TOYO KANETSU K.K.

Annual Report 2018

For the year ended March 31, 2018

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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.

Fiscal 2018 (the year ended March 31, 2019) was the final year of the Group’s medium-term business plan (fiscal 2016–2018) that was drawn up in fiscal 2016. Not satisfied with only achieving the consolidated targets set out in this plan, we aim to go beyond it and implement the vision we have formed for 2020: contributing to enhancing the infrastructure of the societies of the future, centered on advanced energy and logistics technology. With passion and resolve, we will use the year to come to get a foothold for a further leap ahead.

Going forward, we will maintain our spirit of “Challenge & Change,” continuing to take up new challenges to achieve the continued development of the Group and to improve corporate value. In closing, I would like to thank you in advance for your understanding and continued support of our efforts.

June 2018

Toru Yanagawa
President
and Representative Director

A History of Toyo Kanetsu

Our company was established in 1941 as Toyo Kanetsu Kogyo K.K. Having begun with manufacture and sales of industrial furnaces, we then launched a plant and machinery business.

Subsequently, during the postwar reconstruction period, in 1950 we became the first company in Japan to manufacture and sell the fully welded tanks that were taking the place of riveted tanks. Furthermore, during the high-speed economic growth era we began expanding abroad early on, and manufactured a large number of tanks in the Middle East and Asia.

For LNG, which was attracting attention as a form of clean energy, we manufactured a super-low-temperature storage tank in 1969. As a result, we developed into a manufacturer capable of making everything from ambient temperature tanks to super-low-temperature storage tanks.

Moreover, we were one of the first to tackle the use of machines for automatic welding of tanks. At our production plant in Batam, Indonesia, we have managed to make the manufacture of high-quality tanks with strong cost control a reality.

Currently, we have manufactured 5,700 tanks in Japan and overseas, and in terms of number of tanks manufactured, we are No. 1 in the industry overseas. We have the second largest market share in Japan for LNG tanks.

Our materials handling business products, manufacture and sales of which began in 1955, made freight shipping easier, users and operators and were well received, leading to rapid growth for this segment. The baggage handling system that we provided to Fukuoka Airport in 1971 has been supplied to more than 65 locations in Japan and to 17 airports overseas, giving us a market share in Japan of more than 90%. In 1981 we developed and launched the first digital picking system in Japan, and have continued to support the co-op industry ever since. Currently we have a market share of 70%, and have maintained our No. 1 position.

Our stance is to thoroughly learn the customer's requirements, understand it, and sell not products but functions. While gaining a grasp of everything from the customer's business vision to the operational expertise at each of their distribution locations, we work with them to find ways to respond in a rapidly changing business environment, and in doing so have introduced many innovations.

We will use the spirit of taking up new challenges that we have carefully nurtured since the founding of the Company to continue to evolve.

The core welding technology used in our Plant & Machinery segment is shifting from automatic welding to remote welding.

Being able to perform high-quality construction work 24 hours a day from an office's location separate from the site is the future that we are striving to achieve.

In addition, in anticipation of the birth of a full-scale hydrogen society, we have introduced a schedule for developing large hydrogen storage tanks.

In the Material Handling Systems segment, we are working to provide predictive maintenance services that use IoT technology and AI, contribute to labor-saving by using robots on distribution sites, and use augmented reality (AR) to achieve highly efficient and error-free picking.

The mission of the Company is unchanged. However much society changes going forward, the Company will continue to support infrastructure, and in doing so contribute to society.

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 Material Handling Systems and the Plant & Machinery segments are the two pillars of our operations.

Material Handling Systems Business

Net Sales	Operating Profit
¥25,939 million	¥1,931 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.

Plant & Machinery Business

Net Sales	Operating Profit
¥10,030 million	¥-178 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.

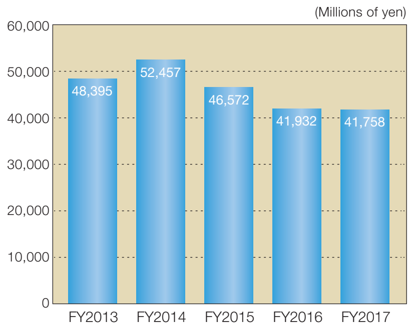
Other Business

Net Sales	Operating Profit
¥6,470 million	¥914 million

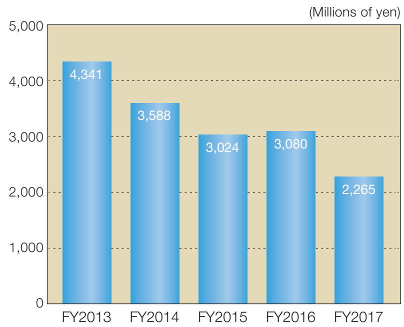
Construction on contract of social service facilities, rental housing, and others; manufacture and sale of industrial equipment such as balancers and winches; and real estate rental and property management.

*Before the elimination of inter-segment transactions.

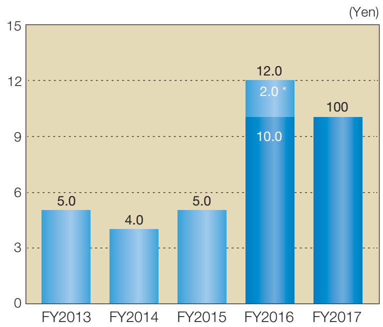
Net Sales



Operating Profit

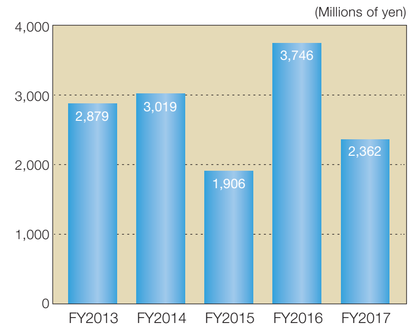


Cash Dividends per Share*

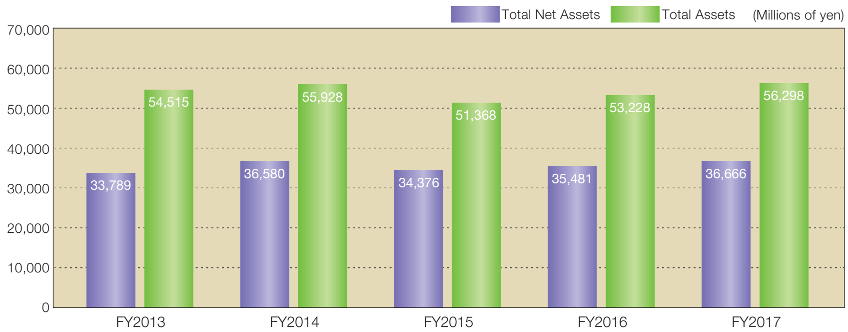


*Commemorative dividend

Profit Attributable to Owners of Parent



Total Net Assets / Total Assets



*A consolidation of shares (converting 10 common shares to one share) was carried out effective October 1, 2017. Dividends per share in fiscal 2017 shown here reflect the consolidation of shares (when the consolidation of shares is not taken into account, ¥10).

