# Consolidated Financial Statements

## Yodogawa Steel Works, Ltd.
## and Consolidated Subsidiaries

***March 31, 2017***
***with Independent Auditor's Report***

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

March 31, 2017

## Contents

# Independent Auditor's Report

The Board of Directors
Yodogawa Steel Works, Ltd.

We have audited the accompanying consolidated financial statements of Yodogawa Steel Works, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yodogawa Steel Works, Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

June 22, 2017
Osaka, Japan

Ernst & Young ShinNihon LLC



A member firm of Ernst & Young Global Limited

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

# Consolidated Balance Sheet

March 31, 2017

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 4)* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| **Assets** | | | |
| Current assets: | | | |
| Cash and deposits *(Notes 5, 6 and 12)* | ¥ 46,503 | ¥ 40,762 | $ 363,330 |
| Marketable securities *(Notes 6 and 7)* | 100 | – | – |
| Notes and accounts receivable *(Note 6)*: | | | |
| Unconsolidated subsidiaries and affiliates *(Note 23)* | 14,191 | 14,719 | 131,197 |
| Trade | 23,489 | 26,384 | 235,173 |
| Less allowance for doubtful receivables | (112) | (114) | (1,016) |
| Inventories *(Note 8)* | 25,189 | 25,508 | 227,364 |
| Deferred income taxes *(Note 15)* | 546 | 529 | 4,715 |
| Other current assets *(Note 5)* | 7,647 | 6,400 | 57,046 |
| Total current assets | 117,553 | 114,188 | 1,017,809 |
| | | | |
| Property, plant and equipment: | | | |
| Land *(Notes 9, 18 and 24)* | 18,385 | 18,686 | 166,557 |
| Buildings and structures *(Notes 9 and 24)* | 58,637 | 59,869 | 533,639 |
| Machinery, equipment and vehicles *(Note 9)* | 141,798 | 142,692 | 1,271,878 |
| Leased assets *(Note 20)* | 1,500 | 1,409 | 12,559 |
| Construction in progress | 659 | 766 | 6,828 |
| Less accumulated depreciation | (170,341) | (172,534) | (1,537,873) |
| Property, plant and equipment, net *(Note 25)* | 50,638 | 50,888 | 453,588 |
| | | | |
| Investments and other assets: | | | |
| Investments in securities *(Notes 6, 7 and 12)* | 29,918 | 37,558 | 334,771 |
| Investments in unconsolidated subsidiaries and affiliates *(Note 25)* | 4,879 | 5,017 | 44,719 |
| Goodwill *(Notes 9 and 25)* | 14 | 11 | 98 |
| Deferred income taxes *(Note 15)* | 782 | 403 | 3,592 |
| Intangible assets | 1,274 | 1,417 | 12,630 |
| Other assets *(Note 12)* | 802 | 496 | 4,421 |
| Total investments and other assets | 37,669 | 44,902 | 400,231 |
| | | | |
| Total assets *(Note 25)* | ¥ 205,860 | ¥ 209,978 | $ 1,871,628 |

| | Millions of yen | | Thousands of U.S. dollars (Note 4) |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Current portion of finance lease obligations *(Note 10)* | ¥ 173 | ¥ 177 | $ 1,578 |
| Notes and accounts payable *(Note 6)*: | | | |
| Unconsolidated subsidiaries and affiliates | 302 | 499 | 4,448 |
| Trade | 16,072 | 17,301 | 154,212 |
| Construction | 1,654 | 2,695 | 24,022 |
| Short-term loans *(Note 10)* | 7,153 | 670 | 5,972 |
| Accrued expenses | 2,236 | 2,405 | 21,437 |
| Income tax payable *(Note 15)* | 1,758 | 2,626 | 23,407 |
| Provision for bonuses to employees | 939 | 1,052 | 9,377 |
| Other current liabilities *(Note 12)* | 2,809 | 3,023 | 26,944 |
| Total current liabilities | 33,096 | 30,448 | 271,397 |
| Long-term liabilities: | | | |
| Liability for retirement benefits (*Note 14*) | 10,638 | 8,279 | 73,794 |
| Provision for retirement benefits for directors and audit & supervisory board members | 112 | 94 | 838 |
| Guarantee deposits *(Note 10)* | 3,068 | 3,053 | 27,213 |
| Finance lease obligations, less current portion *(Note 10)* | 931 | 743 | 6,623 |
| Deferred income taxes *(Note 15)* | 2,673 | 3,943 | 35,146 |
| Deferred income taxes on land revaluation reserve *(Note 15)* | 856 | 856 | 7,630 |
| Other long-term liabilities | 1,087 | 1,187 | 10,579 |
| Total long-term liabilities | 19,365 | 18,155 | 161,823 |
| Contingent liabilities *(Note 13)* | | | |
| Net assets: | | | |
| Shareholders' equity *(Note 17)*: | | | |
| Common stock: | | | |
| Authorized: 143,000,000 shares in 2016 and 2017 | | | |
| Issued: 35,837,230 shares in 2016 and 2017 | 23,221 | 23,221 | 206,979 |
| Capital surplus | 21,432 | 20,388 | 181,728 |
| Retained earnings*(Note 26)* | 90,590 | 95,665 | 852,705 |
| Treasury stock, at cost – 5,363,079 shares in 2016 and 6,028,845 shares in 2017 | (10,399) | (12,199) | (108,735) |
| Total shareholders' equity | 124,844 | 127,075 | 1,132,677 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on securities *(Note 7)* | 10,756 | 14,477 | 129,040 |
| Land revaluation reserve *(Note 18)* | 1,627 | 1,626 | 14,493 |
| Translation adjustments | 1,860 | 1,581 | 14,092 |
| Retirement benefit liability adjustments *(Note 14)* | (1,938) | (1,517) | (13,521) |
| Total accumulated other comprehensive income | 12,305 | 16,167 | 144,104 |
| Stock acquisition rights *(Note 17)* | 178 | 205 | 1,827 |
| Non-controlling interests | 16,072 | 17,928 | 159,800 |
| Total net assets | 153,399 | 161,375 | 1,438,408 |
| Total liabilities and net assets | ¥ 205,860 | ¥ 209,978 | $ 1,871,628 |

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

# Consolidated Statement of Operations

Year ended March 31, 2017

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 4)* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Net sales *(Notes 23, 24 and 25)* | ¥ 159,214 | ¥ 154,221 | $ 1,374,641 |
| Cost of sales *(Notes 8 and 24)* | 134,978 | 123,884 | 1,104,234 |
| Gross profit | 24,236 | 30,337 | 270,407 |
| Selling, general and administrative expenses *(Notes 17, 19 and 24)* | 16,934 | 17,168 | 153,026 |
| Operating income *(Note 25)* | 7,302 | 13,169 | 117,381 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,031 | 923 | 8,227 |
| Interest expense | (215) | (158) | (1,408) |
| Insurance income | 93 | 105 | 936 |
| Foreign exchange loss, net | (612) | (200) | (1,783) |
| Equity in earnings of an affiliate | 337 | 300 | 2,674 |
| Gain (loss) on revaluation of derivatives | 32 | (2) | (18) |
| Gain (loss) on sales of investments in securities, net *(Note 7)* | 497 | (6) | (53) |
| Expenses related to employees seconded to overseas unconsolidated subsidiaries | (255) | (261) | (2,326) |
| Expenses for disposal of PCB waste | – | (231) | (2,059) |
| Loss on sales or disposal of property, plant and equipment, net | (77) | (90) | (802) |
| Loss on impairment of investments in securities *(Note 7)* | (1,828) | (135) | (1,203) |
| Loss on impairment of fixed assets *(Notes 9 and 25)* | (6,603) | (737) | (6,569) |
| Gain on insurance claim | 1 | – | – |
| Other, net *(Note 7)* | 193 | 124 | 1,104 |
| (Loss) profit before income taxes | (104) | 12,801 | 114,101 |
| Income taxes *(Note 15)*: | | | |
| Current | 2,941 | 4,126 | 36,777 |
| Deferred | (333) | 74 | 659 |
| | 2,608 | 4,200 | 37,436 |
| (Loss) profit | (2,712) | 8,601 | 76,665 |
| (Loss) profit attributable to: | | | |
| Non-controlling interests | 59 | 1,866 | 16,633 |
| Owners of parent | ¥ (2,771) | ¥ 6,735 | $ 60,032 |

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

# Consolidated Statement of Comprehensive Income

Year ended March 31, 2017

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 4)* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| (Loss) profit | ¥ (2,712) | ¥ 8,601 | $ 76,665 |
| Other comprehensive (loss) income *(Note 16)*: | | | |
| Unrealized holding (loss) gain on securities | (3,422) | 3,725 | 33,203 |
| Land revaluation reserve | (4) | – | – |
| Translation adjustments | (1,120) | (735) | (6,552) |
| Retirement benefit liability adjustments | (752) | 310 | 2,763 |
| Share of other comprehensive (loss) income of an affiliate accounted for by the equity method | (10) | 22 | 196 |
| Total other comprehensive (loss) income | (5,308) | 3,322 | 29,610 |
| Comprehensive (loss) income | ¥ (8,020) | ¥11,923 | $106,275 |
| | | | |
| Total comprehensive (loss) income attributable to: | | | |
| Owners of parent | ¥ (7,530) | ¥10,597 | $ 94,456 |
| Non-controlling interests | (490) | 1,326 | 11,819 |

*See accompanying notes to consolidated financial statements.*

# Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

# Consolidated Statement of Changes in Net Assets

## Year ended March 31, 2017

| | Number of shares issued | Millions of yen: Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance at April 1, 2015 | 179,186,153 | ¥ 23,221 | ¥ 21,210 | ¥ 94,908 | ¥ (9,186) | ¥ 130,153 |
| Cash dividends | – | – | – | (1,542) | – | (1,542) |
| Loss attributable to owners of parent for the year | – | – | – | (2,771) | – | (2,771) |
| Acquisition of treasury stock | – | – | – | – | (1,238) | (1,238) |
| Disposition of treasury stock | – | – | (8) | – | 25 | 17 |
| Increase due to change in ownership interest resulting from capital increase of a consolidated subsidiary | – | – | 198 | – | – | 198 |
| Increase due to change in ownership interest resulting from acquisition of investments in a consolidated subsidiary | – | – | 32 | – | – | 32 |
| Reversal of land revaluation reserve | – | – | – | (5) | – | (5) |
| Other change | (143,348,923) | – | – | – | – | – |
| Balance at April 1, 2016 | 35,837,230 | ¥ 23,221 | ¥ 21,432 | ¥ 90,590 | ¥ (10,399) | ¥ 124,844 |
| Cash dividends | – | – | – | (1,661) | – | (1,661) |
| Profit attributable to owners of parent for the year | – | – | – | 6,735 | – | 6,735 |
| Acquisition of treasury stock | – | – | – | – | (1,810) | (1,810) |
| Disposition of treasury stock | – | – | (2) | – | 10 | 8 |
| Decrease due to change in ownership interest resulting from capital increase of a consolidated subsidiary | – | – | (1,048) | – | – | (1,048) |
| Increase due to change in ownership interest resulting from acquisition of investments in a consolidated subsidiary | – | – | 6 | – | – | 6 |
| Reversal of land revaluation reserve | – | – | – | 1 | – | 1 |
| Other changes | – | – | – | – | – | – |
| Balance at March 31, 2017 | 35,837,230 | ¥ 23,221 | ¥ 20,388 | ¥ 95,665 | ¥ (12,199) | ¥ 127,075 |

