delivery project for Malaysian international airport (Malaysia)

TKK Group Companies

Domestic

Toyo Kanetsu Solutions K.K.

Toyo Kanetsu Builtec K.K.

Toyo Service System K.K.

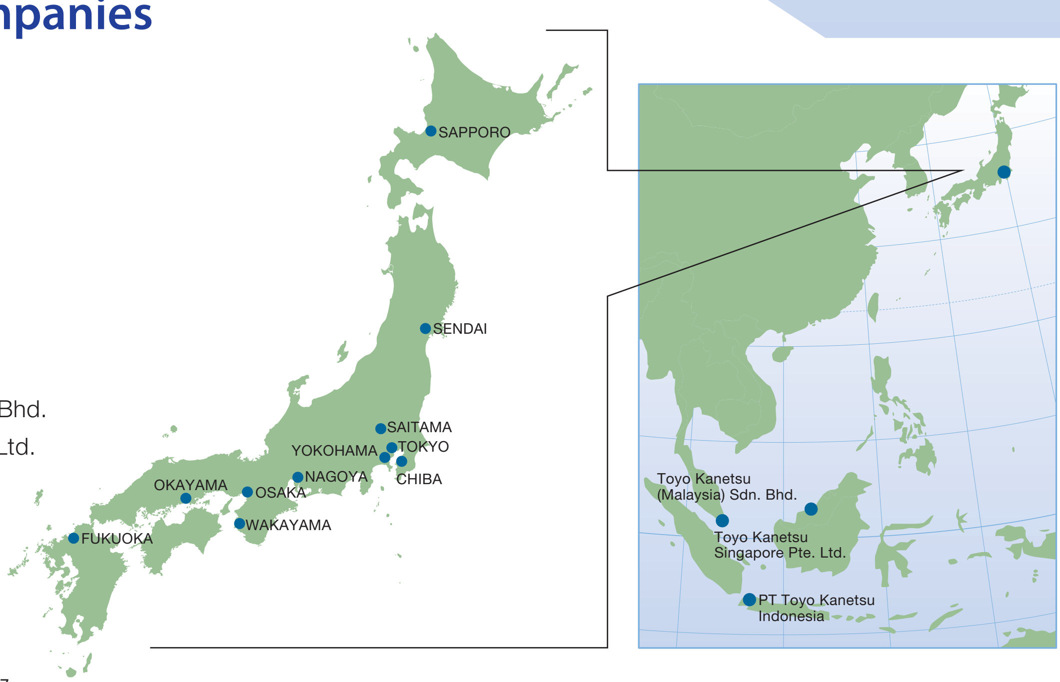
Toyo Koken K.K.

Overseas

PT Toyo Kanetsu Indonesia

Toyo Kanetsu (Malaysia) Sdn. Bhd.

Toyo Kanetsu Singapore Pte. Ltd.

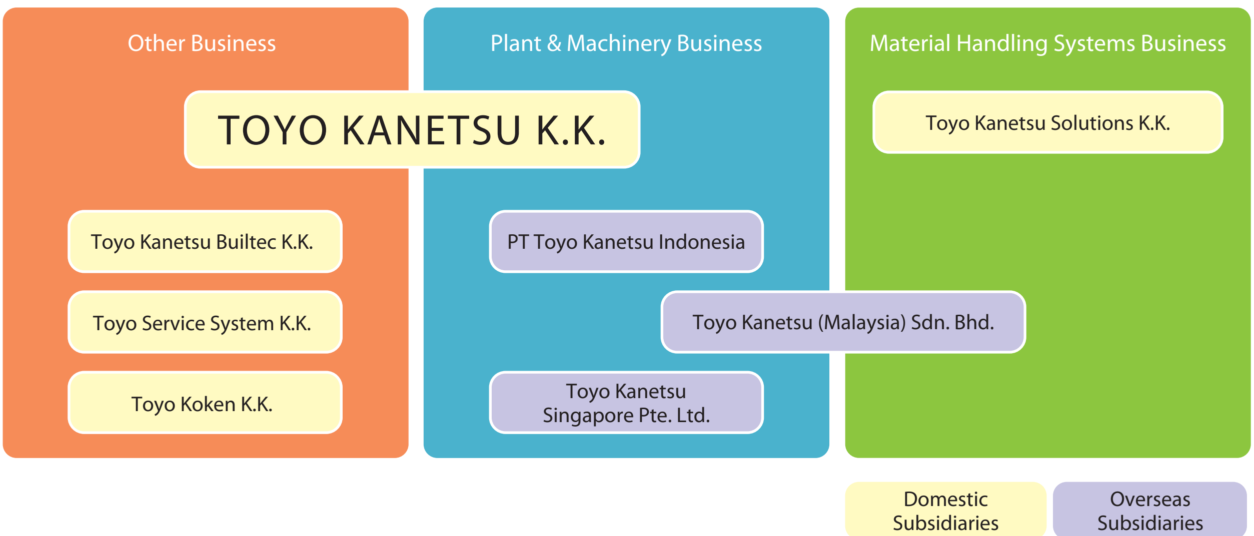


Material handling system delivery and installation project for food distribution center (South Korea)

120,000m³ PC LNG tank for Brunei LNG project (Brunei)

170,000m³ PC LNG tank for Donggi-Senoro LNG project (Indonesia)

140,000m³ PC LNG tanks for Queensland Curtis LNG project (Australia)