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31

	Millions of yen				
	2018	2017	2016	2015	2014
For the Years Ended March 31:					
Net Sales	**¥41,758**	¥41,932	¥46,572	¥52,457	¥48,395
Plant & Machinery Business	**10,030**	13,852	22,788	29,425	26,903
Material Handling Systems Business	**25,939**	21,711	17,206	15,689	15,158
Other	**6,470**	6,368	6,577	7,341	6,333
Operating profit	**2,265**	3,080	3,024	3,588	4,341
Profit Attributable to Owners of Parent	**2,362**	3,746	1,906	3,019	2,879
Comprehensive Income	**3,347**	3,923	1,302	4,390	3,223
Cash Dividends	**930**	1,150	514	460	594
At March 31:					
Current Assets	**¥30,570**	¥28,479	¥29,995	¥33,463	¥33,841
Property, Plant and Equipment	**15,710**	16,084	13,661	13,577	12,912
Investments and Other Assets	**9,649**	8,245	7,340	8,504	7,368
Intangible Assets	**368**	418	370	382	393
Total Assets	**56,298**	53,228	51,368	55,928	54,515
Current Liabilities	**12,698**	13,104	12,866	15,570	16,724
Total Non-Current Liabilities	**6,933**	4,642	4,125	3,777	4,000
Shareholders' Equity	**34,207**	33,978	32,136	33,525	32,105
Accumulated Other Comprehensive Income	**2,458**	1,503	2,239	2,814	1,471
Non-Controlling Interests	**0**	–	–	240	212
Total Liabilities and Net Assets	**56,298**	53,228	51,368	55,928	54,515
Order Backlog	**27,095**	24,485	24,126	32,256	49,065

	Yen				
Per Share:	**2018**	2017	2016	2015	2014
Profit Attributable to Owners of Parent	**¥251.26**	¥373.78	¥17.45	¥26.08	¥24.18
Cash Dividends	**100.00**	12.0	5.0	4.0	5.0
Shareholders' Equity	**3,941.68**	3,702.00	333.91	315.91	282.18

	2018	2017	2016	2015	2014
Number of Shareholders	**8,819**	11,360	12,839	15,229	16,738
Number of Employees	**909**	899	884	753	742

The Company conducted a share consolidation of 10 shares of common shares to 1 share on October 1, 2017. The per share information figures reflect the effect of the consolidation.

Analysis of Operating Environment and Results

During fiscal 2017 (the year ended March 31, 2018), improvements in corporate profitability and the resilience shown by private consumption, against the background of a positive employment environment, resulted in a gentle recovery for the Japanese economy. In addition, the economic expansion overseas continued, helped by a recovery in business conditions in the main countries of Europe and in the United States, solid growth in China, and a pickup in developing economies.

In these circumstances, the Material Handling Systems Business, demand for material handling systems remained high against the background of the expansion of online shopping and labor shortages. Demand for systems for airports was also strong, based partly on expectations of further increases in the number of overseas visitors ahead of the 2020 Tokyo Olympics and Paralympics.

In the order environment for the Plant & Machinery segment remained challenging. Nevertheless, there were some signs of a restart to development for major plants, spurred by higher oil prices and rising demand for energy resulting from the recovery in business conditions.

In net sales for the current fiscal year, there was an increase in the Material Handling Systems segment. However, due in part to a decline in the number of projects in the Plant & Machinery segment, the Company's consolidated net sales were ¥41,758 million (down 0.4% year on year), while operating profit was ¥2,265 million (down 26.5%), ordinary profit was ¥2,646 million (down 23.1%). Profit attributable to owners of parent came to ¥2,362 million (down 36.9%). Orders received rose 5.3% to ¥39,366 million.

Segment results are as follows.

● Material Handling Systems Business

For online shopping, which is on an expansionary track, the business posted sales for projects using goods-to-person (GTP) order picking together with our mainstay "Multishuttle" product, enabling picking operations to be performed by workers without having to collect the items. In terms of preparations for further growth, we implemented a reallocation of employees, which, together with an increase in expenses related to productivity reforms that integrate design, manufacturing and purchasing, resulted in a small decline in profits.

As a result, consolidated net sales in this business segment increased 19.5% year on year to ¥25,939 million, while operating profit fell 2.5% to ¥1,931 million (before adjustment), and orders received grew 4.3% to ¥29,717 million.

● Plant & Machinery Business

Due to a limited number of projects for installing new or additional large tanks, we carried out major reviews of the structure of this segment, such as strengthening systems for receiving orders for small and medium-sized projects overseas, and for domestic maintenance projects. In addition we considered the production of small tanks, and implemented thoroughgoing cuts in costs. However, the stagnant environment for capital investment had a significant impact, and the situation remained difficult.

As a result, consolidated net sales in this business decreased 27.6% year on year to ¥10,030 million and an operating loss of ¥178 million was posted (compared with an operating profit of ¥633 million in the previous fiscal year), while orders received grew 1.8% to ¥8,331 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 9.1% year on year to ¥5,788 million, operating profit declined 4.6% to ¥914 million (before adjustment), and orders received rose 81.3% to ¥1,317 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.

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

Directors

President and Representative Director	Toru Yanagawa
Director and Deputy President	Isao Shimomae
Directors and Senior Executive Officers	Masayuki Takeda Keisuke Kodama
Directors and Audit & Supervisory Committee Members	Kazuto Abe Toshiaki Hiwatari Tsuneo Nagai Shigeharu Nakamura

Executive officers

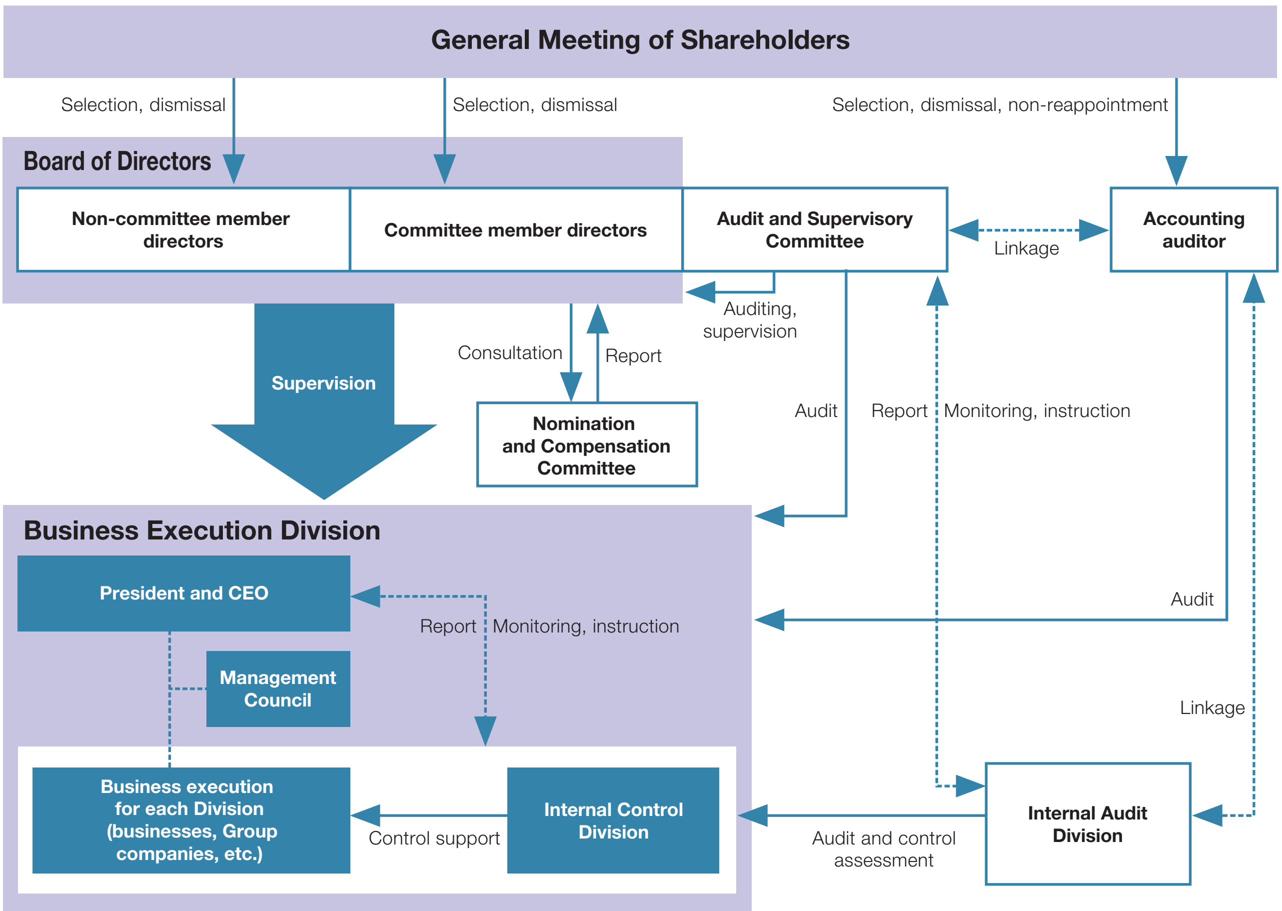
Senior Executive Officer	Akira Kakihara
Executive Officers	Shiro Ito Hiroshi Ohgi Hiromi Tanaka Takeshi Yonehara Masahiko Mitsumoto Susumu Fujisaki Hirotoshi Kunitomo Takashi Ohwada Kazuto Watanabe

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



Medium-Term Business Plan

The TKK Group has devised a medium-term business plan covering the fiscal years 2016–2018. 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	2	3	4
Expansion of business domains	Switch to a more profitable and competitive structure	Launch of new businesses that build on the strengths of existing businesses	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 2020.