| | Millions of yen: Unrealized holding gain on securities | Land revaluation reserve | Translation adjustments | Retirement benefit liability adjustments | Total accumulated other comprehensive income | Stock acquisition rights | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2015 | ¥ 14,150 | ¥ 1,615 | ¥ 2,554 | ¥ (1,260) | ¥ 17,059 | ¥ 166 | ¥ 17,522 | ¥ 164,900 |
| Cash dividends | – | – | – | – | – | – | – | (1,542) |
| Loss attributable to owners of parent for the year | – | – | – | – | – | – | – | (2,771) |
| Acquisition of treasury stock | – | – | – | – | – | – | – | (1,238) |
| Disposition of treasury stock | – | – | – | – | – | – | – | 17 |
| Increase due to change in ownership interest resulting from capital increase of a consolidated subsidiary | – | – | – | – | – | – | – | 198 |
| Increase due to change in ownership interest resulting from acquisition of investments in a consolidated subsidiary | – | – | – | – | – | – | – | 32 |
| Reversal of land revaluation reserve | – | – | – | – | – | – | – | (5) |
| Other changes | (3,394) | 12 | (694) | (678) | (4,754) | 12 | (1,450) | (6,192) |
| Balance at April 1, 2016 | ¥ 10,756 | ¥ 1,627 | ¥ 1,860 | ¥ (1,938) | ¥ 12,305 | ¥ 178 | ¥ 16,072 | ¥ 153,399 |
| Cash dividends | – | – | – | – | – | – | – | (1,661) |
| Profit attributable to owners of parent for the year | – | – | – | – | – | – | – | 6,735 |
| Acquisition of treasury stock | – | – | – | – | – | – | – | (1,810) |
| Disposition of treasury stock | – | – | – | – | – | – | – | 8 |
| Decrease due to change in ownership interest resulting from capital increase of a consolidated subsidiary | – | – | – | – | – | – | – | (1,048) |
| Increase due to change in ownership interest resulting from acquisition of investments in a consolidated subsidiary | – | – | – | – | – | – | – | 6 |
| Reversal of land revaluation reserve | – | – | – | – | – | – | – | 1 |
| Other changes | 3,721 | (1) | (279) | 421 | 3,862 | 27 | 1,856 | 5,745 |
| Balance at March 31, 2017 | ¥ 14,477 | ¥ 1,626 | ¥ 1,581 | ¥ (1,517) | ¥ 16,167 | ¥ 205 | ¥ 17,928 | ¥ 161,375 |

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

# Consolidated Statement of Changes in Net Assets (continued)

## Year ended March 31, 2017

| | Thousands of U.S. dollars (Note 4) | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| Balance at April 1, 2016 | $ 206,979 | $ 191,033 | $ 807,469 | $ (92,691) | $ 1,112,790 |
| Cash dividends | – | – | (14,805) | – | (14,805) |
| Profit attributable to owners of parent for the year | – | – | 60,032 | – | 60,032 |
| Acquisition of treasury stock | – | – | – | (16,133) | (16,133) |
| Disposition of treasury stock | – | (17) | – | 89 | 72 |
| Decrease due to change in ownership interest resulting from capital increase of a consolidated subsidiary | – | (9,341) | – | – | (9,341) |
| Increase due to change in ownership interest resulting from acquisition of investments in a consolidated subsidiary | – | 53 | – | – | 53 |
| Reversal of land revaluation reserve | – | – | 9 | – | 9 |
| Other changes | – | – | – | – | – |
| Balance at March 31, 2017 | $ 206,979 | $ 181,728 | $ 852,705 | $ (108,735) | $ 1,132,677 |

| | Thousands of U.S. dollars (Note 4) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized holding gain on securities | Land revaluation reserve | Translation adjustments | Retirement benefit liability adjustment | Total accumulated other comprehensive income | Stock acquisition rights | Non-controlling interests | Total net assets |
| Balance at April 1, 2016 | $ 95,873 | $ 14,502 | $ 16,579 | $ (17,274) | $ 109,680 | $ 1,587 | $ 143,257 | $ 1,367,314 |
| Cash dividends | – | – | – | – | – | – | – | (14,805) |
| Profit attributable to owners of parent for the year | – | – | – | – | – | – | – | 60,032 |
| Acquisition of treasury stock | – | – | – | – | – | – | – | (16,133) |
| Disposition of treasury stock | – | – | – | – | – | – | – | 72 |
| Decrease due to change in ownership interest resulting from capital increase of a consolidated subsidiary | – | – | – | – | – | – | – | (9,341) |
| Increase due to change in ownership interest resulting from acquisition of investments in a consolidated subsidiary | – | – | – | – | – | – | – | 53 |
| Reversal of land revaluation reserve | – | – | – | – | – | – | – | 9 |
| Other changes | 33,167 | (9) | (2,487) | 3,753 | 34,424 | 240 | 16,543 | 51,207 |
| Balance at March 31, 2017 | $ 129,040 | $ 14,493 | $ 14,092 | $ (13,521) | $ 144,104 | $ 1,827 | $ 159,800 | $ 1,438,408 |

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Cash Flows

Year ended March 31, 2017

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 4)* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| **Cash flows from operating activities:** | | | |
| (Loss) profit before income taxes | ¥ (104) | ¥ 12,801 | $ 114,101 |
| Adjustments for: | | | |
| Depreciation and amortization | 4,312 | 4,169 | 37,160 |
| Amortization of goodwill | 22 | 3 | 27 |
| Equity in earnings of an affiliate | (337) | (300) | (2,674) |
| Increase (decrease) in liability for retirement benefits | 83 | (1,630) | (14,529) |
| Increase (decrease) in provision for retirement benefits for directors and audit & supervisory board members | 19 | (18) | (160) |
| Increase in provision for bonuses to employees | 109 | 114 | 1,016 |
| (Decrease) increase in allowance for doubtful receivables | (77) | 2 | 18 |
| Interest and dividend income | (1,031) | (923) | (8,227) |
| Interest expense | 215 | 158 | 1,408 |
| Insurance income | (94) | (105) | (936) |
| (Gain) loss on revaluation of derivatives | (32) | 2 | 18 |
| (Gain) loss on sales of investments in securities, net | (497) | 6 | 53 |
| Loss on impairment of investments in securities | 1,828 | 135 | 1,203 |
| Loss on sales or disposal of property, plant and equipment, net | 77 | 90 | 802 |
| Loss on impairment of fixed assets | 6,603 | 737 | 6,569 |
| Decrease (increase) in notes and accounts receivable | 3,472 | (3,398) | (30,288) |
| Decrease (increase) in inventories | 6,783 | (484) | (4,314) |
| (Decrease) increase in notes and accounts payable | (1,417) | 1,460 | 13,014 |
| Other, net | 933 | (159) | (1,417) |
| Subtotal | 20,867 | 12,660 | 112,844 |
| Insurance dividends and claims received | 94 | 105 | 936 |
| Interest and dividends received | 1,079 | 957 | 8,530 |
| Interest paid | (213) | (162) | (1,444) |
| Income taxes paid | (2,422) | (3,342) | (29,788) |
| Net cash provided by operating activities | ¥ 19,405 | ¥ 10,218 | $ 91,078 |

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2017

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 4)* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| **Cash flows from investing activities:** | | | |
| Investments in time deposits | ¥ (11,041) | ¥ (1,261) | $ (11,240) |
| Proceeds from time deposits | 2,721 | 6,816 | 60,754 |
| Proceeds from sales or redemption of marketable securities | 300 | 100 | 891 |
| Purchases of property, plant and equipment | (2,810) | (4,769) | (42,508) |
| Proceeds from sales of property, plant and equipment | 11 | 11 | 98 |
| Purchases of intangible assets | (194) | (299) | (2,665) |
| Purchases of investments in securities | (1,526) | (3,308) | (29,485) |
| Proceeds from sales of investments in securities | 2,188 | 1,359 | 12,113 |
| Payment for loans receivable | (112) | (424) | (3,779) |
| Collection of loans receivable | 184 | 215 | 1,916 |
| Other | 0 | – | – |
| Net cash used in investing activities | (10,279) | (1,560) | (13,905) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term bank loans | 431 | (5,737) | (51,136) |
| Proceeds from sales of treasury stock | 1 | 0 | 0 |
| Purchases of treasury stock | (1,235) | (1,807) | (16,107) |
| Cash dividends paid to owners of parent | (1,556) | (1,676) | (14,939) |
| Cash dividends paid to non-controlling interests | (721) | (512) | (4,564) |
| Repayment of lease obligations | (177) | (164) | (1,462) |
| Purchases of investments in a subsidiary not resulting in change in scope of consolidation | (8) | (1) | (9) |
| Net cash used in financing activities | (3,265) | (9,897) | (88,217) |
| Effect of exchange rate changes on cash and cash equivalents | (269) | (504) | (4,493) |
| Net increase (decrease) in cash and cash equivalents | 5,592 | (1,743) | (15,537) |
| Cash and cash equivalents at the beginning of the year | 35,198 | 40,790 | 363,580 |
| Cash and cash equivalents at the end of the year *(Note 5)* | ¥ 40,790 | ¥ 39,047 | $ 348,043 |

*See accompanying notes to consolidated financial statements.*

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

# Notes to Consolidated Financial Statements

March 31, 2017

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

Yodogawa Steel Works, Ltd. (the "Company") and its domestic subsidiaries maintain their books of account and records in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

### (b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

An investment in one affiliate (a company over which the Company has the ability to exercise significant influence) is stated at cost plus equity in its undistributed earnings or undisposed loss. Consolidated net income or loss includes the Company's equity in the current net income or loss of this company after the elimination of unrealized intercompany profits.

The financial statements of certain consolidated subsidiaries whose fiscal year end is December 31 have been included in consolidation on the basis of a full fiscal year after making the necessary adjustments for significant transactions during the period from their fiscal year end to the Company's balance sheet date.

**1. Summary of Significant Accounting Policies (continued)**

**(c) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Other assets and liabilities denominated in foreign currencies are translated at their historical rates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to profit or loss.

The balance sheet accounts of the overseas consolidated subsidiaries (except for net assets excluding non-controlling interests) are translated into yen at the rate of exchange in effect at the balance sheet date. The components of net assets excluding non-controlling interests are translated at their respective historical rates of exchange. Revenue and expense accounts are translated into yen at the average rate of exchange in effect during the year.

Differences arising from translation are reflected in “Translation adjustments” and “Non-controlling interests” in the accompanying consolidated balance sheet and statement of changes in net assets.