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

Directors

President and Representative Director
Toru Yanagawa

Directors and Senior Corporate Officers
Isao Shimomae
Masayuki Takeda
Keisuke Kodama

Directors and Audit & Supervisory Committee Members
Kazuto Abe
Toshiaki Hiwatari
Tsuneo Nagai
Shigeharu Nakamura

Corporate Officers

Senior Corporate Officers
Tetsuya Watanabe
Shiro Ito

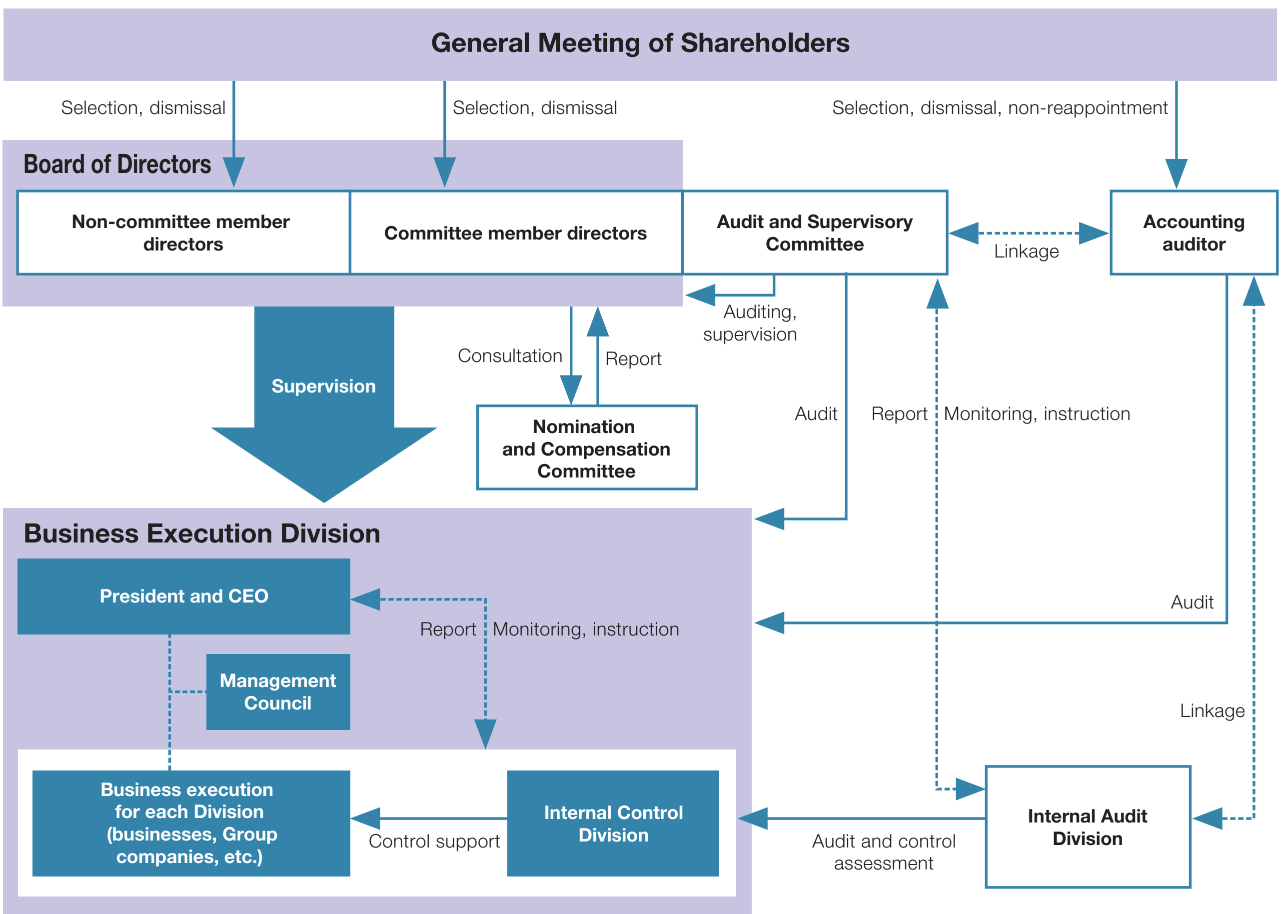
Corporate Officers
Hiroshi Ohgi
Hiromi Tanaka
Takeshi Yonehara
Hiroshi Kimoto
Akira Kakihara
Masahiko Mitsumoto

Corporate Governance System

At TKK's 107th ordinary general meeting of shareholders, held on June 26, 2015, a resolution was passed making TKK a company with an audit and supervisory committee. On the same day, TKK made the transition from a company with a board of auditors to one with an audit and supervisory committee.

By giving voting rights in the Board of Directors to directors who are committee members (including multiple outside directors), we aimed to strengthen the role of the Board of Directors and auditing and supervisory roles while constructing a more effective corporate governance system.