Examples of Business Strategy Initiatives

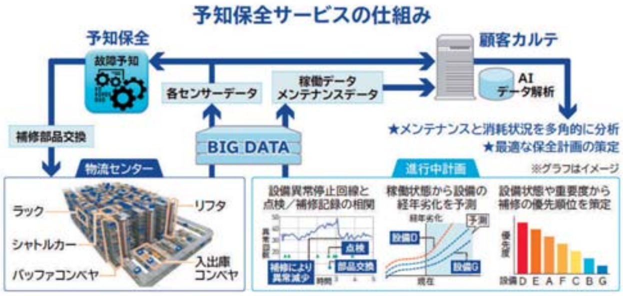
[Material Handling Systems Business]

Predictive maintenance service offers stable operation 24 hours a day

As part of the medium-term business plan (running from fiscal 2016–2018), we tackled the development of the next-generation of strategic products. The Company has built cooperative industry-academia relationships with some of the leading organizations in Japan, such as the National Institute of Advanced Industrial Science and Technology, Tokyo University of Science, and Yokogawa Solution Service Corporation, to develop services that utilize Internet of Things (IoT) technology.

One of the IoT services developed by the Company is the predictive maintenance service. This uses IoT technology and artificial intelligence (AI) to perform remote monitoring of the customer's materials handling systems 24 hours a day, during the course of which it uses the minute variations in vibrations, noise, electric current and temperature that are the precursors to faults to predict the occurrence of trouble, and to carry out maintenance at the optimal time. It is a service that helps realize stable materials handling systems operations. Since April 2018, we have been carrying out real-world validation at customer distribution centers, and plan to offer the service from October onward.

By implementing IoT service development initiatives, we can offer materials handling systems with higher added value than that of previous offerings, enabling the shift to a higher profitability structure and reinforced competitiveness.



Through composite and integrated analysis using big data prevents trouble before it occurs and assists in the stable operation of the distribution center. In addition, sophisticated AI is used to analyze the maintenance and consumables situation from multiple angles. Efforts are in progress to introduce customer relationship management cards that establish the optimal maintenance plan for every user.

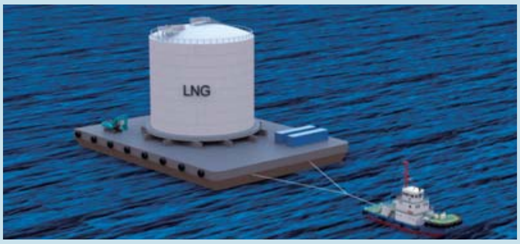
[Plant & Machinery Business]

Tanks for small to medium-sized LNG satellite facilities

Leveraging our track record, technology and know-how as a leader in large liquefied natural gas (LNG) tank construction, we have strengthened our product lineup for small LNG tanks with a capacity of not more than 10,000 m³, designed for small and medium-sized LNG satellite facilities.

The Company operates a processing site for tank materials in Batam, Indonesia (the Batam Plant), and carries out everything from the processing of tank materials to assembly of small LNG tanks at this location. The tanks are modularized for transport by sea to various LNG satellite facilities. This enables a significant reduction in the amount of construction work required on site at the project location, and shortens the lead time to delivery. The modularization at the factory and the transportation methods require the distillation of the design and construction technology that a specialist manufacturer accumulates, and by performing manufacturing and assembling at our own plant, we can provide safer, higher-quality tanks.

Due to growing energy demand driven by economic development, as well as the rising awareness of environmental problems, demand is rising for LNG for islands and remote locations, where the laying of pipeline is difficult. By providing small LNG tanks, we can support the increasingly diversified energy infrastructure of these locations.



[New Businesses]

R&D company becomes a subsidiary

The Company has acquired all of the shares of Kankyo Research Co., Ltd., located in Hachioji, Tokyo, a company that conducts asbestos surveys, "sick building" surveys, and measurements of sound and vibration, in addition to owning survey and analysis technology that makes use of IoT.

From the perspective of the Company, which is actively involved in initiatives to address environmental problems, the operations of this company have a high degree of social significance, as they prevent harm and protect people's health and safety. In addition, the new subsidiary will take part in R&D for the new business domains the Group is targeting, demonstrating synergies between the Group's existing businesses and the start-up companies invested in by the corporate venture capital fund that was established in 2017, making open innovation a reality.

Investment in biomass power generation business

The Company has invested in biomass power generation operations in Okinawa Prefecture, the development of which is being promoted by erex Co., Ltd. (Chuo-ku, Tokyo).

The increased adoption of renewable energy not only reduces greenhouse gas emissions but also leads to diversification in energy supplies and so on, an issue that grows more important and attracts more attention from society with each passing year.

The Company has a close affinity to the energy industry, and by participating in the biomass power generation business, and supporting energy infrastructure, we contribute to the realization of a low-carbon society.

Establishment of corporate venture capital fund

With the aim of launching the new businesses that will drive the Group's future growth, the Company has established the Toyo Kanetsu Corporate Venture Investment Partnership corporate venture capital fund. The fund began operations on October 1, 2017 with a total of ¥500 million in funds.

In addition to investing in promising start-up companies both in Japan and overseas that have innovative technology or ideas primarily in the business-to-business (B2B) domain, irrespective of their distance from the Group's existing businesses, we will cooperate with them to make open innovation a reality.

[Corporate Strategy]

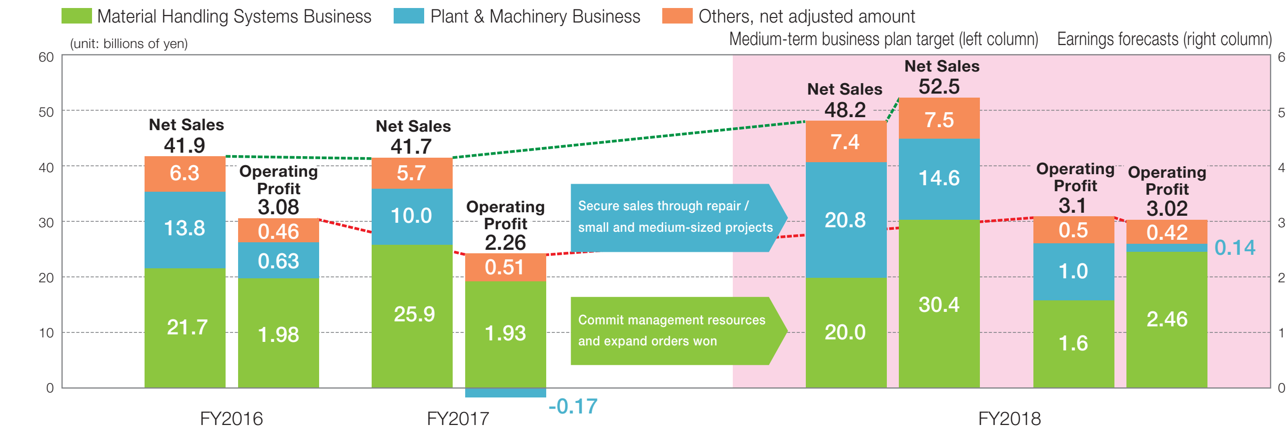
Acquisition of Toyo Kanetsu Solutions K.K.

At a meeting of the Board of Directors of the Company held on May 11, 2018, it was resolved that, effective April 1, 2019, wholly owned subsidiary Toyo Kanetsu Solutions K.K., that operates the Materials Handling Systems segment, will be absorbed into the parent Toyo Kanetsu, which operates the Plant & Machinery segment.