**(d) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible into cash subject to an insignificant risk of any changes in their value and which were purchased with an original maturity of three months or less.

**(e) Securities**

The accounting standard for financial instruments requires that securities other than those of subsidiaries and affiliates be classified into three categories: trading securities, held-to-maturity debt securities or other securities. Under this standard, trading securities are carried at fair value and gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

**1. Summary of Significant Accounting Policies (continued)**

**(f) Derivatives**

Derivatives are measured at fair value.

**(g) Inventories**

Inventories of the Company and its domestic consolidated subsidiaries are principally stated at the lower of cost or net selling value, cost being determined by the average method. Inventories of overseas consolidated subsidiaries are stated at the lower of cost or net selling value, cost being determined by the moving average method.

**(h) Property, plant and equipment and depreciation (except for leased assets)**

Depreciation of property, plant and equipment at the Company and its domestic consolidated subsidiaries is calculated by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings (other than facilities attached to the buildings) acquired on or after April 1, 1998, and facilities attached to the buildings and other structures acquired on or after April 1, 2016.

Depreciation of property, plant and equipment at overseas consolidated subsidiaries is calculated by the straight-line method.

The useful lives adopted for calculating depreciation are principally as follows:

| | |
|---|---|
| Buildings and structures | 3 to 60 years |
| Machinery, equipment and vehicles | 3 to 36 years |

**(i) Intangible assets (except for leased assets)**

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

Expenditures related to computer software development for internal use are expensed as incurred, unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful life of 5 years.

**(j) Goodwill**

All assets and liabilities of the consolidated subsidiaries are revalued on acquisition, if applicable. The difference between the cost of investments in subsidiaries and the equity in their net assets at their respective dates of acquisition is amortized over a period of 5 years on a straight-line basis.

**1. Summary of Significant Accounting Policies (continued)**

**(k) Research and development costs**

Research and development costs are expensed as incurred.

**(l) Leases**

Leased assets under finance lease transactions that transfer ownership to the lessee are depreciated by the same method used for owned fixed assets.

Leased assets under finance lease transactions which do not transfer ownership of the leased assets to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

**(m) Allowance for doubtful receivables**

The Group provides an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

**(n) Provision for bonuses to employees**

The Company and its domestic consolidated subsidiaries provide for payments of bonuses to employees based on the estimated amount to be paid to employees after the balance sheet date, which is attributable to the current fiscal year. There are no bonuses to employees at overseas consolidated subsidiaries to be provided.

**(o) Provision for retirement benefits for directors and audit & supervisory board members**

The directors and audit & supervisory board members of the Company's domestic consolidated subsidiaries have customarily been entitled to lump-sum payments under the unfunded retirement benefit plans. Provision for retirement benefits for these directors and audit & supervisory board members have been provided at an estimated amount based on each consolidated subsidiary's internal rules.

## 1. Summary of Significant Accounting Policies (continued)

### (p) Retirement benefits

In calculating the retirement benefit obligation, the benefit formula basis is applied for the attribution of expected retirement benefits to each period up to the end of the current year.

Prior service cost is being amortized as incurred by the straight-line method over a period of principally 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of principally 10 years, which is within the estimated average remaining years of service of the eligible employees.

Certain consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expenses for the defined benefit corporate pension plans and the retirement lump-sum plans based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (“simplified method”).

### (q) Income taxes

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities for financial reporting purposes and the corresponding balances for tax reporting purposes.

### (r) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes and local consumption taxes paid not offset by consumption taxes and local consumption taxes received in accordance with Consumption Tax Act of Japan are expensed when incurred.

### (s) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

## 1. Summary of Significant Accounting Policies (continued)

### (t) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Receivables or payable hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates ("Allocation method"). The evaluation of effectiveness of such forward foreign exchange contracts is omitted because significant terms of the hedging instruments and underlying hedged items are the same and the Company and certain consolidated subsidiaries assumes that movements of cash flows are completely offset.

## 2. Change in Accounting Policy

### Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Effective April 1, 2016, Company and its domestic consolidated subsidiaries adopted "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No.32 issued on June 17, 2016) in accordance with the revision of the Corporation Tax Act of Japan. Accordingly, Company and its domestic consolidated subsidiaries changed the depreciation method for both facilities attached to buildings and other structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on operating income and profit before income taxes for the year ended March 31, 2017 was immaterial.

## 3. Additional Information

### Implementation Guidance on Recoverability of Deferred Tax Assets

Effective April 1, 2016, the Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 of March 28, 2016).

## 4. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112.19 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2017. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 5. Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the accompanying consolidated balance sheet as of March 31, 2016 and 2017 to cash and cash equivalents shown in the accompanying consolidated statement of cash flows for the years ended March 31, 2016 and 2017 is presented as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Cash and deposits | ¥ 46,503 | ¥ 40,762 | $ 363,330 |
| Trust beneficiary rights included in "Other current assets" | 500 | – | – |
| Time deposits with a maturity of more than three months | (6,213) | (1,715) | (15,287) |
| Cash and cash equivalents | ¥ 40,790 | ¥ 39,047 | $ 348,043 |

## 6. Financial Instruments

***Overview***

### (a) Policy for financial instruments

In consideration of plans for capital investment, the Group primarily utilizes its own funds. In case its own funds are insufficient, the Group raises funds by bank or bond issuances. The Group manages temporary cash surpluses through low-risk financial assets. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative purposes.

## 6. Financial Instruments (continued)

***Overview (continued)***

### (b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivables, are exposed to credit risk of customers. In addition, the Group is exposed to foreign currency exchange risk arising from trade receivables denominated in foreign currencies.

Investments in securities and marketable securities are exposed to volatility risk of market price. The former is composed mainly of the shares of common stock of the companies with which the Group has business relationships, held-to-maturity debt securities and hybrid financial instruments containing embedded derivatives. The latter is composed mainly of commercial paper and negotiable certificates of deposits.

Trade payables, notes and accounts payable, have payment due dates within six months. The Group is exposed to foreign currency exchange risk arising from trade payables denominated in foreign currencies.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from trade receivables, trade payables and loans receivables denominated in foreign currencies for the purpose of efficient risk management.

Information regarding the hedging instruments and hedged items, the hedging policy and the method of the evaluation of the effectiveness of hedging is addressed in Note 1(t).

## 6. Financial Instruments (continued)

***Overview (continued)***

**(c) Risk management for financial instruments**

For trade receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Company and its domestic consolidated subsidiaries are making efforts to identify at an early point and mitigate risks of bad debts from customers who have financial difficulties. The overseas consolidated subsidiaries request customers to issue non-cancelable letters of credit to hedge credit risk.

The Group only acquires held-to-maturity debt securities and commercial paper issued by companies with high credit ratings or sound credit profiles. Accordingly, the Group believes that the credit risk deriving from such securities is insignificant. The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

For trade receivables and trade payables denominated in foreign currencies, the Group enters into forward foreign exchange contracts to hedge the risks arising from fluctuations in foreign exchanges rates.

For marketable securities and investments in securities, the Group periodically reviews the fair value of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether or not securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair value and relationships with the issuers.

The Group enters into derivative transactions based on internal regulations and establishes the reporting and approval system which set forth the purpose, contents, counterparties, holding risk, maximum upper limit of loss amount and risk amounts.

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis and maintains sufficient solvency to manage liquidity risk. In order to provide for unexpected cash requirements, the Company has entered into the line-of-credit agreements with certain financial institutions and its overseas consolidated subsidiaries are able to obtain credit limit of short-term borrowings from certain financial institutions.

## 6. Financial Instruments (continued)

***Overview (continued)***

**(d) Supplementary explanation of the estimated fair value of financial instruments**

The fair value of financial instruments is based on their quoted market prices, if available. When there are no quoted market prices available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

**(e) Concentration of credit risk**

There is no concentration of credit risk for the year ended March 31, 2017.

***Estimated Fair Value of Financial Instruments***

Carrying value of financial instruments on the consolidated balance sheet, estimated fair value and unrealized gain as of March 31, 2016 and 2017 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

| | *Millions of yen* | | |
|---|---|---|---|
| | **2016** | | |
| | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| Cash and deposits | ¥ 46,503 | ¥ 46,503 | ¥ – |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 14,191 | 14,191 | – |
| Trade | 23,489 | 23,489 | – |
| Marketable securities and investments in securities | 29,667 | 29,774 | 107 |
| Total assets | ¥113,850 | ¥113,957 | ¥ 107 |
| Liabilities: | | | |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | ¥ 302 | ¥ 302 | ¥ – |
| Trade | 16,072 | 16,072 | – |
| Total liabilities | ¥ 16,374 | ¥ 16,374 | ¥ – |
| Derivatives* | ¥ – | ¥ – | ¥ – |

## 6. Financial Instruments (continued)

### *Estimated Fair Value of Financial Instruments (continued)*

| | *Millions of yen* | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| Cash and deposits | ¥ 40,762 | ¥ 40,762 | ¥ – |
| Notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 14,719 | 14,719 | – |
| Trade | 26,384 | 26,384 | – |
| Marketable securities and investments in securities | 37,294 | 37,414 | 120 |
| Total assets | ¥119,159 | ¥119,279 | ¥ 120 |
| Liabilities: | | | |
| Notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | ¥ 499 | ¥ 499 | ¥ – |
| Trade | 17,301 | 17,301 | – |
| Total liabilities | ¥ 17,800 | ¥ 17,800 | ¥ – |
| Derivatives (*) | – | – | – |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Estimated fair value | Difference |
| Assets: | | | |
| Cash and deposits | $ 363,330 | $ 363,330 | $ – |
| Notes and accounts receivable | | | |
| Unconsolidated subsidiaries and affiliates | 131,197 | 131,197 | – |
| Trade | 235,173 | 235,173 | – |
| Marketable securities and investments in securities | 332,418 | 333,488 | 1,070 |
| Total assets | $ 1,062,118 | $ 1,063,188 | $ 1,070 |
| Liabilities: | | | |
| Notes and accounts payable | | | |
| Unconsolidated subsidiaries and affiliates | $ 4,448 | $ 4,448 | $ – |
| Trade | 154,212 | 154,212 | – |
| Total liabilities | $ 158,660 | $ 158,660 | $ – |
| Derivatives (*) | – | – | – |

(*) The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parentheses representing net liability position.

## 6. Financial Instruments (continued)

### *Estimated Fair Value of Financial Instruments (continued)*

Calculation method of estimated fair value of financial instruments is as follows:

*Cash and deposits, notes and accounts receivable*
Since these items are settled in a short period of time, their carrying value approximates the fair value.

*Marketable securities and investments in securities*
The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by the financial institutions. For information on securities classified by holding purpose, please refer to Note 7.

*Notes and accounts payable*
Since this item is settled in a short period of time, its carrying value approximates the fair value.

*Derivative transactions*
Please refer to Note 21.