Corporate Governance System



Financial Section

For the years ended March 31, 2016 and 2017

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 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

(Millions of yen)

		Previous fiscal period (As of March 31, 2016)		Current fiscal period (As of March 31, 2017)
Assets				
Current assets				
Cash and deposits	*1	13,608	*1	6,811
Notes and accounts receivable - trade		9,474		12,824
Lease investment assets		1,527		1,526
Securities		500		100
Merchandise and finished goods		55		54
Work in process		2,644		4,140
Raw materials and supplies		1,310		1,649
Deferred tax assets		380		582
Other		515		872
Allowance for doubtful accounts		(22)		(83)
Total current assets		29,995		28,479
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	*3	2,325	*3	3,578
Machinery, equipment and vehicles, net	*3	1,208	*3	1,132
Tools, furniture and fixtures, net	*3	202	*3	288
Land	*3, *4	9,427	*3, *4	10,965
Construction in progress		498		119
Other, net		0		0
Total property, plant and equipment	*2	13,661	*2	16,084
Intangible assets		370		418
Investments and other assets				
Investment securities		6,240		7,325
Deferred tax assets		41		41
Net defined benefit asset		390		358
Other		923		788
Allowance for doubtful accounts		(256)		(267)
Total investments and other assets		7,340		8,245
Total non-current assets		21,372		24,748
Total assets		51,368		53,228

(Millions of yen)

		Previous fiscal period (As of March 31, 2016)		Current fiscal period (As of March 31, 2017)
Liabilities				
Current liabilities				
Notes and accounts payable - trade		3,231		2,347
Short-term loans payable	*3	2,357	*3	2,397
Current portion of long-term loans payable	*3	60	*3	60
Accrued expenses		3,434		4,324
Income taxes payable		669		647
Deferred tax liabilities		10		–
Advances received		1,478		1,173
Provision for bonuses		275		258
Provision for loss on order received		521		674
Provision for warranties for completed construction		181		512
Other		646		709
Total current liabilities		12,866		13,104
Non-current liabilities				
Long-term loans payable	*3	1,155	*3	1,095
Deferred tax liabilities		607		1,692
Deferred tax liabilities for land revaluation	*4	1,529	*4	1,121
Net defined benefit liability		462		364
Asset retirement obligations		332		332
Other		39		37
Total non-current liabilities		4,125		4,642
Total liabilities		16,991		17,747
Net assets				
Shareholders' equity				
Capital stock		18,580		18,580
Capital surplus		1,273		1,273
Retained earnings		15,170		16,447
Treasury shares		(2,887)		(2,323)
Total shareholders' equity		32,136		33,978
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		1,788		1,992
Deferred gains or losses on hedges		–		(14)
Revaluation reserve for land	*4	1,077	*4	163
Foreign currency translation adjustment		(639)		(652)
Remeasurements of defined benefit plans		12		14
Total accumulated other comprehensive income		2,239		1,503
Total net assets		34,376		35,481
Total liabilities and net assets		51,368		53,228

(ii) Consolidated statement of income and comprehensive income

(Millions of yen)

		Previous fiscal year (From April 1, 2015 to March 31, 2016)		Current fiscal year (From April 1, 2016 to March 31, 2017)
Net sales		46,572		41,932
Cost of sales	*1	39,361	*1	33,660
Gross profit		7,211		8,272
Selling, general and administrative expenses	*2, *3	4,186	*2, *3	5,191
Operating profit		3,024		3,080
Non-operating income				
Interest income		44		20
Dividend income		206		248
Gain on investments in silent partnership		16		60
Miscellaneous income		222		136
Total non-operating income		489		466
Non-operating expenses				
Interest expenses		14		20
Foreign exchange losses		228		69
Miscellaneous loss		43		15
Total non-operating expenses		287		105
Ordinary profit		3,227		3,441
Extraordinary income				
Gain on sales of non-current assets		14		2,315
Insurance income		8		–
Other		5		3
Total extraordinary income		29		2,319
Extraordinary losses				
Loss on sales of non-current assets		27		179
Loss on retirement of non-current assets		7		401
Impairment loss	*4	19		–
Merger expenses		25		–
Head office relocation expenses		11		226
Other		3		2
Total extraordinary losses		95		809
Profit before income taxes		3,161		4,951
Income taxes - current		1,011		818
Income taxes - deferred		253		386
Total income taxes		1,264		1,205
Profit		1,897		3,746
Profit attributable to				
Profit attributable to owners of parent		1,906		3,746
Loss attributable to non-controlling interests		(9)		–
Other comprehensive income				
Valuation difference on available-for-sale securities		(246)		203
Deferred gains or losses on hedges		–		(14)
Revaluation reserve for land		82		–
Foreign currency translation adjustment		(109)		(13)
Remeasurements of defined benefit plans, net of tax		(321)		2
Total other comprehensive income	*5	(594)	*5	177
Comprehensive income		1,302		3,923
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		1,331		3,923
Comprehensive income attributable to non-controlling interests		(28)		–

(iii) Consolidated statement of changes in equity

Previous 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	Remeasurements 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, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	18,580	1,273	15,170	(2,887)	32,136
Changes of items during period					
Dividends of surplus			(514)		(514)
Profit attributable to owners of parent			3,746		3,746
Reversal of revaluation reserve for land			914		914
Purchase of treasury shares				(2,304)	(2,304)
Retirement of treasury shares			(2,868)	2,868	–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,277	563	1,841
Balance at end of current period	18,580	1,273	16,447	(2,323)	33,978