The purpose of this merger is to share the intellectual property, appropriately allocate human resources, and make full use of common assets of the Plant & Machinery Business and the Materials Handling Systems segments, which are the mainstays of the Group.

Going forward, these two segments will join hands and work to further raise the corporate value of the Group as a whole.

■ Consolidated Net Sales and Operating Profit Targets by Segment



	FY2016	FY2017	FY2018 Medium-term business plan target	FY2018 Earnings forecasts
ROE	10.7%	6.5%	7.2%	6.0%
Dividend payout ratio	32.1%	39.8%	30% or higher	42.5% or higher
Total return ratio	105.4%	102.9%	100% or higher	100% or higher
Overseas sales ratio	12.6%	5.2%	15.0%	7.6%

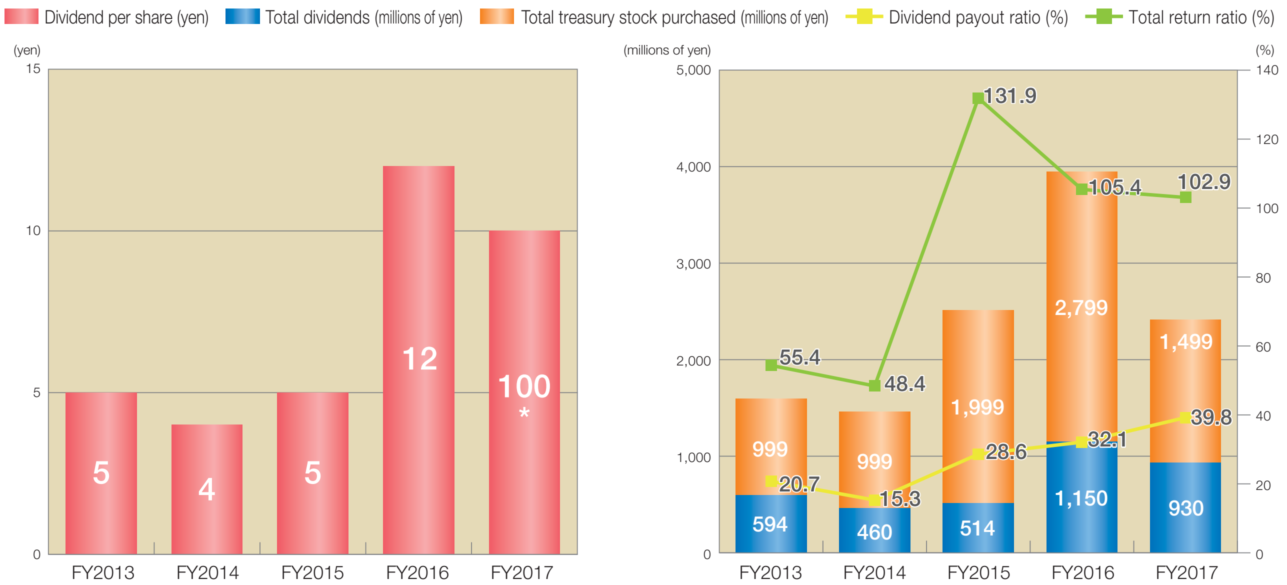
■Basic Capital Policy and Policy on Shareholder Returns

The Company has positioned returns to shareholders as one of the most important issues facing management, and had previously established a policy for shareholder returns based on the optimal balance between financial soundness and returning profits to shareholders. However, on November 11, 2016, in consideration of the outlook for the Company's financial position and business performance for the immediate future, the Company announced the drawing up of a new basic capital policy that takes an integrated approach to active investment to boost corporate value, distributions of profit, and capital efficiency. Accordingly, from the perspective of further enriching returns to shareholders, we have also amended the shareholder returns policy as follows.

(1) Consolidated dividend payout ratio	At least 30%. (However, the lower limit shall be ¥10 per share annually, although from fiscal 2018 this shall be ¥100 per share per annum, due to a consolidation of shares performed on October 1, 2017.)
(2) Consolidated total return ratio	This has been set to at least 100%, and in addition to the measures described in (1), we will take an agile approach to purchasing treasury stock. (However, in the case of a significant demand for funds, this shall not apply.)

The effective period for this shareholder returns policy shall be the three fiscal periods of the Group’s medium-term business plan (running from fiscal 2016–2018), and shall be reviewed at the end of said period, but based on the basic capital policy and shareholder returns policy, we will strive to improve capital efficiency and achieve a return on equity (ROE) of 8% by fiscal 2020.

■Dividends / Treasury Stock Purchases



*A consolidation of shares (converting 10 common shares to one share) was carried out effective October 1, 2017.
Dividends per share in fiscal 2017 shown here reflect the consolidation of shares (when the consolidation of shares is not taken into account, ¥10).

■Share Price

	FY2013	FY2014	FY2015	FY2016	FY2017
High (yen)	**404**	**278**	**272**	**358**	**422 (4,775)**
Low (yen)	**227**	**226**	**186**	**185**	**258 (2,985)**
Close at end of period (yen)	**263**	**228**	**246**	**295**	**(3,065)**

*A consolidation of shares (converting 10 common shares to one share) was carried out effective October 1, 2017.
With regard to the share price during fiscal 2017, we have presented here the share price before and after the consolidation of shares, with the figures in parentheses showing the high and low after the consolidation of shares, in addition to the price of the end of the period.

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 Kuala Lumpur International Airport (Malaysia)

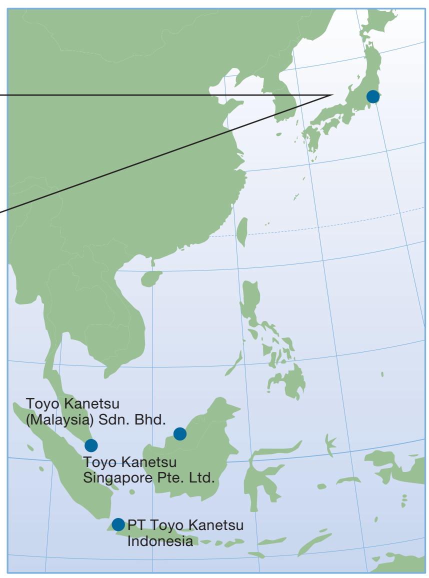
TKK Group Companies

Domestic

Toyo Kanetsu Solutions K.K.
Toyo Kanetsu Builtec K.K.
Toyo Service System K.K.
Toyo Koken K.K.
Kankyo Reserch Co., Ltd.

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)

Other Businesses

TOYO KANETSU K.K.

- Toyo Kanetsu Builtec K.K.
- Toyo Service System K.K.
- Toyo Koken K.K.
- Kankyo Reserch Co., Ltd.

Plant & Machinery Business

- PT Toyo Kanetsu Indonesia
- Toyo Kanetsu (Malaysia) Sdn. Bhd.
- Toyo Kanetsu Singapore Pte. Ltd.

Material Handling Systems Business

- Toyo Kanetsu Solutions K.K.