The carrying value of financial instruments without determinable market value as of March 31, 2016 and 2017 is presented as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Unlisted stocks | ¥ 244 | ¥ 244 | $ 2,175 |
| Investment in limited liability partnership | 59 | 20 | 178 |
| Preferred stocks | 48 | – | – |
| Total | ¥ 351 | ¥ 264 | $ 2,353 |

Because no quoted market price is available, it is extremely difficult to determine the fair value. Therefore, the above financial instruments are not included as part of the amounts presented in the preceding fair value of financial instruments table.

## 6. Financial Instruments (continued)

### *Estimated Fair Value of Financial Instruments (continued)*

The redemption schedule for monetary assets and investments by maturity dates as of March 31, 2016 and 2017 is as follows:

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2016** | | | |
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Deposits | ¥ 46,440 | ¥ – | ¥ – | ¥ – |
| Notes and accounts receivable | 37,680 | – | – | – |
| Marketable securities and investments in securities | | | | |
| Held-to-maturity debt securities | | | | |
| National and local government bonds | 100 | 10 | 1,040 | – |
| Corporate bonds | – | – | 1,500 | – |
| Other securities with maturities | | | | |
| Bonds | – | – | – | – |
| Total | ¥ 84,220 | ¥ 10 | ¥ 2,540 | ¥ – |

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Deposits | ¥ 40,706 | ¥ – | ¥ – | ¥ – |
| Notes and accounts receivable | 41,103 | – | – | – |
| Marketable securities and investments in securities | | | | |
| Held-to-maturity debt securities | | | | |
| National and local government bonds | 10 | 20 | 38 | – |
| Corporate bonds | – | 1,900 | 2,400 | – |
| Other securities with maturities | | | | |
| Bonds | – | – | – | – |
| Total | ¥ 81,819 | ¥ 1,920 | ¥ 2,438 | ¥ – |

## 6. Financial Instruments (continued)

***Estimated Fair Value of Financial Instruments (continued)***

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Deposits | $ 362,831 | $ – | $ – | $– |
| Notes and accounts receivable | 366,370 | – | – | – |
| Marketable securities and investments in securities | | | | |
| Held-to-maturity debt securities | | | | |
| National and local government bonds | 89 | 178 | 339 | – |
| Corporate bonds | – | 16,936 | 21,392 | – |
| Other securities with maturities | | | | |
| Bonds | – | – | – | – |
| Total | $ 729,290 | $ 17,114 | $ 21,731 | $– |

## 7. Securities

Marketable securities classified as held-to-maturity debt securities as of March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | |
|---|---|---|---|
| | **2016** | | |
| | Carrying value | Estimated fair value | Difference |
| Securities whose estimated fair value exceeds their carrying value: | | | |
| National and local government bonds | ¥ 1,058 | ¥ 1,068 | ¥ 10 |
| Corporate bonds | 452 | 559 | 107 |
| | 1,510 | 1,627 | 117 |
| Securities whose estimated fair value does not exceed their carrying value: | | | |
| National and local government bonds | 110 | 100 | (10) |
| Corporate bonds | 488 | 488 | – |
| | 598 | 588 | (10) |
| Total | ¥ 2,108 | ¥ 2,215 | ¥ 107 |

**7. Securities (continued)**

| | *Millions of yen* | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Estimated fair value | Difference |
| Securities whose estimated fair value exceeds their carrying value: | | | |
| National and local government bonds | ¥ 68 | ¥ 71 | ¥ 3 |
| Corporate bonds | 1458 | 1,575 | 117 |
| | 1,526 | 1,646 | 120 |
| Securities whose estimated fair value does not exceed their carrying value: | | | |
| National and local government bonds | – | – | – |
| Corporate bonds | 685 | 685 | 0 |
| | 685 | 685 | 0 |
| Total | ¥ 2,211 | ¥ 2,331 | ¥ 120 |

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Estimated fair value | Difference |
| Securities whose estimated fair value exceeds their carrying value: | | | |
| National and local government bonds | $ 606 | $ 633 | $ 27 |
| Corporate bonds | 12,996 | 14,039 | 1,043 |
| | 13,602 | 14,672 | 1,070 |
| Securities whose estimated fair value does not exceed their carrying value: | | | |
| National and local government bonds | – | – | – |
| Corporate bonds | 6,105 | 6,105 | 0 |
| | 6,105 | 6,105 | 0 |
| Total | $ 19,707 | $ 20,777 | $ 1,070 |

Hybrid financial instruments containing an embedded derivative that cannot be separated are stated at fair value in corporate bonds whose estimated fair value does not exceed their carrying value in the above table and the resulting gains or losses are included in other, net as a part of other income (expense) in the consolidated statement of operations.

**7. Securities (continued)**

Other securities with determinable market value as of March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | |
|---|---|---|---|
| | **2016** | | |
| | Carrying value | Acquisition costs | Difference |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | ¥ 23,610 | ¥ 8,525 | ¥ 15,085 |
| Corporate bonds | 402 | 400 | 2 |
| Other | 120 | 97 | 23 |
| | 24,132 | 9,022 | 15,110 |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 3,328 | 3,465 | (137) |
| Corporate bonds | 99 | 101 | (2) |
| | 3,427 | 3,566 | (139) |
| Total | ¥ 27,559 | ¥ 12,588 | ¥ 14,971 |

| | *Millions of yen* | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Acquisition costs | Difference |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | ¥ 31,672 | ¥ 11,630 | ¥ 20,042 |
| Corporate bonds | 617 | 600 | 17 |
| Other | 421 | 397 | 24 |
| | 32,710 | 12,627 | 20,083 |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 892 | 910 | (18) |
| Corporate bonds | 1,481 | 1,501 | (20) |
| | 2,373 | 2,411 | (38) |
| Total | ¥ 35,083 | ¥ 15,038 | ¥ 20,045 |

**7. Securities (continued)**

| | *Thousands of U.S. dollars* | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Acquisition costs | Difference |
| Securities whose carrying value exceeds their acquisition costs: | | | |
| Equity securities | $ 282,306 | $ 103,663 | $ 178,643 |
| Corporate bonds | 5,500 | 5,348 | 152 |
| Other | 3,753 | 3,539 | 214 |
| | 291,559 | 112,550 | 179,009 |
| Securities whose carrying value does not exceed their acquisition costs: | | | |
| Equity securities | 7,951 | 8,111 | (160) |
| Corporate bonds | 13,201 | 13,379 | (178) |
| | 21,152 | 21,490 | (338) |
| Total | $ 312,711 | $ 134,040 | $ 178,671 |

Because no quoted market price is available and it is extremely difficult to estimate the corresponding future cash flow, unlisted stocks of ¥351 million and ¥264 million ($2,353 thousand) as of March 31, 2016 and 2017, respectively, are not included in the above table.

Sales of corporate bonds classified as held-to-maturity debt securities for the years ended March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Sales | ¥ 1,505 | ¥ 500 | $ 4,457 |
| Cost of securities sold | 1,496 | 500 | 4,457 |
| Net gain | 9 | – | – |

The reason for the sales was due to the exercise of the early redemption option by the issuer.

Sales of securities classified as other securities for the years ended March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Sales | ¥ 636 | ¥ 10 | $ 89 |
| Aggregate gain | 484 | 5 | 45 |

The Group recorded loss on impairment of investments in securities with determinable market value of ¥1,181 million for the year ended, March 31, 2016. Loss on impairment is recorded at the amount deemed necessary on securities whose fair value has declined by 50% on more, or whose fair value has declined by 30% on more, but less than 50%, if the decline is deemed to be irrecoverable considering the movements of individual stock prices and recoverability.

## 8. Inventories

The following is a summary of inventories as of March 31, 2016 and 2017:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Merchandises and finished goods | ¥ 12,175 | ¥ 11,403 | $ 101,639 |
| Work in process | 3,296 | 3,458 | 30,823 |
| Raw materials and supplies | 9,718 | 10,647 | 94,902 |
| | ¥ 25,189 | ¥ 25,508 | $ 227,364 |

Gain on reversal of devaluation of inventories is included in cost of sales of ¥135 million and ¥340 million ($3,031 thousand) for the years ended March 31, 2016 and 2017, respectively.

## 9. Loss on Impairment of Fixed Assets

The Group recognized loss on impairment of fixed assets for the years ended March 31, 2016 and 2017 as follows:

| | | | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|---|---|
| Location | Use | Classification | **2016** | **2017** | **2017** |
| Nishiwaki City, Hyogo Prefecture | Golf course | Land, buildings, structures, machinery, equipment and vehicles | ¥ 600 | ¥ – | $ – |
| Miyazaki City, Miyazaki Prefecture | Idle assets | Land | 18 | 23 | 205 |
| Suzaka City, Nagano Prefecture | Idle assets | Land | 0 | 0 | 0 |
| China Anhui | Manufacturing facilities | Buildings, machinery and equipment | 5,809 | 714 | 6,364 |
| China Anhui | – | Goodwill | 162 | – | – |
| Ikoma City, Nara Prefecture | Idle assets | Land | 14 | 0 | 0 |
| Total | | | ¥ 6,603 | ¥ 737 | $ 6,569 |

**9. Loss on Impairment of Fixed Assets (continued)**

The Group mainly groups fixed assets by managerial accounting segment, each of which continuously records cash receipts and payments.

Consequently, the Group has written down the carrying values of manufacturing facilities of YSS and the golf course and its asset group of Yodokokohatsu Co., Ltd. whose operating incomes have been continuously negative to their respective net recoverable values, and has recorded a related loss on impairment of fixed assets of ¥6,409 million for the year ended March 31, 2016, which consisted of machinery and equipment of ¥5,809 million for the manufacturing facilities of YSS and land of ¥442 million, building and structures of ¥123 million, machinery, equipment and vehicles of ¥22 million and others of ¥13 million. Also, the Group recorded loss on impairment of goodwill for YSS of ¥162 million for the year ended March 31, 2016.

In addition, the Group has written down the carrying values of manufacturing facilities of YSS whose operating incomes have been continuously negative to their respective net recoverable values, and has recorded a related loss on impairment of fixed assets of ¥714 million ($6,364 thousand) for the year ended March 31, 2017, which consisted of machinery of ¥679 million ($6,052 thousand) and building of ¥35 million ($312 thousand).

The Group has written down the carrying values of the idle assets of land owned by the Group, which are not expected to be utilized in the future, to their respective net recoverable values, and has recorded a related loss on impairment of ¥32 million and ¥23 million ($205 thousand) for the years ended March 31, 2016 and 2017, respectively.

The recoverable amounts of machinery and equipment and goodwill in China Anhui for the year ended March 31, 2016 were measured at the value in use based on estimated future cash flows discounted at the rate of 11%, and the recoverable amounts of machinery and equipment in China Anhui for the year ended March 31, 2017 were measured at estimated net selling value based on residual value.

The recoverable amounts of assets other than machinery, equipment and goodwill were measured at estimated net selling value based on appraisals conducted by real estate appraisers and the values assessed for property tax purposes.

## 10. Short-Term Bank Loans, Guarantee Deposits and Finance Lease Obligations

The average annual interest rates on short-term loans were 1.55% and 3.26% as of March 31, 2016 and 2017.