	Accumulated other comprehensive income						Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	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	1,788	–	1,077	(639)	12	2,239	34,376
Changes of items during period							
Dividends of surplus							(514)
Profit attributable to owners of parent							3,746
Reversal of revaluation reserve for land							914
Purchase of treasury shares							(2,304)
Retirement of treasury shares							–
Net changes of items other than shareholders' equity	203	(14)	(914)	(13)	2	(736)	(736)
Total changes of items during period	203	(14)	(914)	(13)	2	(736)	1,104
Balance at end of current period	1,992	(14)	163	(652)	14	1,503	35,481

(iv) Consolidated statement of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash flows from operating activities		
Profit before income taxes	3,161	4,951
Depreciation	765	691
Amortization of long-term prepaid expenses	2	3
Impairment loss	19	–
Amortization of goodwill	62	62
Increase (decrease) in allowance for doubtful accounts	(121)	72
Increase (decrease) in net defined benefit liability	(78)	(86)
Decrease (increase) in net defined benefit asset	(148)	2
Increase (decrease) in provision for loss on order received	186	165
Increase (decrease) in provision for warranties for completed construction	(73)	330
Interest and dividend income	(250)	(269)
Interest expenses	14	20
Merger expenses	25	–
Head office relocation expenses	11	226
Foreign exchange losses (gains)	286	34
Loss (gain) on sales of investment securities	(5)	(2)
Loss (gain) on sales of non-current assets	12	(2,136)
Loss on retirement of non-current assets	15	401
Decrease (increase) in notes and accounts receivable - trade	758	(3,380)
Decrease (increase) in lease investment assets	(93)	0
Decrease (increase) in inventories	997	(1,833)
Decrease (increase) in advance payments	38	(286)
Decrease (increase) in accounts receivable - other	987	(123)
Increase (decrease) in notes and accounts payable - trade	765	99
Increase (decrease) in advances received	(2,137)	(303)
Other, net	215	0
Subtotal	5,417	(1,357)
Interest and dividend income received	251	272
Interest expenses paid	(14)	(20)
Payments for merger expenses	(25)	–
Payments for head office relocation expenses	(4)	(233)
Income taxes paid	(1,582)	(791)
Net cash provided by (used in) operating activities	4,041	(2,131)
Cash flows from investing activities		
Payments into time deposits	(0)	(202)
Proceeds from withdrawal of time deposits	32	232
Proceeds from sales and redemption of securities	200	500
Purchase of non-current assets	(1,175)	(5,160)
Proceeds from sales of non-current assets	65	3,647
Purchase of investment securities	(102)	(887)
Proceeds from sales and redemption of investment securities	208	6
Other, net	4	148
Net cash provided by (used in) investing activities	(766)	(1,714)

(Millions of yen)

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(48)	56
Proceeds from long-term loans payable	600	–
Repayments of long-term loans payable	(728)	(60)
Purchase of treasury shares	(3,004)	(2,304)
Cash dividends paid	(459)	(512)
Net cash provided by (used in) financing activities	(3,640)	(2,820)
Effect of exchange rate change on cash and cash equivalents	(399)	(130)
Net increase (decrease) in cash and cash equivalents	(765)	(6,796)
Cash and cash equivalents at beginning of period	14,372	13,606
Cash and cash equivalents at end of period	*1 13,606	*1 6,810

Notes

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.

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 Companies."

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, PT 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, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The estimated useful lives of major items are as follows:

Buildings and structures	2 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 allocation 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 Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the fiscal year ended March 31, 2017, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact from this change on operating profit, ordinary profit and profit before income taxes for the current fiscal year is immaterial.

Notes - Additional information

Application of ASBJ Guidance on Recoverability of Deferred Tax Assets

Effective from the fiscal year ended March 31, 2017, the Company has applied the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

Notes - Changes in presentation

Consolidated balance sheet

"Accounts receivable - other" under current assets, which was set down separately until the previous fiscal year, has been included in "other" under current assets 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, ¥101 million included in "accounts receivable - other" under current assets 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

"Gain on investments in silent partnership" 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.
"Gain on sales of scraps" and "reversal of allowance for doubtful accounts" under non-operating income, which were set down separately for the previous fiscal year, have been included in "miscellaneous income" under non-operating income from the current fiscal year since significance of the amounts 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, in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year, "miscellaneous income" under non-operating income, which originally was presented as ¥88 million, has been restated as ¥222 million after reclassifying "gain on investments in silent partnership" of ¥16 million, "gain on sales of scraps" of ¥59 million, and "reversal of allowance for doubtful accounts" of ¥91 million under "miscellaneous income."

"Loss on retirement of non-current assets" included in "other" under extraordinary losses 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, ¥11 million included in "other" under extraordinary losses in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year has been reclassified to "loss on retirement of non-current assets" of ¥7 million and "other" of ¥3 million.

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, 2016)	Current fiscal year (As of March 31, 2017)
Current deposit	¥1 million (50,000 AED)	¥1 million (50,000 AED)

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

Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
¥13,405 million	¥11,203 million

*3. Assets pledged and liabilities secured

Assets pledged and liabilities secured as collateral are as follows:

Assets pledged

	Previous fiscal year (As of March 31, 2016)		Current fiscal year (As of March 31, 2017)	
Buildings and structures	¥464 million	[¥464 million]	¥405 million	[¥405 million]
Machinery, equipment and vehicles	0	[0]	0	[0]
Tools, furniture and fixtures	0	[0]	0	[0]
Land	5,523	[5,523]	5,458	[5,458]
Total	5,988	[5,988]	5,864	[5,864]