Domestic Subsidiaries
Overseas Subsidiaries

Consolidated financial statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheet

(Millions of yen)

		Previous fiscal period (As of March 31, 2017)		Current fiscal period (As of March 31, 2018)
Assets				
Current assets				
Cash and deposits	*1	6,811	*1	12,421
Notes and accounts receivable - trade		12,824	*5	9,387
Lease investment assets		1,526		1,781
Securities		100		500
Merchandise and finished goods		54		40
Work in process		4,140		3,819
Raw materials and supplies		1,649		1,640
Deferred tax assets		582		506
Other		872		494
Allowance for doubtful accounts		(83)		(21)
Total current assets		28,479		30,570
Non-current assets				
Property, plant and equipment				
Buildings and structures, net	*3	3,578	*3	3,457
Machinery, equipment and vehicles, net	*3	1,132	*3	1,152
Tools, furniture and fixtures, net	*3	288	*3	282
Land	*3, *4	10,965	*3, *4	10,707
Construction in progress		119		110
Other, net		0		0
Total property, plant and equipment	*2	16,084	*2	15,710
Intangible assets		418		368
Investments and other assets				
Investment securities		7,325		8,730
Deferred tax assets		41		33
Net defined benefit asset		358		398
Other		788		778
Allowance for doubtful accounts		(267)		(292)
Total investments and other assets		8,245		9,649
Total non-current assets		24,748		25,727
Total assets		53,228		56,298

(Millions of yen)

		Previous fiscal period (As of March 31, 2017)		Current fiscal period (As of March 31, 2018)
Liabilities				
Current liabilities				
Notes and accounts payable - trade		2,347	*5	2,033
Short-term loans payable	*3	2,397	*3	4,604
Current portion of long-term loans payable	*3	60	*3	15
Accrued expenses		4,324		3,380
Income taxes payable		647		316
Advances received		1,173		417
Provision for bonuses		258		242
Provision for loss on order received		674		183
Provision for warranties for completed construction		512		580
Other		709		924
Total current liabilities		13,104		12,698
Non-current liabilities				
Long-term loans payable	*3	1,095	*3	3,080
Deferred tax liabilities		1,692		2,071
Deferred tax liabilities for land revaluation	*4	1,121	*4	1,107
Net defined benefit liability		364		325
Asset retirement obligations		332		321
Other		37		27
Total non-current liabilities		4,642		6,933
Total liabilities		17,747		19,632
Net assets				
Shareholders’ equity				
Capital stock		18,580		18,580
Capital surplus		1,273		1,273
Retained earnings		16,447		15,750
Treasury shares		(2,323)		(1,397)
Total shareholders’ equity		33,978		34,207
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		1,992		2,995
Deferred gains or losses on hedges		(14)		–
Revaluation reserve for land	*4	163	*4	133
Foreign currency translation adjustment		(652)		(676)
Remeasurements of defined benefit plans		14		5
Total accumulated other comprehensive income		1,503		2,458
Non-controlling interests		–		0
Total net assets		35,481		36,666
Total liabilities and net assets		53,228		56,298

(ii) Consolidated statement of income and comprehensive income

(Millions of yen)

		Previous fiscal year (From April 1, 2016 to March 31, 2017)		Current fiscal year (From April 1, 2017 to March 31, 2018)
Net sales		41,932		41,758
Cost of sales	*1	33,660	*1	34,172
Gross profit		8,272		7,585
Selling, general and administrative expenses	*2, *3	5,191	*2, *3	5,319
Operating profit		3,080		2,265
Non-operating income				
Interest income		20		11
Dividend income		248		283
Foreign exchange gains		–		5
Gain on investments in silent partnership		60		–
Miscellaneous income		136		134
Total non-operating income		466		434
Non-operating expenses				
Interest expenses		20		33
Foreign exchange losses		69		–
Miscellaneous loss		15		19
Total non-operating expenses		105		53
Ordinary profit		3,441		2,646
Extraordinary income				
Gain on sales of non-current assets		2,315		98
Gain on sales of investment securities		2		320
Other		1		–
Total extraordinary income		2,319		418
Extraordinary losses				
Loss on sales of non-current assets		179		–
Loss on retirement of non-current assets		401		19
Impairment loss		–	*4	72
Head office relocation expenses		226		–
Other		2		2
Total extraordinary losses		809		94
Profit before income taxes		4,951		2,971
Income taxes - current		818		582
Income taxes - deferred		386		26
Total income taxes		1,205		609
Profit		3,746		2,362
Profit attributable to				
Profit attributable to owners of parent		3,746		2,362
Loss attributable to non-controlling interests		–		(0)
Other comprehensive income				
Valuation difference on available-for-sale securities		203		1,003
Deferred gains or losses on hedges		(14)		14
Foreign currency translation adjustment		(13)		(23)
Remeasurements of defined benefit plans, net of tax		2		(9)
Total other comprehensive income	*5	177	*5	985
Comprehensive income		3,923		3,347
Comprehensive income attributable to				
Comprehensive income attributable to owners of parent		3,923		3,347
Comprehensive income attributable to non-controlling interests		–		(0)

(iii) Consolidated statement of changes in equity

Previous 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

Current fiscal year (From April 1, 2017 to March 31, 2018)

(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	16,447	(2,323)	33,978
Changes of items during period					
Dividends of surplus			(1,150)		(1,150)
Profit attributable to owners of parent			2,362		2,362
Reversal of revaluation reserve for land			30		30
Purchase of treasury shares				(1,013)	(1,013)
Retirement of treasury shares			(1,939)	1,939	–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	(697)	926	229
Balance at end of current period	18,580	1,273	15,750	(1,397)	34,207

	Accumulated other comprehensive income						Non-controlling interests	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	1,992	(14)	163	(652)	14	1,503	–	35,481
Changes of items during period								
Dividends of surplus								(1,150)
Profit attributable to owners of parent								2,362
Reversal of revaluation reserve for land								30
Purchase of treasury shares								(1,013)
Retirement of treasury shares								–
Net changes of items other than shareholders' equity	1,003	14	(30)	(23)	(9)	955	0	956
Total changes of items during period	1,003	14	(30)	(23)	(9)	955	0	1,185
Balance at end of current period	2,995	–	133	(676)	5	2,458	0	36,666

(iv) Consolidated statement of cash flows

(Millions of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Profit before income taxes	4,951	2,971
Depreciation	691	737
Impairment loss	–	72
Amortization of goodwill	62	–
Increase (decrease) in allowance for doubtful accounts	72	(37)
Increase (decrease) in net defined benefit liability	(86)	(28)
Decrease (increase) in net defined benefit asset	2	(58)
Increase (decrease) in provision for loss on order received	165	(489)
Increase (decrease) in provision for warranties for completed construction	330	68
Interest and dividend income	(269)	(294)
Interest expenses	20	33
Head office relocation expenses	226	–
Foreign exchange losses (gains)	34	18
Loss (gain) on sales of investment securities	(2)	(320)
Loss (gain) on sales of non-current assets	(2,136)	(98)
Loss on retirement of non-current assets	401	19
Decrease (increase) in notes and accounts receivable - trade	(3,380)	3,375
Decrease (increase) in lease investment assets	0	(257)
Decrease (increase) in inventories	(1,833)	342
Decrease (increase) in advance payments	(286)	252
Increase (decrease) in notes and accounts payable - trade	99	(1,272)
Increase (decrease) in advances received	(303)	(773)
Other, net	(119)	74
Subtotal	(1,357)	4,336
Interest and dividend income received	272	294
Interest expenses paid	(20)	(32)
Payments for head office relocation expenses	(233)	–
Income taxes paid	(791)	(872)
Net cash provided by (used in) operating activities	(2,131)	3,726
Cash flows from investing activities		
Payments into time deposits	(202)	–
Proceeds from withdrawal of time deposits	232	–
Proceeds from sales and redemption of securities	500	100
Purchase of non-current assets	(5,160)	(436)
Proceeds from sales of non-current assets	3,647	295
Purchase of investment securities	(887)	(634)
Proceeds from sales and redemption of investment securities	6	500
Other, net	148	91
Net cash provided by (used in) investing activities	(1,714)	(85)

(Millions of yen)

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	56	2,250
Proceeds from long-term loans payable	–	2,000
Repayments of long-term loans payable	(60)	(60)
Purchase of treasury shares	(2,304)	(1,013)
Proceeds from share issuance to non-controlling shareholders	–	1
Cash dividends paid	(512)	(1,145)
Net cash provided by (used in) financing activities	(2,820)	2,032
Effect of exchange rate change on cash and cash equivalents	(130)	(64)
Net increase (decrease) in cash and cash equivalents	(6,796)	5,609
Cash and cash equivalents at beginning of period	13,606	6,810
Cash and cash equivalents at end of period	*1 6,810	*1 12,420

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, Toyo Kanetsu Singapore Pte. Ltd, Toyo Kanetsu (Malaysia) Sdn. Bhd and Toyo Kanetsu Corporate Venture Investment Partnership have a closing date of December 31. In preparation of the 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 17 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 of 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 instruments: .... Forward foreign exchange contracts, Interest rate swaps
Hedged items:..................... 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

Not applicable

Notes - New accounting standards to be applied

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)
- "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued "Revenue from Contracts with Customers" in May 2014 (IASB's IFRS 15 and FASB's Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

These ASBJ statement and guidance will be applied at the start of the fiscal year beginning on April 1, 2021.