Guarantee deposits consisted of interest-free deposits, most of which were golf-club membership deposits, and interest-bearing deposits, which were principally deposits from customers at average annual interest rates of 0.79% and 0.81% at March 31, 2016 and 2017, respectively.

Interest-free deposits and interest-bearing deposits as of March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Interest-free deposits | ¥ 2,196 | ¥ 2,186 | $ 19,485 |
| Interest-bearing deposits | 872 | 867 | 7,728 |
| | ¥ 3,068 | ¥ 3,053 | $ 27,213 |

The average annual interest rate on financial lease obligations was 4.48% as of March 31, 2016 and 2017.

The aggregate annual maturities of finance lease obligations subsequent to March 31, 2017 are summarized as follows:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Year ending March 31, | **2017** | |
| 2018 | ¥ 177 | $ 1,578 |
| 2019 | 727 | 6,480 |
| 2020 | 14 | 125 |
| 2021 | 2 | 18 |
| 2022 | 0 | 0 |
| 2023 | 0 | 0 |
| 2024 | 0 | 0 |
| | ¥ 920 | $ 8,201 |

## 11. Line-of-credit Agreements

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit as of March 31, 2016 and 2017 is as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Lines of credit | ¥ 18,950 | ¥ 17,950 | $ 159,996 |
| Credit utilized | – | – | – |
| Available credit | ¥ 18,950 | ¥ 17,950 | $ 159,996 |

## 12. Pledged Assets

Assets pledged as collateral for indebtedness as of March 31, 2017 are summarized as follows:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| | **2017** | |
| Cash and deposits | ¥ 60 | $ 535 |
| Investments in securities | 17 | 152 |
| Other assets | 83 | 739 |
| | ¥ 160 | $ 1,426 |

Indebtedness secured by these assets as collateral was ¥52 million ($463 thousand), a component of other current liabilities at March 31, 2017.

## 13. Contingent Liabilities

The Company was contingently liable for guarantees of borrowings from financial institutions and others of unconsolidated subsidiaries in the aggregate amount of ¥131 million ($1,168 thousand) as of March 31, 2017.

In addition, the Company repaired machinery supplied to a customer located in Africa due to a product defect, damages during the shipment and other reasons. The Company was contingently liable for additional repair costs in the amount of approximately ¥300 million ($2,674 thousand), as of March 31, 2017. The total amount to be paid by the Company will depend on future negotiations with the manufacturer of the machinery.

## 14. Retirement Benefits Plans

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans: a defined benefit pension plan and a lump sum payment plan. Moreover, certain overseas consolidated subsidiaries have a defined benefit pension plan and defined contribution plans. Furthermore, the Company has adopted a retirement benefit trust.

Certain consolidated domestic subsidiaries are accounted for using "simplified method" for calculating liability for retirement benefits and retirement benefit expenses.

The changes in the retirement benefit obligation for the years ended March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Retirement benefit obligation at the beginning of year | ¥ 14,763 | ¥15,655 | $ 139,540 |
| Service cost (*) | 728 | 687 | 6,124 |
| Interest cost | 191 | 87 | 775 |
| Actuarial differences | 1,099 | 290 | 2,585 |
| Retirement benefit paid | (983) | (936) | (8,343) |
| Prior service cost | (143) | (46) | (410) |
| Retirement benefit obligation at the end of year | ¥ 15,655 | ¥ 15,737 | $ 140,271 |

(*) Retirement benefit expenses for certain consolidated subsidiaries, whose benefit obligation is calculated by the simplified method, have been included in service cost.

**14. Retirement Benefits Plans (continued)**

The changes in plan assets at fair value for the years ended March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Plan assets at fair value at the beginning of year | ¥ 5,121 | ¥ 5,017 | $ 44,719 |
| Expected return on plan assets | 93 | 103 | 918 |
| Actuarial differences | (269) | 151 | 1,346 |
| Contributions by the employers | 554 | 2,491 | 22,203 |
| Retirement benefit paid | (468) | (446) | (3,975) |
| Other (*) | (14) | 142 | 1,266 |
| Plan assets at fair value at the end of year | ¥ 5,017 | ¥ 7,458 | $ 66,477 |

(*) “Other” mainly consists of the effect of foreign currency exchange translation adjustments on pension plan assets at fair value attributable to an overseas subsidiary and the difference of actual and expected returns on plan assets at fair value from the retirement benefit plans of consolidated subsidiaries to which the simplified method applied.

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2017 for the Company’s and the consolidated subsidiaries’ defined benefit plans:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Funded retirement benefit obligation | ¥ 15,634 | ¥15,706 | $ 139,995 |
| Plan assets at fair value | (5,017) | (7,458) | (66,477) |
| | 10,617 | 8,248 | 73,518 |
| Unfunded retirement benefit obligation | 21 | 31 | 276 |
| Liability for retirement benefits in the consolidated balance sheet, net | 10,638 | 8,279 | 73,794 |
| | | | |
| Liability for retirement benefits | 10,638 | 8,279 | 73,794 |
| Liability for retirement benefits in the consolidated balance sheet, net | ¥ 10,638 | ¥ 8,279 | $ 73,794 |

Note: The above includes retirement benefit plans calculated under the simplified method.

**14. Retirement Benefits Plans (continued)**

The components of retirement benefit expenses for the years ended March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Service cost | ¥ 724 | ¥ 676 | $ 6,025 |
| Interest cost | 191 | 87 | 775 |
| Expected return on plan assets | (93) | (103) | (918) |
| Amortization of actuarial differences | 310 | 644 | 5,741 |
| Amortization of prior service cost | (1) | (1) | (9) |
| Retirement benefit expenses | ¥ 1,131 | ¥ 1,303 | $ 11,614 |

The components of retirement benefit liability adjustments recognized in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Prior service cost | ¥ 1 | ¥ 2 | $ 17 |
| Actuarial differences | 1,027 | (503) | (4,483) |
| Total | ¥ 1,028 | ¥ (501) | $ (4,466) |

The components of retirement benefit liability adjustments recognized in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Unrecognized prior service cost | ¥ (8) | ¥ (6) | $ (53) |
| Unrecognized actuarial differences | 3,148 | 2,645 | 23,576 |
| Total | ¥ 3,140 | ¥ 2,639 | $ 23,523 |

**14. Retirement Benefits Plans (continued)**

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2017 is as follows:

| | **2016** | **2017** |
|---|---|---|
| Bonds | 28% | 23% |
| Stocks | 41 | 38 |
| General account at insurance companies | 16 | 10 |
| Other | 15 | 29 |
| Total | 100% | 100% |

Note: 14% and 11% of the total plan assets are held in a retirement benefit trust for defined benefit pension plan and a lump sum payment plan as of March 31, 2016 and 2017, respectively.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation of plan assets at present and in the future and long-term expected rate of return from multiple plan assets at present and in the future.

The assumptions used in the actuarial calculation for the above defined benefit pension plans for the years ended March 31, 2016 and 2017 are as follows:

| | **2016** | **2017** |
|---|---|---|
| Discount rate | 0.5% | 0.5% |
| Expected long-term rates of return on plan assets (weighted average) | 2.0% | 2.3% |
| Expected rate of future salary increase (weighted average) | 0.6% | 0.6% |

The contributions paid by consolidated subsidiaries to the defined contribution pension plans amounted to ¥49 million and ¥46 million ($410 thousand) for the years ended March 31, 2016 and 2017, respectively.

## 15. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants’ taxes which, in the aggregate, resulted in statutory tax rates of approximately 32.1% and 30.8% for the years ended March 31, 2016 and 2017, respectively.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2016 was omitted because the Company recorded loss before income taxes.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2017 as a percentage of profit before income taxes is as follows:

| | **2017** |
|---|---|
| Statutory tax rate | 30.8% |
| Permanently non-deductible expenses | 0.3 |
| Per capita portion of inhabitants’ taxes | 0.4 |
| Differences in tax rates applicable to the overseas consolidated subsidiaries | (3.3) |
| Foreign tax credit | 0.7 |
| Tax loss carryforwards of consolidated subsidiaries | 3.8 |
| Increase in valuation allowance | 0.5 |
| Equity in earnings of an affiliate | (0.8) |
| Other | 0.4 |
| Effective tax rate | 32.8% |

**15. Income Taxes (continued)**

The significant components of the deferred tax assets and liabilities of the Group as of March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Deferred tax assets: | | | |
| Accrued enterprise taxes | ¥ 120 | ¥ 126 | $ 1,123 |
| Provision for bonuses to employees | 289 | 324 | 2,888 |
| Loss on impairment of investments in securities and golf-club memberships | 2,905 | 2,996 | 26,705 |
| Loss on devaluation of inventories | 185 | 78 | 695 |
| Allowance for doubtful receivables | 34 | 35 | 312 |
| Liability for retirement benefits | 2,877 | 2,424 | 21,606 |
| Tax loss carryforwards | 803 | 857 | 7,639 |
| Loss on impairment of fixed assets | 517 | 1,961 | 17,479 |
| Other | 945 | 968 | 8,628 |
| Gross deferred tax assets | 8,675 | 9,769 | 87,075 |
| Less valuation allowance | (4,882) | (6,300) | (56,155) |
| Total deferred tax assets | 3,793 | 3,469 | 30,920 |
| Deferred tax liabilities: | | | |
| Dividends from an overseas consolidated subsidiary | (126) | (175) | (1,560) |
| Land revaluation reserve | (856) | (856) | (7,630) |
| Unrealized holding gain on securities | (4,227) | (5,598) | (49,897) |
| Deferred gain on property for tax purpose | (443) | (427) | (3,806) |
| Reserve for special depreciation | (342) | (280) | (2,496) |
| Other | 0 | 0 | 0 |
| Total deferred tax liabilities | (5,994) | (7,336) | (65,389) |
| Net deferred tax liabilities | ¥ (2,201) | ¥ (3,867) | $ (34,469) |

Note: Net deferred tax liabilities as of March 31, 2016 and 2017 are reflected in the following accounts in the consolidated balance sheet:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Current assets | ¥ 546 | ¥ 529 | $ 4,715 |
| Investments and other assets | 782 | 403 | 3,592 |
| Long-term liabilities – Deferred income taxes | (2,673) | (3,943) | (35,146) |
| – Deferred income taxes on land revaluation reserve | (856) | (856) | (7,630) |

## 16. Other Comprehensive Income

Reclassification adjustments and tax effects of other comprehensive (loss) income for the years ended March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Unrealized holding (loss) gain securities: | | | |
| Amount arising during the year | ¥ (6,363) | ¥ 5,090 | $ 45,370 |
| Reclassification adjustments | 1,061 | 6 | 53 |
| Before tax effect | (5,302) | 5,096 | 45,423 |
| Tax effect | 1,880 | (1,371) | (12,220) |
| Unrealized holding (loss) gain on securities | (3,422) | 3,725 | 33,203 |
| Land revaluation reserve: | | | |
| Tax effect | (4) | – | – |
| Land revaluation reserve | (4) | – | – |
| Translation adjustments: | | | |
| Amount arising during the year | (1,120) | (735) | (6,552) |
| Translation adjustments: | (1,120) | (735) | (6,552) |
| Retirement benefit liability adjustment: | | | |
| Amount arising during the year | (1,183) | 222 | 1,979 |
| Reclassification adjustments | 155 | 279 | 2,486 |
| Before tax effect | (1,028) | 501 | 4,465 |
| Tax effect | 276 | (191) | (1,702) |
| Retirement benefit liability adjustments | (752) | 310 | 2,763 |
| Share of other comprehensive (loss) income of an affiliate accounted for by the equity method: | | | |
| Amount arising during the year | (10) | 22 | 196 |
| Share of other comprehensive (loss) income of an affiliate accounted for by the equity method | (10) | 22 | 196 |
| Total other comprehensive (loss) income | ¥ (5,308) | ¥ 3,322 | $ 29,610 |

## 17. Shareholders' Equity

The Companies Act of Japan (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The capital reserve of the Company amounted to ¥58,050 million ($517,426 thousand) as of March 31, 2016 and 2017.