Liabilities secured

	Previous fiscal year (As of March 31, 2016)		Current fiscal year (As of March 31, 2017)	
Short-term loans payable	¥427 million	[¥427 million]	¥426 million	[¥426 million]
Long-term loans payable	980	[980]	980	[980]
Total	1,407	[1,407]	1,406	[1,406]

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

*4. 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, 2016)	Current fiscal year (As of March 31, 2017)
Difference between the year-end value of revaluated land and the book value after the revaluation	¥(3,250) million	¥(3,233) million

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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
	¥158 million	¥116 million

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

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Salaries and allowances	¥1,407 million	¥1,489 million
Bonuses	325	380
Provision for bonuses	103	109
Retirement benefit expenses	80	105
Provision of allowance for doubtful accounts	(30)	72

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

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
	¥352 million	¥567 million

*4. Impairment loss

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

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

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, 2017, an impairment loss (¥19 million) 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.

Current fiscal year (From April 1, 2016 to March 31, 2017)

Not applicable

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

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)

Valuation difference on available-for-sale securities:		
Amount recorded during the period	¥(517) million	¥295 million
Reclassified amount	(5)	(2)
Pre-adjustment of tax effect	(523)	292
Tax effect amount	276	(89)
Valuation difference on available-for-sale securities	(246)	203
Deferred gains or losses on hedges:		
Amount recorded during the period	–	(21)
Reclassified amount	–	–
Pre-adjustment of tax effect	–	(21)
Tax effect amount	–	6
Deferred gains or losses on hedges	–	(14)
Revaluation reserve for land:		
Amount recorded during the period	–	–
Reclassified amount	–	–
Pre-adjustment of tax effect	–	–
Tax effect amount	82	–
Revaluation reserve for land	82	–
Foreign currency translation adjustment:		
Amount recorded during the period	(109)	(13)
Reclassified amount	–	–
Pre-adjustment of tax effect	(109)	(13)
Tax effect amount	–	–
Foreign currency translation adjustment	(109)	(13)
Remeasurements of defined benefit plans, net of tax:		
Amount recorded during the period	(360)	35
Reclassified amount	(113)	(33)
Pre-adjustment of tax effect	(474)	1
Tax effect amount	152	0
Remeasurements of defined benefit plans, net of tax	(321)	2
Total other comprehensive income	(594)	177

Notes - Consolidated statement of changes in equity

Previous 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	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	Retained earnings	¥5	March 31, 2016	June 30, 2016

Current fiscal year (From April 1, 2016 to March 31, 2017)

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 (Note 1)	115,030	–	12,000	103,030
Total	115,030	–	12,000	103,030
Treasury shares				
Common shares (Notes 1 and 2)	12,081	7,106	12,000	7,187
Total	12,081	7,106	12,000	7,187

(Notes) 1. The number of issued common shares decreased by 12,000 thousand shares and the number of common shares in treasury decreased by 12,000 thousand shares due to cancellation of treasury shares based on a resolution by the Board of Directors.

2. The number of common shares in treasury increased by 7,106 thousand shares due to purchase of treasury shares based on a resolution by the Board of Directors of 7,091 thousand shares and purchase of shares less than one unit of 15 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 29, 2016	Common shares	¥514 million	¥5	March 31, 2016	June 30, 2016

(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, 2017	Common shares	¥1,150 million	Retained earnings	¥12	March 31, 2017	June 30, 2017

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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Cash and deposits	¥13,608 million	¥6,811 million
Restricted deposits	(1)	(1)
Cash and cash equivalents	13,606	6,810

Notes - Leases

(Borrower)
Operating lease transactions
Future lease payments under non-cancelable operating leases

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Due within 1 year	¥7 million	¥8 million
Due over 1 year	15	16
Total	23	25

(Lender)
Finance lease transactions
(1) The components of lease investment assets
Current assets

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Lease payments receivable	¥1,648 million	¥1,596 million
Estimated residual value	76	81
Amount equivalent to interest income	(197)	(151)
Lease investment assets	1,527	1,526

(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, 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	–

(Millions of yen)

	Current fiscal year (As of March 31, 2017)					
	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	622	476	321	123	52	–

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, 2016 and 2017, 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, 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	–	–	–

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

Current fiscal year (As of March 31, 2017)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	6,811	6,811	–
(2) Notes and accounts receivable - trade	12,824		
Allowance for doubtful accounts (*)	(30)		
	12,794	12,794	–
(3) Securities	100	100	–
(4) Investment securities	6,402	6,404	1
Total assets	26,108	26,110	1
(1) Notes and accounts payable - trade	2,347	2,347	–
(2) Short-term loans payable	2,397	2,397	–
(3) Accrued expenses	4,324	4,324	–
(4) Long-term loans payable (including within 1 year)	1,155	1,169	14
Total liabilities	10,224	10,238	14
Derivatives			
(1) Those not qualifying for hedge accounting	–	–	–
(2) Those qualifying for hedge accounting	(21)	(21)	–
Total derivatives	(21)	(21)	–

(*) 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) 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, 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	–	–

Current fiscal year (As of March 31, 2017)

(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	6,796	–	–	–
Notes and accounts receivable - trade	12,794	–	–	–
Securities	100	–	–	–
Investment securities				
Held-to-maturity bonds	–	500	–	–
Available-for-sale securities	–	96	–	–
Total	19,690	596	–	–

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

Previous 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

Current fiscal year (As of March 31, 2017)

(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	15	480	600	–

Notes - Securities

1. Held-to-maturity bonds

Previous 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)

Current fiscal year (As of March 31, 2017)

(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	500	501	1
	Subtotal	600	601	1
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	–	–	–
	Subtotal	–	–	–
Total		600	601	1

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

Previous 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

(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) because there is no market value and accordingly it is extremely difficult to ascertain their fair values.