(3) Effects of application of the accounting standard, etc.

The impact of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements is currently under evaluation.

Notes - Changes in presentation

<u>Consolidated statement of income and consolidated statement of comprehensive income</u>

"Gain on sales of investment securities" included in "other" under extraordinary income for the previous fiscal year

has been set down separately from the current fiscal year since significance of the amount has increased. In order to reflect this change in the method of presentation, the amount in the consolidated financial statements for the previous fiscal year has been reclassified.
As a result, ¥3 million included in “other” under extraordinary income in the consolidated statement of income and consolidated statement of comprehensive income for the previous fiscal year, has been reclassified to “gain on sales of investment securities” of ¥2 million and “other” of ¥1 million.

Consolidated statement of cash flows

“Amortization of long-term prepaid expenses (¥4 million for the current fiscal year)” and “decrease (increase) in accounts receivable - other (¥139 million for the current fiscal year)” under “cash flows from operating activities,” which were set down separately for the previous fiscal year, have been included in “other” 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, ¥3 million included in “amortization of long-term prepaid expenses” and ¥(123) million included in “decrease (increase) in accounts receivable - other” under “cash flows from operating activities” in the consolidated statement of cash flows for the previous fiscal year have been reclassified to “other.”

Notes - Consolidated balance sheet

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

The restricted deposits are as follows:

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
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, 2017)	Current fiscal year (As of March 31, 2018)
¥11,203 million	¥11,620 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, 2017)		Current fiscal year (As of March 31, 2018)	
Buildings and structures	¥405 million	[¥405 million]	¥373 million	[¥373 million]
Machinery, equipment and vehicles	0	[0]	0	[0]
Tools, furniture and fixtures	0	[0]	0	[0]
Land	5,458	[5,458]	5,458	[5,458]
Total	5,864	[5,864]	5,832	[5,832]

Liabilities secured

	Previous fiscal year (As of March 31, 2017)		Current fiscal year (As of March 31, 2018)	
Short-term loans payable	¥426 million	[¥426 million]	¥997 million	[¥997 million]
Long-term loans payable	980	[980]	1,130	[1,130]
Total	1,406	[1,406]	2,127	[2,127]

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, 2017)	Current fiscal year (As of March 31, 2018)
Difference between the year-end value of revaluated land and the book value after the revaluation	¥(3,233) million	¥(2,642) million

*5. Notes matured at the end of the fiscal year
With respect to the accounting treatment of notes matured at the end of the fiscal year, although the last day of the current fiscal year fell on a bank holiday, the notes were treated as though they were settled on the maturity date. The amounts for notes matured at the end of the fiscal year are as follows:

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Notes receivable - trade	¥– million	¥143 million
Notes payable - trade	–	103

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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
¥116 million	¥(458) million

*2. Major components of selling, general and administrative expenses are as follows:

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Salaries and allowances	¥1,489 million	¥1,629 million
Bonuses	380	386
Provision for bonuses	109	115
Retirement benefit expenses	105	102
Provision of allowance for doubtful accounts	72	(37)

*3. Total of research and development expenses included in general and administrative expenses and manufacturing costs for the current period

Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
¥567 million	¥653 million

*4. Impairment loss

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

Current fiscal year (From April 1, 2017 to March 31, 2018)

Location	Use	Type
Yokohama City, Kanagawa	Assets for lease	Land, buildings and other assets
Ebina City, Kanagawa	Same as above	Same as above

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 current fiscal year, the book value of assets scheduled to be sold, such as land, buildings and other assets owned by the Group, was reduced to a recoverable amount calculated using net realizable value based on an assessed value reasonably measured by a third party. Said reduced amount has been recorded under extraordinary losses as impairment loss (¥72 million). A breakdown of this impairment loss is ¥72 million in land and ¥0 million in buildings and other assets.

The recoverable amount of this asset group was measured based on the net realizable value and valued based on the planned sale amount.

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

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Valuation difference on available-for-sale securities:		
Amount recorded during the period	¥295 million	¥1,446 million
Reclassified amount	(2)	–
Pre-adjustment of tax effect	292	1,446
Tax effect amount	(89)	(443)
Valuation difference on available-for-sale securities	203	1,003
Deferred gains or losses on hedges:		
Amount recorded during the period	(21)	–
Reclassified amount	–	21
Pre-adjustment of tax effect	(21)	21
Tax effect amount	6	(6)
Deferred gains or losses on hedges	(14)	14
Foreign currency translation adjustment:		
Amount recorded during the period	(13)	(23)
Reclassified amount	–	–
Pre-adjustment of tax effect	(13)	(23)
Tax effect amount	–	–
Foreign currency translation adjustment	(13)	(23)
Remeasurements of defined benefit plans, net of tax:		
Amount recorded during the period	35	52
Reclassified amount	(33)	(64)
Pre-adjustment of tax effect	1	(11)
Tax effect amount	0	2
Remeasurements of defined benefit plans, net of tax	2	(9)
Total other comprehensive income	177	985

Notes - Consolidated statement of changes in equity

Previous 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 (Notes 1 and 2)	115,030	–	12,000	103,030
Total	115,030	–	12,000	103,030
Treasury shares				
Common shares (Notes 1, 3 and 4)	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 retirement 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

Current fiscal year (From April 1, 2017 to March 31, 2018)

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)	103,030	–	93,327	9,703
Total	103,030	–	93,327	9,703
Treasury shares				
Common shares (Notes 1 and 2)	7,187	1,727	8,514	401
Total	7,187	1,727	8,514	401

(Notes) 1. The Company conducted a share consolidation at a ratio of 10 shares of common shares to 1 share on October 1, 2017.

2. Total number of issued shares decreased by 93,327 thousand shares due to decline after the share consolidation of 87,327 thousand shares and retirement of 6,000 thousand shares of treasury shares based on a resolution by the Board of Directors.

3. Total number of issued shares increased by 1,727 thousand shares due to purchase of treasury shares based on a resolution by the Board of Directors of 1,716 thousand shares (1,597 thousand shares before the share consolidation and 119 thousand shares after the share consolidation), purchase of fractional number of shares in line with the share consolidation of 0 thousand shares and purchase of shares less than one unit of 11 thousand shares (9 thousand shares before the share consolidation and 1 thousand shares after the share consolidation).

4. The number of common shares in treasury decreased by 8,514 thousand shares due to decline after the share

consolidation of 2,514 thousand shares and retirement of 6,000 thousand shares 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 29, 2017	Common shares	¥1,150 million	¥12	March 31, 2017	June 30, 2017

(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 28, 2018	Common shares	¥930 million	Retained earnings	¥100	March 31, 2018	June 29, 2018

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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Cash and deposits	¥6,811 million	¥12,421 million
Restricted deposits	(1)	(1)
Cash and cash equivalents	6,810	12,420

Notes - Leases

(Borrower)

Operating lease transactions

Future lease payments under non-cancelable operating leases

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Within 1 year	¥8 million	¥13 million
Over 1 year	16	20
Total	25	33

(Lender)

Finance lease transactions

(1) The components of lease investment assets

Current assets

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Lease payments receivable	¥1,596 million	¥1,826 million
Estimated residual value	81	–
Amount equivalent to interest income	(151)	(44)
Lease investment assets	1,526	1,781

(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, 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	–

(Millions of yen)

	Current fiscal year (As of March 31, 2018)					
	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	669	515	317	248	75	–

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 through 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, and the Group uses interest rate swaps as hedging instruments for respective contracts for most of the long-term loans payable 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 the consolidated financial statements" described previously 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, 2017 and 2018, 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, 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.