The legal reserve of the Company was nil as of March 31, 2016 and 2017.

*Stock options*

The Company has stock option plans. The following stock option plans for certain directors and executive officers of the Company were approved at annual general meetings of the shareholders for the 2004 and the 2005 plans in accordance with the former Commercial Code of Japan and meetings of the Board of Directors for the 2006 plan through to the 2016 plan in accordance with the Act.

Stock option expenses, included in selling, general and administrative expenses, charged to profit or loss for the years ended March 31, 2016 and 2017 amounted to ¥29 million and ¥35 million ($312 thousand), respectively.

**17. Shareholders' Equity (continued)**

The stock option plans of the Company as of March 31 2017 are summarized as follows:

| | The 2004 plan | The 2005 plan | The 2006 plan |
|---|---|---|---|
| Individuals covered by the plan | 5 Directors<br>10 Executive officers (other than directors who concurrently serve as executive officers | 6 Directors<br>9 Executive officers (other than directors who concurrently serve as executive officers | 5 Directors<br>8 Executive officers (other than directors who concurrently serve as executive officers |
| Class and number of options granted | Common stock 16,200 shares | Common stock 12,400 shares | Common stock 10,600 shares |
| Grant date | July 12, 2004 | July 14, 2005 | July 31, 2006 |
| Vesting conditions | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2023 if the grantee does not resign from the Company until June 29, 2023. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2024 if the grantee does not resign from the Company until June 29, 2024. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2025 if the grantee does not resign from the Company until June 29, 2025. |
| Vesting period for services received | From July 12, 2004 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2005 | From July 14, 2005 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2006 | From July 31, 2006 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2007 |
| Exercisable period | From July 13, 2004 to June 29, 2024 | From July 15, 2005 to June 29, 2025 | From August 31, 2006 to June 29, 2026 |

**17. Shareholders' Equity (continued)**

| | The 2007 plan | The 2008 plan | The 2009 plan |
|---|---|---|---|
| Individuals covered by the plan | 4 Directors<br>8 Executive officers (other than directors who concurrently serve as executive officers) | 4 Directors<br>7 Executive officers (other than directors who concurrently serve as executive officers) | 5 Directors<br>7 Executive officers (other than directors who concurrently serve as executive officers) |
| Class and number of options granted | Common stock 8,600 shares | Common stock 12,000 shares | Common stock 13,800 shares |
| Grant date | August 1, 2007 | July 30, 2008 | July 30, 2009 |
| Vesting conditions | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2026 if the grantee does not resign from the Company until June 29, 2026. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2027 if the grantee does not resign from the Company until June 29, 2027. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2028 if the grantee does not resign from the Company until June 29, 2028. |
| Vesting period for services received | From August 1, 2007 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2008 | From August 1, 2008 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2009 | From August 1, 2009 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2010 |
| Exercisable period | From August 2, 2007 to June 29, 2027 | From July 31, 2008 to June 29, 2028 | From July 31, 2009 to June 29, 2029 |

## 17. Shareholders' Equity (continued)

| | The 2010 plan | The 2011 plan | The 2012 plan |
|---|---|---|---|
| Individuals covered by the plan | 5 Directors<br>7 Executive officers (other than directors who concurrently serve as executive officers) | 5 Directors<br>6 Executive officers (other than directors who concurrently serve as executive officers) | 5 Directors<br>9 Executive officers (other than directors who concurrently serve as executive officers) |
| Class and number of options granted | Common stock 20,400 shares | Common stock 19,600 shares | Common stock 15,400 shares |
| Grant date | July 29, 2010 | August 1, 2011 | August 1, 2012 |
| Vesting conditions | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2029 if the grantee does not resign from the Company until June 29, 2029. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2030 if the grantee does not resign from the Company until June 29, 2030. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2031 if the grantee does not resign from the Company until June 29, 2031. |
| Vesting period for services received | From July 29, 2010 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2011 | From August 2, 2011 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2012 | From August 2, 2012 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2013 |
| Exercisable period | From July 30, 2010 to June 29, 2030 | From August 2, 2011 to June 29, 2031 | From August 2, 2012 to June 29, 2032 |

## 17. Shareholders' Equity (continued)

| | The 2013 plan | The 2014 plan | The 2015 Plan |
|---|---|---|---|
| Individuals covered by the plan | 5 Directors<br>9 Executive officers (other than directors who concurrently serve as executive officers) | 5 Directors<br>8 Executive officers (other than directors who concurrently serve as executive officers) | 4 Directors<br>7 Executive officers (other than directors who concurrently serve as executive officers) |
| Class and number of options granted | Common stock 14,400 shares | Common stock 14,400 shares | Common stock 14,200 shares |
| Grant date | January 31, 2014 | July 31, 2014 | July 30, 2015 |
| Vesting conditions | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2032 if the grantee does not resign from the Company until June 29, 2032. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2033 if the grantee does not resign from the Company until June 29, 2033. | (1) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(2) Regardless of (1) above, a grantee can exercise the options from June 30, 2034 if the grantee does not resign from the Company until June 29, 2034. |
| Vesting period for services received | From July 29, 2013 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2014 | From August 1, 2014 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2015 | From July 30, 2015 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2016 |
| Exercisable period | From February 1, 2014 to June 29, 2033 | From August 1, 2014 to June 29, 2034 | From July 31, 2015 to June 29, 2035 |

**17. Shareholders' Equity (continued)**

| | The 2016 Plan |
|---|---|
| Individuals covered by the plan | 4 Directors<br>10 Executive officers (other than directors who concurrently serve as executive officers) |
| Class and number of options granted | Common stock 15,800 shares |
| Grant date | July 28, 2016 |
| (3) Vesting conditions | (4) In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation.<br>(5) Regardless of (1) above, a grantee can exercise the options from June 30, 2035 if the grantee does not resign from the Company until June 29, 2035. |
| Vesting period for services received | From July 28, 2016 to the date of the annual general meeting of the shareholders for the fiscal year ended March 31, 2017 |
| Exercisable period | From July 29, 2016 to June 29, 2036 |

The number of common stock for stock options in the description outlined above was adjusted due to the consolidation of five shares into one share on October 1, 2015.

## 17. Shareholders' Equity (continued)

Stock option activity under the stock option plans referred above is summarized as follows:

| | The 2004 plan | The 2005 plan | The 2006 plan | The 2007 plan | The 2008 plan | The 2009 plan | The 2010 plan | The 2011 plan | The 2012 plan | The 2013 plan | The 2014 plan | The 2015 plan | The 2016 plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Number of stock options which are not yet vested:** | | | | | | | | | | | | | |
| Outstanding at April 1, 2016 | 2,400 | 2,000 | 3,400 | 3,400 | 5,000 | 6,600 | 7,800 | 8,200 | 11,600 | 11,200 | 11,800 | 14,200 | – |
| Granted | – | – | – | – | – | – | – | – | – | – | – | – | 15,800 |
| Forfeited | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Vested | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Outstanding at March 31, 2017 | 2,400 | 2,000 | 3,400 | 3,400 | 5,000 | 6,600 | 7,800 | 8,200 | 11,600 | 11,200 | 11,800 | 14,200 | 15,800 |
| **Number of stock options which have already been vested:** | | | | | | | | | | | | | |
| Outstanding at April 1, 2016 | – | – | – | 400 | 1,200 | 3,000 | 4,400 | 3,600 | 3,800 | 3,200 | 2,200 | – | – |
| Vested | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Exercised | – | – | – | 400 | 1,200 | 1,800 | – | 800 | – | – | – | – | – |
| Forfeited | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Outstanding at March 31, 2017 | – | – | – | – | – | 1,200 | 4,400 | 2,800 | 3,800 | 3,200 | 2,200 | – | – |

The unit price of the stock options for the stock option plans of the Company during the year ended March 31, 2017 is summarized as follows:

| | *Yen* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | The 2004 plan | The 2005 plan | The 2006 plan | The 2007 plan | The 2008 plan | The 2009 plan | The 2010 plan | The 2011 plan | The 2012 plan | The 2013 plan | The 2014 plan | The 2015 plan | The 2016 plan |
| Exercise price | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 |
| Weighted average fair value per stock at the exercise date | – | – | – | 3,350 | 3,357 | 3,360 | – | 3,350 | – | – | – | – | – |
| Fair value of stock options as of the grant date | – | – | 2,390 | 2,730 | 2,080 | 1,825 | 1,400 | 1,200 | 1,020 | 1,875 | 1,865 | 2,025 | 2,225 |

| | *U.S. dollars* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | The 2004 plan | The 2005 plan | The 2006 plan | The 2007 plan | The 2008 plan | The 2009 plan | The 2010 plan | The 2011 plan | The 2012 plan | The 2013 plan | The 2014 plan | The 2015 plan | The 2016 plan |
| Exercise price | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Weighted average fair value per stock at the exercise date | – | – | – | 30 | 30 | 30 | – | 30 | – | – | – | – | – |
| Fair value of stock options as of the grant date | – | – | 21 | 24 | 19 | 16 | 12 | 11 | 9 | 17 | 17 | 18 | 20 |

**17. Shareholders' Equity (continued)**

The above tables present the stock options plans that existed during the year ended March 31, 2017. The number of stock options was converted to the number of shares to be issued upon the exercise of the stock options.

The number of stock and the fair value in the above tables were adjusted due to the consolidation of five shares into one share on October 1, 2015.

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used are as follows:

| Major assumptions | Note | The 2016 plan |
|---|---|---|
| Expected volatility | (a) | 26.716% |
| Expected holding period | | 10 years |
| Expected dividend | (b) | ¥50 per share |
| Risk-free rate | (c) | (0.285%) |

(a) Expected volatility was computed by the closing stock price of the Company in the last trading day of each month during the period from July 2006 to June 2016.

(b) The expected dividend was calculated at the actual amounts paid for the year ended March 31, 2016.

(c) The risk-free rate was determined based on Japanese government bonds whose redemption period corresponds to the expected holding period described above.