Current fiscal year (As of March 31, 2017)

(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	5,164	2,400	2,764
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	5,164	2,400	2,764
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	640	717	(76)
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	96	100	(3)
	(3) Other	–	–	–
	Subtotal	737	817	(79)
Total		5,902	3,217	2,685

(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) 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, 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	–

Current fiscal year (From April 1, 2016 to March 31, 2017)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	6	2	–
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	6	2	–

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

Previous fiscal year (As of March 31, 2016)

Not applicable

Current fiscal year (As of March 31, 2017)

(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
Allocation method for forward exchange contract	Forward exchange contract Buy contract Euro	Accounts payable - trade	839	–	818	Fair value is calculated based on the price provided by counterparty financial institutions or other prices.
Total			839	–	818	

(2) Interest rates

Previous 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)

(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, 2017)

(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	1,055	1,055	(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.
The Nihon Sangyo Kikai Kougyo Kouseinenkin Kikin has received permission from the Minister of Health, Labour and Welfare on May 1, 2017 for past portions of the entrusted employees' pension portion to be returned to the state, and it has changed its pension scheme from a employees' pension fund plan to a corporate pension fund plan.

2. Defined benefit plans

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

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Beginning balance of retirement benefit obligations	¥3,075 million	¥3,342 million
Service cost	170	178
Interest expenses	44	15
Unrecognized net actuarial gain or loss	257	37
Retirement benefits paid	(229)	(136)
Past service cost	41	–
Other	(16)	1
Ending balance of retirement benefit obligations	3,342	3,438

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

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Beginning balance of pension plan assets	¥3,249 million	¥3,271 million
Expected return on plan assets	31	41
Unrecognized net actuarial gain or loss	(112)	78
Amount of employer contribution	326	174
Retirement benefits paid	(219)	(134)
Other	(4)	0
Ending balance of pension plan assets	3,271	3,432

(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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Retirement benefit obligations under funded system	¥3,340 million	¥3,436 million
Pension plan assets	(3,271)	(3,432)
	69	3
Retirement benefit obligations under unfunded system	2	2
Net amount of assets and liabilities stated in the consolidated balance sheet	71	5
Net defined benefit liability	462	364
Net defined benefit asset	(390)	(358)
Net amount of assets and liabilities stated in the consolidated balance sheet	71	5

(4) Retirement benefit expenses and components thereof

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Service cost	¥170 million	¥178 million
Interest expenses	44	15
Expected return on plan assets	(31)	(41)
Amortization of net actuarial gain or loss	(114)	(42)
Amortization of past service cost	41	–
Retirement benefit expenses pertaining to defined benefit plans	111	110

(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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Past service cost	¥– million	¥– million
Actuarial gains and losses	(474)	1
Total	(474)	1

(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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Unrecognized past service cost	¥– million	¥– million
Unrecognized net actuarial gain or loss	(21)	3
Total	(21)	3

(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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Bonds	29%	27%
Shares	31	33
General account	31	31
Other	9	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, 2016)	Current fiscal year (As of March 31, 2017)
Discount rate	0.25%	0.25%
Expected long-term rates of return on pension plan assets	1.00%	1.00%

3. Defined contribution plans

The required contribution from the Company and its consolidated subsidiaries into the defined contribution pension plans was ¥42 million in the previous fiscal year and ¥53 million 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 ¥80 million in the previous fiscal year and ¥98 million in the current fiscal year.

(1) Funded status of multi-employer plan

	Previous fiscal year (As of March 31, 2015)	Current fiscal year (As of March 31, 2016)
Plan assets	¥83,744 million	¥77,014 million
Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve	¥104,880 million	¥96,894 million
Net amount	¥(21,136) million	¥(19,880) million

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

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

Current fiscal year 4.36% (From April 1, 2016 to March 31, 2017)

(3) Supplementary explanation

Major factors for the net amount in (1) above are the balance of past service liabilities (¥22,875 million as of March 31, 2015 and ¥22,440 million as of March 31, 2016) and surplus amount (¥1,739 million as of March 31, 2015 and ¥2,560 million as of March 31, 2016) 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 (¥56 million for the previous fiscal year and ¥68 million for the current fiscal year) as expenses in the consolidated financial statements.

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, 2016)	Current fiscal year (As of March 31, 2017)
Deferred tax assets		
Tax loss carry-forward	¥881 million	¥459 million
Accrued business tax	53	58
Net defined benefit liability	141	111
Provision for bonuses	84	79
Allowance for doubtful accounts	85	107
Provision for loss on order received	140	207
Loss on valuation of investment securities	278	275
Loss on valuation of investments in capital	39	39
Impairment loss	181	181
Depreciation	26	47
Asset retirement obligations	101	101
Other	181	258
Subtotal	2,196	1,928
Valuation reserve	(1,531)	(1,165)
Total deferred tax assets	665	762
Deferred tax liabilities		
Revaluation reserve for land	1,529	1,121
Valuation difference on available-for-sale securities	602	692
Reserve for advanced depreciation of non-current assets	–	888
Other	259	251
Total deferred tax liabilities	2,390	2,952

(Note) The net deferred tax assets as of March 31, 2016 and March 31, 2017 are included in the items below of the consolidated balance sheet.