Current fiscal year (As of March 31, 2018)

(Millions of yen)

	Carrying amount on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	12,421	12,421	–
(2) Notes and accounts receivable - trade	9,387		
Allowance for doubtful accounts (*)	(10)		
	9,376	9,376	–
(3) Securities	500	500	–
(4) Investment securities	7,887	7,887	–
Total assets	30,185	30,185	–
(1) Notes and accounts payable - trade	2,033	2,033	–
(2) Short-term loans payable	4,604	4,604	–
(3) Accrued expenses	3,380	3,380	–
(4) Long-term loans payable (including within 1 year)	3,095	3,160	65
Total liabilities	13,113	13,178	65
Derivatives			
(1) Those not qualifying for hedge accounting	–	–	–
(2) Those qualifying for hedge accounting	–	–	–
Total derivatives	–	–	–

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

(Notes) 1. Calculation method of fair values of financial instruments and matters concerning 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 ¥843 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, 2017)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	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	–	–

Current fiscal year (As of March 31, 2018)

(Millions of yen)

	Within 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash	12,408	–	–	–
Notes and accounts receivable - trade	9,376	–	–	–
Securities	500	–	–	–
Investment securities				
Held-to-maturity bonds	–	–	–	–
Available-for-sale securities	–	–	–	–
Total	22,284	–	–	–

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

Previous 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	–

Current fiscal year (As of March 31, 2018)

(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	480	600	–	–

Notes - Securities

1. Held-to-maturity bonds

Previous 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

Current fiscal year (As of March 31, 2018)

(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	–	–	–
	(3) Other	500	500	0
	Subtotal	500	500	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	–	–	–
	Subtotal	–	–	–
Total		500	500	0

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

Previous 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.

Current fiscal year (As of March 31, 2018)

(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	6,723	2,327	4,395
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	6,723	2,327	4,395
Securities for which the carrying amount on the consolidated balance sheet does not exceed the acquisition cost	(1) Stocks	1,163	1,424	(260)
	(2) Bonds			
	(i) Government bonds and municipal bonds, etc.	–	–	–
	(ii) Corporate bonds	–	–	–
	(iii) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	1,163	1,424	(260)
Total		7,887	3,752	4,134

(Note) "Available-for sale securities" in the above table do not include unlisted equity securities (carrying amount on the consolidated balance sheet of ¥842 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, 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	–

Current fiscal year (From April 1, 2017 to March 31, 2018)

(Millions of yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	400	320	(0)
(2) Bonds			
(i) Government bonds and municipal bonds, etc.	–	–	–
(ii) Corporate bonds	–	–	–
(iii) Other	–	–	–
(3) Other	–	–	–
Total	400	320	(0)

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, 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	

Current fiscal year (As of March 31, 2018)

Not applicable

(2) Interest rates

Previous 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.

Current fiscal year (As of March 31, 2018)

(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	2,495	2,480	(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 Kigyonenkin 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 Kigyonenkin 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 an 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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Beginning balance of retirement benefit obligations	¥3,342 million	¥3,438 million
Service cost	178	182
Interest expenses	15	15
Unrecognized net actuarial gain or loss	37	52
Retirement benefits paid	(136)	(190)
Other	1	(4)
Ending balance of retirement benefit obligations	3,438	3,493

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

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Beginning balance of pension plan assets	¥3,271 million	¥3,432 million
Expected return on plan assets	41	45
Unrecognized net actuarial gain or loss	78	105
Amount of employer contribution	174	181
Retirement benefits paid	(134)	(190)
Other	0	(7)
Ending balance of pension plan assets	3,432	3,567

(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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Retirement benefit obligations under funded system	¥3,436 million	¥3,491 million
Pension plan assets	(3,432)	(3,567)
	3	(75)
Retirement benefit obligations under unfunded system	2	2
Net amount of assets and liabilities stated in the consolidated balance sheet	5	(73)
Net defined benefit liability	364	325
Net defined benefit asset	(358)	(398)
Net amount of assets and liabilities stated in the consolidated balance sheet	5	(73)

(4) Retirement benefit expenses and components thereof

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Service cost	¥178 million	¥182 million
Interest expenses	15	15
Expected return on plan assets	(41)	(45)
Amortization of net actuarial gain or loss	(42)	(60)
Retirement benefit expenses pertaining to defined benefit plans	110	91

(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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Past service cost	¥– million	¥– million
Actuarial gains and losses	1	(11)
Total	1	(11)

(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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Unrecognized past service cost	¥– million	¥– million
Unrecognized net actuarial gain or loss	(21)	(9)
Total	(21)	(9)

(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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Bonds	27%	29%
Shares	33	31
General account	31	30
Other	9	10
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, 2017)	Current fiscal year (As of March 31, 2018)
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 ¥53 million in the previous fiscal year and ¥58 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 ¥98 million in the previous fiscal year and ¥94 million in the current fiscal year.

(1) Funded status of multi-employer plan

	Previous fiscal year (As of March 31, 2016)	Current fiscal year (As of March 31, 2017)
Plan assets	¥77,014 million	¥72,648 million
Sum of actuarial obligations calculated for finance status of pension plan and minimum reserve	96,894	90,979
Net amount	(19,880)	(18,331)

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

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

Current fiscal year 4.56% (From April 1, 2017 to March 31, 2018)

(3) Supplementary explanation

Major factors for the net amount in (1) above are the balance of past service liabilities (¥22,440 million as of March 31, 2016 and ¥21,372 million as of March 31, 2017) and surplus amount (¥2,560 million as of March 31, 2016 and ¥3,041 million as of March 31, 2017) 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 (¥68 million as of March 31, 2016 and ¥67 million as of March 31, 2017) 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, 2017)	Current fiscal year (As of March 31, 2018)
Deferred tax assets		
Tax loss carry-forward	¥459 million	¥166 million
Accrued business tax	58	35
Net defined benefit liability	111	99
Provision for bonuses	79	74
Allowance for doubtful accounts	107	96
Provision for loss on order received	207	54
Loss on valuation of investment securities	275	274
Loss on valuation of investments in capital	39	39
Impairment loss	181	159
Depreciation	47	58
Asset retirement obligations	101	98
Other	258	250
Subtotal	1,928	1,407
Valuation reserve	(1,165)	(715)
Total deferred tax assets	762	692
Deferred tax liabilities		
Revaluation reserve for land	1,121	1,107
Valuation difference on available-for-sale securities	692	1,135
Reserve for advanced depreciation of non-current assets	888	881
Other	251	208
Total deferred tax liabilities	2,952	3,332

(Note) The net deferred tax liabilities as of March 31, 2017 and March 31, 2018 are included in the items below of the consolidated balance sheet.

	Previous fiscal year (As of March 31, 2017)	Current fiscal year (As of March 31, 2018)
Current assets－Deferred tax assets	¥582 million	¥506 million
Non-current assets－Deferred tax assets	41	33
Non-current liabilities－Deferred tax liabilities	1,692	2,071
－Deferred tax liabilities for land revaluation	1,121	1,107

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, 2017)	Current fiscal year (As of March 31, 2018)
Statutory effective tax rate	30.86%	30.86%
Adjustments		
Increase/decrease in valuation reserve	(8.33)	(12.36)
Expenses not deductible for income tax purposes, such as entertainment expenses	0.97	1.19
Income not included for income tax purposes, such as dividends received	(0.22)	(0.44)
Per capita levy of inhabitant taxes	0.79	1.30
Effect of differences in tax rates applicable to subsidiaries from tax rate applicable to the Company	0.30	1.40
Amortization of goodwill	0.39	–
Retained earnings of overseas subsidiaries	0.22	(1.68)
Tax credits	(0.42)	–
Other	(0.21)	0.22
Actual effective tax rate	24.34	20.50

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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Beginning balance	¥332 million	¥332 million
Decrease due to settlement of asset retirement obligations	–	(10)
Ending balance	332	321

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 ¥353 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 ¥418 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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Carrying amount on the consolidated balance sheet			
	Balance at beginning of period	5,364	5,049
	Increase (decrease) during period	(315)	375
	Balance at end of period	5,049	5,424
Fair value at end of period		3,398	3,587

(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 (¥231 million) and decrease due to depreciation (¥83 million). The increase (decrease) during period for the current fiscal year primarily consist of an increase in rentable space (¥486 million), impairment loss (¥72 million) and decrease due to depreciation (¥38 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, material handling 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.