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

*Common stock and treasury stock*

Movements in common stock and treasury stock during the years ended March 31, 2016 and 2017 are summarized as follows:

| | *Number of shares* | | | |
|---|---|---|---|---|
| | **2016** | | | |
| | April 1, 2015 | Increase | Decrease | March 31, 2016 |
| Common stock (*1) | 179,186,153 | – | 143,348,923 | 35,837,230 |
| Treasury stock (*2) | 24,475,276 | 1,290,550 | 20,402,747 | 5,363,079 |

| | *Number of shares* | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | April 1, 2015 | Increase | Decrease | March 31, 2017 |
| Common stock | 35,837,230 | – | – | 35,837,230 |
| Treasury stock (*3) | 5,363,079 | 670,018 | 4,252 | 6,028,845 |

**17. Shareholders' Equity (continued)**

(*1) The decrease in the number of common stock of 143,348,923 shares was due to the consolidation of five shares into one share on October 1, 2015.

(*2) The increase in the number of shares of treasury consists of 1,272,878 shares due to purchase of shares based on the resolution of the Board of Directors meeting, 14,138 shares due to the purchase of fractional shares of less than one voting unit and 3,534 shares attributable to the Company acquired by its affiliate under the equity method.

The decrease in the number of shares of treasury stock consists of 20,364,401 shares due to the consolidation of shares, 37,400 shares due to the exercise of stock option rights and 946 shares due to the sales of fractional shares less than one voting unit to shareholders at their request.

(*3) The increase in the number of shares of treasury consists of 667,400 shares due to purchase of shares based on the resolution of the Board of Directors meeting, 1,550 shares due to the purchase of fractional shares of less than one voting unit and 1,068 shares attributable to the Company acquired by its affiliate under the equity method.

The decrease in the number of shares of treasury stock consists of 4,200 shares due to the exercise of stock option rights and 52 shares due to the sales of fractional shares less than one voting unit to shareholders at their request.

**18. Land Revaluation**

As of March 31, 2000 and 2002, certain consolidated subsidiaries and an affiliate revalued their land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as land revaluation reserve under net assets and are stated at the Company's share of the net amount of the relevant tax effect. The method followed for land revaluation was determined in accordance with the "Enforcement Act Concerning Land Revaluation."

The fair value of the land revalued as of March 31, 2000 and 2002 was less than the corresponding carrying value by the following amounts as of March 31, 2016 and 2017:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Land revalued as of March 31, 2000 | ¥ (331) | ¥ (329) | $ (2,932) |
| Land revalued as of March 31, 2002 | (656) | (604) | (5,384) |
| | ¥ (987) | ¥ (933) | $ (8,316) |

## 18. Land Revaluation (continued)

A certain portion of land revalued as of March 31, 2000 and 2002 is related to real estate for investment, rental and idle properties as of March 31, 2016 in the amounts of ¥13 million and ¥289 million, respectively.

A certain portion of land revalued as of March 31, 2000 and 2002 is related to real estate for investment, rental and idle properties as of March 31, 2017 in the amounts of ¥12 million ($107 thousand) and ¥286 million ($2,549 thousand), respectively.

## 19. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥560 million and ¥526 million ($4,688 thousand) for the years ended March 31, 2016 and 2017, respectively.

## 20. Leases

(a) Finance leases

The Group leases mainly machinery, vehicles and others (machinery and equipment) as leased assets under finance lease transactions which transfer ownership to the Group and mainly, information processing systems (equipment) as leased assets under finance lease transactions which do not transfer ownership to the Group.

The depreciation method for leased assets is provided in Note 1. Summary of Significant Accounting Policies (l) Leases.

(b) Operating leases

Future minimum lease receipts subsequent to March 31, 2017 under non-cancelable operating leases are as follows:

| Years ending March 31, | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| 2018 | ¥ 17 | $ 152 |
| 2019 and thereafter | 86 | 766 |
| | ¥ 103 | $ 918 |

## 21. Derivatives

The outstanding currency-related derivatives positions designated as hedging instruments as of March 31, 2016 and 2017 are as follows:

| | | *Millions of yen* | | |
|---|---|---|---|---|
| | | **2016** | | |
| Method of hedge accounting | Hedge transactions and major hedged items | Contract value (notional principal amount) | Contract value over one year | Estimated fair value |
| Allocation method for forward foreign exchange contracts | Forward foreign exchange contracts: Selling USD, Accounts receivable | ¥ 114 | ¥ – | (*) |

| | | *Millions of yen* | | |
|---|---|---|---|---|
| | | **2017** | | |
| Method of hedge accounting | Hedge transactions and major hedged items | Contract value (notional principal amount) | Contract value over one year | Estimated fair value |
| Allocation method for forward foreign exchange contracts | Forward foreign exchange contracts: Selling USD, Accounts receivable | ¥ 111 | ¥ – | (*) |

| | | *Thousands of U.S. dollars* | | |
|---|---|---|---|---|
| | | **2017** | | |
| Method of hedge accounting | Hedge transactions and major hedged items | Contract value (notional principal amount) | Contract value over one year | Estimated fair value |
| Allocation method for forward foreign exchange contracts | Forward foreign exchange contracts: Selling USD, Accounts receivable | $ 989 | $ – | (*) |

(*) The fair value of forward foreign exchange contracts that qualify for allocation method is included in the carrying value of hedged accounts receivable.

## 22. Amounts per Share

Amounts per share as of March 31, 2016 and 2017 and for the years then ended are as follows:

| | *Yen* | | *U.S. dollars* |
|---|---|---|---|
| | **2016** | **2017** | **2017** |
| Net assets | ¥ 4,500.51 | ¥ 4,805.41 | $ 42.83 |
| (Loss) profit attributable to owners of parent: | | | |
| Basic | (90.14) | 224.27 | 2.00 |
| Diluted | – | 223.38 | 1.99 |
| Cash dividends | 30.00 | 70.00 | 0.62 |

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end.

Basic (loss) profit attributable to owners of parent per share is computed based on the (loss) profit available for distribution to shareholders of common stock of parent and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share is computed based on the profit available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock acquisition rights.

Diluted earnings attributable to owners of parent per share for the year ended March 31, 2016 was not presented since the Company recorded loss.

The average number of shares of common stock used to compute basic (loss) profit attributable to owners of parent per share for the years ended March 31, 2016 and 2017 were 30,746 thousand and 30,031 thousand, respectively. The number of shares of common stock with dilutive potential for the years ended March 31, 2016 and 2017 were 109 thousand and 120 thousand, respectively.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

## 23. Transactions with Related Parties

Transactions and balances with related parties as of and for the years ended March 31, 2016 and 2017 are summarized as follows:

***Transactions***

| Name of affiliated company | Type of transaction | *Millions of yen* 2016 | *Millions of yen* 2017 | *Thousands of U.S. dollars* 2017 |
|---|---|---|---|---|
| Sadoshima Corporation | Sales | ¥ 31,989 | ¥ 32,094 | $ 286,068 |

***Balances***

| Name of affiliated company | Account name | *Millions of yen* 2016 | *Millions of yen* 2017 | *Thousands of U.S. dollars* 2017 |
|---|---|---|---|---|
| Sadoshima Corporation | Notes and accounts receivable | ¥ 12,727 | ¥ 13,455 | $ 119,930 |

The Company owns 50.0% of the voting rights of Sadoshima Corporation, a steel product wholesaler for the Company. Certain board members of Sadoshima Corporation serve concurrently as board members of the Company. Selling prices of products are determined based on price negotiations each fiscal year, after considering market prices, overall costs and the Company’s proposals regarding desired prices.

## 24. Investment, Rental and Idle Properties

The Company and certain consolidated subsidiaries own office buildings, land, and parking lots as rental properties and idle properties mainly in Osaka Prefecture, other domestic areas and Taiwan. Certain portions of real estate, such as office buildings are used by the Company and certain consolidated subsidiaries.

The carrying value in the consolidated balance sheet as of March 31, 2016 and 2017 and the corresponding fair value of rental properties and idle properties and real estate including certain portions used as rental property are as follows:

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | Carrying value | | | Fair value |
| | **2015** | **Net change** | **2016** | **2016** |
| Rental properties and idle properties | ¥ 4,617 | ¥ (145) | ¥ 4,472 | ¥ 9,259 |
| Real estate including certain portions used as rental property | 4,628 | 204 | 4,832 | 11,803 |

**24. Investment, Rental and Idle Properties (continued)**

| | *Millions of yen* | | | |
|---|---|---|---|---|
| | Carrying value | | | Fair value |
| | **2016** | **Net change** | **2017** | **2017** |
| Rental properties and idle properties | ¥ 4,472 | ¥ (118) | ¥ 4,354 | ¥ 9,081 |
| Real estate including certain portions used as rental property | 4,832 | 1,004 | 5,836 | 12,175 |

| | *Thousands of U.S. dollars* | | | |
|---|---|---|---|---|
| | Carrying value | | | Fair value |
| | **2016** | **Net change** | **2017** | **2017** |
| Rental properties and idle properties | $ 39,861 | $(1,052) | $ 38,809 | $ 80,943 |
| Real estate including certain portions used as rental property | 43,070 | 8,949 | 52,019 | 108,521 |

The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.

The components of net change in carrying value for the year ended March 31, 2016 included increases mainly due to purchase of buildings in the amount of ¥274 million and decreases mainly due to depreciation of buildings in the amount of ¥131 million and translation adjustments in the amount of ¥47 million.

The components of net change in carrying value for the year ended March 31, 2017 included increases mainly due to purchase of buildings in the amount of ¥700 million ($6,239 thousand) and land in the amount of ¥385 million ($3,432 thousand) and decreases mainly due to depreciation of buildings in the amount of ¥143 million ($1,275 thousand) and loss on impairment of land in the amount of ¥23 million ($205 thousand) and sale of land in the amount of ¥7 million ($62 thousand) and translation adjustments in the amount of ¥27 million ($241 thousand).

Fair value of domestic rental properties are principally measured based on the real-estate appraisal assessed by the external real-estate appraiser. However, unless the appraisal or indicators that are regarded to reflect the fair value of the properties appropriately change significantly since the date of acquisition or the date of the latest appraisal, the Company and certain domestic consolidated subsidiaries measure the fair value of the properties based on such appraisal or indicators obtained previously and adjusted as appropriately.

**24. Investment, Rental and Idle Properties (continued)**

Fair value of rental properties in Taiwan is measured based on the property prices announced by the government.

Revenues, costs and expenses relevant to investment, rental, idle properties and real estate including certain portions used as result property for the years ended March 31, 2016 and 2017 are as follows:

| *Millions of yen* | | | |
|---|---|---|---|
| **2016** | | | |
| Rental revenues | Rental costs | Difference | Other loss, net on sales and others |
| ¥ 1,019 | ¥ 742 | ¥ 277 | ¥ 38 |

| *Millions of yen* | | | |
|---|---|---|---|
| **2017** | | | |
| Rental revenues | Rental costs | Difference | Other loss, net on sales and others |
| ¥ 924 | ¥ 564 | ¥ 360 | ¥ 22 |

| *Thousands of U.S. dollars* | | | |
|---|---|---|---|
| **2017** | | | |
| Rental revenues | Rental costs | Difference | Other loss, net on sales and others |
| $ 8,236 | $ 5,027 | $ 3,209 | $ 196 |

The rental revenues and rental costs for certain properties of which only a part are used as rental properties are not included in the above table because the Company and certain consolidated subsidiaries use a portion of these properties for the purposes of rendering services and conducting management activities. The rental revenues are recorded under net sales or other net, as part of other income (expenses) and the rental costs are recorded under cost of sales, selling, general and administrative expenses or other, net, as part of other income (expenses), in the consolidated statement of operations.