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Current assets－Deferred tax assets	¥380 million	¥582 million
Non-current assets－Deferred tax assets	41	41
Current liabilities－Deferred tax liabilities	10	–
Non-current liabilities－Deferred tax liabilities	607	1,692
－Deferred tax liabilities for land revaluation	1,529	1,121

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, 2016)	Current fiscal year (As of March 31, 2017)
Statutory effective tax rate	33.06%	30.86%
Adjustments		
Increase/decrease in valuation reserve	(0.41)	(8.33)
Expenses not deductible for income tax purposes, such as entertainment expenses	1.41	0.97
Income not included for income tax purposes, such as dividends received	(0.27)	(0.22)
Per capita levy of inhabitant taxes	1.27	0.79
Effect of differences in tax rates applicable to subsidiaries from tax rate applicable to the Company	(0.21)	0.30
Adjustment of deferred tax assets at end of period resulting from tax rate changes	1.08	–
Amortization of goodwill	0.65	0.39
Retained earnings of overseas subsidiaries	2.96	0.22
Tax credits	–	(0.42)
Other	0.23	(0.21)
Actual effective tax rate	39.77	24.34

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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Beginning balance	¥224 million	¥332 million
Increase from purchase of property, plant and equipment	107	–
Ending balance	332	332

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 ¥310 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 ¥353 million (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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Carrying amount on the consolidated balance sheet			
	Balance at beginning of period	6,103	5,364
	Increase (decrease) during period	(739)	(315)
	Balance at end of period	5,364	5,049
Fair value at end of period		3,684	3,398

(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 a decrease in rentable space (¥693 million) and decrease due to depreciation (¥45 million). The increase (decrease) during period for the current fiscal year primarily consist of a decrease in rentable space (¥231 million) and decrease due to depreciation (¥83 million).

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 profit. Intersegment transactions are based on actual transaction amounts.

<u>Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016</u>
As described in “Notes - Changes in accounting policies,” the Company has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” from the fiscal year ended March 31, 2017, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1,

2016 from the declining-balance method to the straight-line method.
Compared to the results under the previous method, the impact from this change on segment profit for the current fiscal year is immaterial.

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

(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, 2016 to March 31, 2017)

(Millions of yen)

	Reportable segments			Other (Note)	Adjustment	Total
	Plant & Machinery Business	Material Handling Systems Business	Total			
Sales						
Sales to external customers	13,852	21,711	35,563	6,368	–	41,932
Transactions with other segments	–	–	–	661	(661)	–
Total	13,852	21,711	35,563	7,030	(661)	41,932
Segment profit	633	1,981	2,614	958	(492)	3,080
Segment assets	12,707	21,230	33,938	8,106	11,183	53,228
Other items						
Depreciation	237	306	544	135	12	691
Increase in property, plant and equipment, and intangible assets	1,728	2,934	4,663	100	387	5,152

(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	2,588	2,614
Profit of "other"	855	958
Corporate expenses (Note)	(432)	(495)
Other adjustments	12	3
Operating profit in the consolidated financial statements	3,024	3,080

(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	27,229	33,938
Assets of "other"	8,173	8,106
Corporate assets (Note)	16,019	11,235
Other adjustments	(53)	(51)
Total assets in the consolidated financial statements	51,368	53,228

(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, 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

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

(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

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, 2016 to March 31, 2017)

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	6,961	6,891	21,711	6,368	41,932

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
36,643	5,170	119	41,932

(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
15,093	943	48	16,084

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, 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

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

Current fiscal year (From April 1, 2016 to March 31, 2017)
Not applicable

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

Previous 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

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

Current fiscal year (From April 1, 2016 to March 31, 2017)

(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	–	–	–	–	–

(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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Net assets per share	¥333.91	¥370.20
Basic earnings per share	¥17.45	¥37.38

(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, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Profit attributable to owners of parent	¥1,906 million	¥3,746 million
Profit not relating to common shareholders	–	–
Profit attributable to owners of parent pertaining to common shares	1,906	3,746
Average number of outstanding common shares	109,260 thousands shares	100,230 thousands shares

Notes - Significant events after reporting period

1. Share consolidation

The Company's Board of Directors made a resolution on May 12, 2017 for the Company to change the number of shares constituting one unit and make partial amendments to its Articles of Incorporation, on the condition that the proposal concerning the share consolidation be made at 109th Ordinary General Meeting of Shareholders on June 29, 2017, and that the said proposal be approved at the said General Meeting of Shareholders.
The proposal concerning the share consolidation was approved at the said General Meeting of Shareholders. Details of the proposal are as follows.

(1) Purpose of share consolidation

Japan's stock exchanges have announced the "Action Plan for Consolidating Trading Units," aiming to standardize the trading units of listed domestic corporations at 100 shares.

As a listed corporation on Tokyo Stock Exchange, the Company respects the purport of this plan and will change its shares per trading unit from 1,000 shares to 100 shares. The Company will also consolidate ten shares into one share in order to achieve an investment unit deemed desirable by Japan's stock exchanges (50,000 yen or more and less than 500,000 yen).