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

Previous 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.

Current fiscal year (From April 1, 2017 to March 31, 2018)

(Millions of yen)

	Reportable segments			Other (Note)	Adjustment	Total
	Plant & Machinery Business	Material Handling Systems Business	Total			
Sales						
Sales to external customers	10,030	25,939	35,969	5,788	–	41,758
Transactions with other segments	–	–	–	682	(682)	–
Total	10,030	25,939	35,969	6,470	(682)	41,758
Segment profit (loss)	(178)	1,931	1,753	914	(401)	2,265
Segment assets	10,445	17,700	28,145	12,501	15,651	56,298
Other items						
Depreciation	220	349	569	153	14	737
Increase in property, plant and equipment, and intangible assets	103	357	460	129	11	602

(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	2,614	1,753
Profit of "other"	958	914
Corporate expenses (Note)	(495)	(404)
Other adjustments	3	2
Operating profit in the consolidated financial statements	3,080	2,265

(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	33,938	28,145
Assets of "other"	8,106	12,501
Corporate assets (Note)	11,235	15,721
Other adjustments	(51)	(70)
Total assets in the consolidated financial statements	53,228	56,298

(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, 2016 to March 31, 2017)

1. Information for each product and service

(Millions of yen)

	Storage tank, etc.	Maintenance services of storage tanks	Material handling 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.

Current fiscal year (From April 1, 2017 to March 31, 2018)

1. Information for each product and service

(Millions of yen)

	Storage tank, etc.	Maintenance services of storage tanks	Material handling system equipment, etc.	Other	Total
Sales to external customers	2,248	7,781	25,939	5,788	41,758

2. Information about geographical area

(1) Sales

(Millions of yen)

Japan	Southeast Asia	Other	Total
39,579	2,012	166	41,758

(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
14,755	908	46	15,710

3. Information for each of main customers

(Millions of yen)

Name of customer	Net sales	Related segment
ASKUL Corporation	8,354	Material Handling Systems Business

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

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

Current fiscal year (From April 1, 2017 to March 31, 2018)

(Millions of yen)

	Reportable segments		Other (Note)	Adjustment	Total
	Plant & Machinery Business	Material Handling Systems Business			
Impairment loss	–	–	72	–	72

(Note) The amount of “other” is an amount related to real estate rental operations.

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

Previous 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.

Current fiscal year (From April 1, 2017 to March 31, 2018)
Not applicable

[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, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net assets per share	¥3,702.00	¥3,941.68
Basic earnings per share	¥373.78	¥251.26

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

(Note) 2. The Company conducted a share consolidation at a ratio of 10 shares of common shares to 1 share, effective on October 1, 2017. Accordingly, the net assets per share and basic earnings per share are calculated based on the assumption that the share consolidation had been conducted at the beginning of the previous fiscal year.

(Note) 3. The basis for calculation for basic earnings per share is as follows:

	Previous fiscal year (From April 1, 2016 to March 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Profit attributable to owners of parent	¥3,746 million	¥2,362 million
Profit not relating to common shareholders	–	–
Profit attributable to owners of parent pertaining to common shares	3,746	2,362
Average number of outstanding common shares	10,023 thousand shares	9,401 thousand shares

Notes - Significant events after reporting period

1. Purchase and retirement of treasury shares

The Company's Board of Directors made a resolution on May 11, 2018 for the Company to acquire its own shares pursuant to the provision of Article 156, Paragraph 1 of the Companies Act, as applied by replacing the relevant terms pursuant to the Act's provision of Article 165, Paragraph 3, and to retire treasury shares pursuant to the provision of Article 178 of the Companies Act, and conducted the purchase and retirement of treasury shares according to the particulars stated below.

(1) Reason for purchase and retirement

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 290 thousand shares (Ratio of the total number of shares to be repurchased to the total number of shares issued (excluding treasury shares): 3.1%)
(iii)	Total price of repurchase:	Up to ¥1,000 million
(iv)	Repurchase period:	May 18, 2018 to August 28, 2018
(v)	Repurchase method:	Purchase on the stock exchange via a trust bank

(3) Details of the matters relating to retirement

(i)	Type of the shares to be retired:	Common shares
(ii)	Total number of shares to be retired:	380 thousand shares (Ratio of the total number of shares to be retired to the total number of shares issued (excluding treasury shares) before the retirement: 3.9%)
(iii)	Date of retirement:	May 25, 2018

2. Absorption-type merger of wholly-owned subsidiaries and partial amendment to the Articles of Incorporation associated with the amendments to the business objectives

The Company's Board of Directors made a resolution on May 11, 2018 to merge Toyo Kanetsu Solutions K.K., a wholly-owned subsidiary of the Company, with the Company by an absorption-type merger with an effective date of April 1, 2019 and entered into a merger agreement on the same date.

In addition, the Company's Board of Directors made a resolution to make a proposal at the 110th Ordinary General Meeting of Shareholders to be held on June 28, 2018, concerning partial amendments to its current Articles of Incorporation, including amendments to the business objectives.

(1) Outline of transaction

(i) Information such as the name and description of business to be transferred

Name of surviving company Line of business	Toyo Kanetsu K.K. Manufacturing and sales of various kind of storage tanks
Name of absorbed company Line of business, etc.	Toyo Kanetsu Solutions K.K. Manufacturing, sales and maintenance of material handling system equipment Total assets: ¥13,522 million; liabilities: ¥6,183 million; net assets: ¥7,338 million

(ii) Date of the business combination:

April 1, 2019 (scheduled)

(iii) Legal form of the business combination:

An absorption-type merger, in which Toyo Kanetsu K.K. is the surviving company and Toyo Kanetsu Solutions K.K. is the absorbed company

(iv) Name of the company after the business combination:

Toyo Kanetsu K.K.

(v) Outline of transaction including purposes of transaction

The Company decided to carry out an absorption-type merger of Toyo Kanetsu Solutions K.K. in order to strive for further increases of the entire group's corporate value by sharing intellectual property from the Group's primary businesses, the Plant & Machinery Business and the Material Handling Systems Business, appropriately allocating human resources, and effectively using shared assets.

(2) Overview of accounting treatment

The acquisition will be accounted for as a transaction under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

(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	¥2,397	¥4,604	0.601	–
Current portion of long-term loans payable	60	15	1,350	–
Long-term loans payable (excluding current portion)	1,095	3,080	0.892	Between 2020 and 2025
Total	3,552	7,699	–	–

(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 is as follows:

Classification	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	¥480 million	¥600 million	¥– 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, 2017 to June 30, 2017)	Second quarter (Cumulative) (From April 1, 2017 to September 30, 2017)	Third quarter (Cumulative) (From April 1, 2017 to December 31, 2017)	Current fiscal year (From April 1, 2017 to March 31, 2018)
Net sales (Millions of yen)	9,162	22,100	31,546	41,758
Profit before income taxes (Millions of yen)	940	2,002	2,837	2,971
Profit attributable to owners of parent (Millions of yen)	711	1,482	2,127	2,362
Basic earnings per share (Yen)	74.82	156.57	225.61	251.26

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	74.82	81.87	68.91	25.20

(Note) The Company conducted a share consolidation at a ratio of 10 shares of common shares to 1 share, effective on October 1, 2017. Accordingly, the basic earnings per share is calculated based on the assumption that the share consolidation had been conducted at the beginning of the previous fiscal year.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 28, 2018

To the Board of Directors of
Toyo Kanetsu K.K.

GYOSEI & CO.

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

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

Designated Partner
Engagement Partner
Certified Public Accountant Akira Mishima (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 K.K. (the "Company"), which comprise the consolidated balance sheet as of March 31, 2018, and the consolidated statements of income and comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the fiscal year from April 1, 2017 to March 31, 2018, 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 as independent auditor. 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, 2018, 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.

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, 2018.

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 as independent auditor. 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, 2018 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	29,700,000
Capital Stock Issued	9,703,074
Number of Shareholders	8,819
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

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