(2) Details of share consolidation

(i) Class of share to be consolidated

Common shares

(ii) Method of consolidation and consolidation ratio

The Company will conduct a 10-to-1 share consolidation on October 1, 2017, based on the number of shares held by shareholders recorded in the final shareholder registry as of September 30, 2017.

(iii) Decrease in number of shares due to share consolidation

Total number of shares issued before share consolidation (as of March 31, 2017)	103,030,741 shares
Decrease in number of shares due to share consolidation	92,727,667 shares
Total number of shares issued after share consolidation	10,303,074 shares

(Notes) 1. "Decrease in number of shares due to share consolidation" and "total number of shares issued after share consolidation" are theoretical values calculated by multiplying the total number of shares issued before the share consolidation by the share consolidation ratio.

2. The Company disposed of 6,000,000 shares of treasury shares on May 25, 2017. Total number of shares issued after the share disposition will be 97,030,741 shares. By taking it into account, the total number of shares issued after share consolidation will be 9,703,074 shares.

(iv) Handling of fractional shares less than one share

In accordance with Article 235 of the Companies Act of Japan, any fractional shares emerging as a result of the share consolidation will be collectively sold, and proceeds of the sale will be accordingly distributed to the shareholders thereof, in proportion to their fractional holdings.

(3) Details of change in number of shares constituting one unit

In line with the effectuation of share consolidation, the number of shares constituting one unit of the Company's common shares will be changed from 1,000 shares to 100 shares.

(4) Schedule for share consolidation and change in number of shares constituting one unit

Date of resolution by the Board of Directors	May 12, 2017
Date of the Ordinary General Meeting of Shareholders	June 29, 2017
Share consolidation and change in number of shares constituting one unit	October 1, 2017

(5) Impact on per share information

The following shows the per share information for the previous fiscal year and current fiscal year calculated under the assumption that the share consolidation was conducted on April 1, 2015.

	Previous fiscal year (From April 1, 2015 to March 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Net assets per share	¥3,339.15	¥3,702.00
Basic earnings per share	¥174.53	¥374.06

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

2. Purchase and cancellation of treasury shares

The Company's Board of Directors made a resolution on May 12, 2017 for the Company to acquire its own shares pursuant to the provision of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the Act's provision of Article 165, Paragraph 3, and to cancel treasury shares pursuant to the provision of Article 178 of the Companies Act, and conducted the purchase and cancellation of treasury shares according to the particulars stated below.

(1) Reason for purchase and cancellation

To implement a flexible capital policy based on the shareholder return policy and to improve capital efficiency.

(2) Details of the matters relating to transaction

(i) Type of the shares to be acquired: Common shares

(ii) Total number of shares to be repurchased: Up to 1,700 thousand shares (Ratio of the total number of shares to be repurchased to the total number of shares issued (excluding treasury shares): 1.8%)

(iii) Total price of repurchase: Up to ¥500 million

(iv) Repurchase period: May 18, 2017 to August 28, 2017

(v) Repurchase method: Purchase on the stock exchange via a trust bank

The purchase of treasury shares above was completed on May 25, 2017.

(i) Type of the shares acquired

Common shares

(ii) Total number of shares acquired

1,597 thousand shares

(iii) Total price of repurchase

¥499 million

(3) Details of the matters relating to cancellation

(i) Type of the shares to be cancelled: Common shares

(ii) Total number of shares to be cancelled: 6,000 thousand shares (Ratio of the total number of shares to be cancelled to the total number of shares issued (excluding treasury shares) before the cancellation: 5.8%)

(iii) Date of cancellation: May 25, 2017

(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)	Ending balance (Millions of yen)	Average interest rate (%)	Repayment due
Short-term loans payable	¥2,357	¥2,397	0.88	–
Current portion of long-term loans payable	60	60	1.35	–
Long-term loans payable (excluding current portion)	1,155	1,095	0.93	Between 2018 and 2020
Total	3,572	3,552	–	–

(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	¥15 million	¥480 million	¥600 million	¥– million

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, 2016 to June 30, 2016)	Second quarter (Cumulative) (From April 1, 2016 to September 30, 2016)	Third quarter (Cumulative) (From April 1, 2016 to December 31, 2016)	Current fiscal year (From April 1, 2016 to March 31, 2017)
Net sales (Millions of yen)	8,074	19,828	28,849	41,932
Profit before income taxes (Millions of yen)	1,132	2,037	4,141	4,951
Profit attributable to owners of parent (Millions of yen)	748	1,522	2,985	3,746
Basic earnings per share (Yen)	7.27	14.79	29.40	37.38

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	7.27	7.51	14.71	7.94

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 29, 2017

To the Board of Directors of
Toyo Kanetsu Kabushiki Kaisha

GYOSEI & CO.

Representative Partner
Engagement Partner
Certified Public Accountant Takayuki Nakagawa (seal)

Representative Partner
Engagement Partner
Certified Public Accountant Tetsuo Noguchi (seal)

Engagement Partner
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, 2017, 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, 2016 to March 31, 2017, 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, 2017, 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, 2017 for the Company to acquire its own shares and to cancel treasury shares, and it acquired and cancelled those shares on May 25, 2017.
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, 2017.

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, 2017 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	103,030,741
Number of Shareholders	11,360
Security Traded	Tokyo Stock Exchange, First Section
Transfer Agent and Registrar	The Mitsubishi UFJ Trust and Banking Corporation 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

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