## 25. Segment Information

### (a) Outline of segment information

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

The Group's business units are divided by the similarity of the products or services sold by each business unit. Each business unit develops its own strategies and operates its businesses independently. Therefore, the Group consists four reportable segments based on business units: "Steel Sheet Segment," "Roll Segment," "Grating Segment" and "Real Estate Segment."

The "Steel Sheet Segment" engages in the manufacture and sale of cold rolled steel, polished hoop steel, hot dip galvanizing steel sheets, painted hot dip galvanizing steel sheets, various steel sheets, other construction materials, and exterior products and others and in designing and engineering of construction work. The "Roll Segment" engages in the manufacture and sale of rolls for iron, steel and non-ferrous products and others. The "Grating Segment" engages in the manufacture and sales of gratings. The "Real Estate Segment" engages in the sale, purchase and lease of real estate such as buildings, car parking lots.

### (b) Calculation methods used for net sales, income or loss, assets and other items of each reportable segment

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. In addition, segment income is adjusted to be consistent with operating income in the consolidated statement of operations.

## 25. Segment Information (continued)

### (c) Information on net sales, income or loss, assets and other items of each reportable segment

Information by reportable segment for the years ended March 31, 2016 and 2017 are summarized as follows:

| | *Millions of yen* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2016 | | | | | | | | |
| | Reportable Segments | | | | | | | Adjustments and eliminations | Consolidated |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Sub-Total | Other (*1) | Total | | |
| Net sales: | | | | | | | | | |
| Sales to third parties | ¥ 147,758 | ¥ 3,475 | ¥ 3,550 | ¥ 1,128 | ¥ 155,911 | ¥ 3,303 | ¥ 159,214 | ¥ – | ¥ 159,214 |
| Inter-segment sales and transfers | ¥ – | ¥ – | ¥ – | ¥ 443 | ¥ 443 | ¥ 2,498 | ¥ 2,941 | ¥ (2,941) | ¥ – |
| Total | ¥ 147,758 | ¥ 3,475 | ¥ 3,550 | ¥ 1,571 | ¥ 156,354 | ¥ 5,801 | ¥ 162,155 | ¥ (2,941) | ¥ 159,214 |
| Segment income | ¥ 7,181 | ¥ 266 | ¥ 76 | ¥ 721 | ¥ 8,244 | ¥ 232 | ¥ 8,476 | ¥ (1,174) (*2) | ¥ 7,302 |
| Segment assets | ¥ 124,778 | ¥ 3,094 | ¥ 3,622 | ¥ 8,369 | ¥ 139,863 | ¥ 8,934 | ¥ 148,797 | ¥ 57,063 (*4) | ¥ 205,860 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | ¥ 3,586 | ¥ 175 | ¥ 90 | ¥ 69 | ¥ 3,920 | ¥ 346 | ¥ 4,266 | ¥ 46 | ¥ 4,312 |
| Investment in an affiliate accounted for by the equity method | 3,836 | – | 363 | 3 | 4,202 | – | 4,202 | – | 4,202 |
| Increase in property, plant and equipment and intangible assets | 2,163 | 76 | 33 | 338 | 2,610 | 218 | 2,828 | 8 (*5) | 2,836 |

| | *Millions of yen* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2017 | | | | | | | | |
| | Reportable Segments | | | | | | | Adjustments and eliminations | Consolidated |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Sub-Total | Other (*1) | Total | | |
| Net sales: | | | | | | | | | |
| Sales to third parties | ¥ 142,811 | ¥ 3,385 | ¥ 3,673 | ¥ 996 | ¥ 150,865 | ¥ 3,356 | ¥154,221 | ¥ – | ¥ 154,221 |
| Inter-segment sales and transfers | ¥ – | ¥ – | ¥ – | ¥ 443 | ¥ 443 | ¥ 2,662 | ¥ 3,105 | ¥ (3,105) | ¥ – |
| Total | ¥ 142,811 | ¥ 3,385 | ¥ 3,673 | ¥ 1,439 | ¥ 151,308 | ¥ 6,018 | ¥157,326 | ¥ (3,105) | ¥ 154,221 |
| Segment income | ¥ 12,969 | ¥ 265 | ¥ 162 | ¥ 759 | ¥ 14,155 | ¥ 316 | ¥ 14,471 | ¥ (1,302) (*2) | ¥ 13,169 |
| Segment assets | ¥ 127,862 | ¥ 3,161 | ¥ 3,507 | ¥ 9,381 | ¥ 143,911 | ¥ 9,969 | ¥153,880 | ¥ 56,098 (*4) | ¥ 209,978 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | ¥ 3,475 | ¥ 158 | ¥ 73 | ¥ 91 | ¥ 3,797 | ¥ 326 | ¥ 4,123 | ¥ 46 | ¥ 4,169 |
| Investment in an affiliate accounted for by the equity method | 4,089 | – | 385 | 3 | 4,477 | – | 4,477 | – | 4,477 |
| Increase in property, plant and equipment and intangible assets | 4,476 | 63 | 19 | 1,074 | 5,632 | 171 | 5,803 | 25 (*5) | 5,828 |

## 25. Segment Information (continued)

### c) Information on net sales, income or loss, assets and other items of each reportable segment (continued)

| | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2017 | | | | | | | | |
| | Reportable Segments | | | | | | | Adjustments and eliminations | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Sub-Total | Other (*1) | Total | | Consolidated |
| Net sales: | | | | | | | | | |
| Sales to third parties | $1,272,939 | $30,172 | $32,739 | $ 8,877 | $ 1,344,727 | $ 29,914 | $1,374,641 | $ – | $ 1,374,641 |
| Inter-segment sales and transfers | $ – | $ – | $ – | $ 3,949 | $ 3,949 | $ 23,727 | $ 27,676 | $ (27,676) | $ – |
| Total | $1,272,939 | $30,172 | $32,739 | $ 12,826 | $ 1,348,676 | $ 53,641 | $1,402,317 | $ (27,676) | $ 1,374,641 |
| Segment income | $ 115,599 | $ 2,362 | $ 1,444 | $ 6,765 | $ 126,170 | $ 2,817 | $ 128,987 | $ (11,606) (*2) | $ 117,381 |
| Segment assets | $1,139,693 | $28,175 | $31,259 | $ 83,617 | $ 1,282,744 | $ 88,858 | $1,371,602 | $500,026 (*4) | $ 1,871,628 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | $ 30,974 | $ 1,408 | $ 651 | $ 811 | $ 33,844 | $ 2,906 | $ 36,750 | $ 410 | $ 37,160 |
| Investment in an affiliate accounted for by the equity method | 36,447 | – | 3,432 | 27 | 39,906 | – | 39,906 | – | 39,906 |
| Increase in property, plant and equipment and intangible assets | 39,897 | 562 | 169 | 9,573 | 50,201 | 1,524 | 51,725 | 223 (*5) | 51,948 |

(*1) The "Other" segment consists of business segments not classified into the aforementioned reportable segments, including transportation and warehouse business, golf courses, plant machines, supply of electric power (solar power generation) and other.

(*2) The adjustments and eliminations of segment income or loss include corporate expenses, which cannot be allocated to specific segments of ¥1,177 million and ¥1,310 million ($11,677 thousand) and intersegment profit eliminations of ¥5 million and ¥8 million ($71 thousand) for the years ended March 31, 2016 and 2017, respectively.

(*3) Segment income or loss is reconciled to operating income on the consolidated statement of operations.

(*4) The adjustments and eliminations of segment assets include corporate assets of the Company of ¥57,381 million and ¥56,402 million ($502,736 thousand) and eliminations of intersegment transaction of ¥318 million and ¥304 million ($2,710 thousand) for the years ended March 31, 2016 and 2017, respectively.

(*5) The adjustments and eliminations of increase in property, plant and equipment and intangible assets are due to the increase in tools, furniture and fixtures in corporate assets not allocated to the reportable segment of ¥8 million and ¥25 million ($223 thousand) for the years ended March 31, 2016 and 2017 respectively.

**25. Segment Information (continued)**

Net sales categorized by country and region based on locations of customers within the Group for the years ended March 31, 2016 and 2017 are summarized as follows:

| *Millions of yen* | | | | |
|---|---|---|---|---|
| **2016** | | | | |
| Japan | Taiwan | USA | Other | Total |
| ¥ 100,214 | ¥ 23,202 | ¥ 13,567 | ¥ 22,231 | ¥ 159,214 |

| *Millions of yen* | | | | |
|---|---|---|---|---|
| **2017** | | | | |
| Japan | Taiwan | USA | Other | Total |
| ¥ 99,976 | ¥ 27,654 | ¥ 6,713 | ¥ 19,878 | ¥ 154,221 |

| *Thousands of U.S. dollars* | | | | |
|---|---|---|---|---|
| **2017** | | | | |
| Japan | Taiwan | USA | Other | Total |
| $ 891,131 | $ 246,493 | $ 59,836 | $ 177,181 | $ 1,374,641 |

Property, plant and equipment, net, categorized by geographical area as of March 31, 2016 and 2017 are summarized as follows:

| *Millions of yen* | | | | |
|---|---|---|---|---|
| **2016** | | | | |
| Japan | Taiwan | China | Other | Total |
| ¥ 32,138 | ¥ 11,198 | ¥ 4,428 | ¥ 2,874 | ¥ 50,638 |

| *Millions of yen* | | | | |
|---|---|---|---|---|
| **2017** | | | | |
| Japan | Taiwan | China | Other | Total |
| ¥ 34,319 | ¥ 10,869 | ¥ 3,138 | ¥ 2,562 | ¥ 50,888 |

| *Thousands of U.S. dollars* | | | | |
|---|---|---|---|---|
| **2017** | | | | |
| Japan | Taiwan | China | Other | Total |
| $ 305,901 | $ 96,880 | $ 27,970 | $ 22,837 | $ 453,588 |

**25. Segment Information (continued)**

Net sales to major customers for the years ended March 31, 2016 and 2017 are as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* | |
|---|---|---|---|---|
| Customer name | **2016** | **2017** | **2017** | Related Segments |
| Sadoshima Corporation | ¥ 31,989 | ¥ 32,094 | $ 286,068 | "Steel Sheet Segment," "Grating Segment," "Real Estate Segment" and "Other" |

Loss on impairment of fixed assets by reportable segment for the years ended March 31, 2016 and 2017 is summarized as follows:

| | *Millions of yen* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2016 | | | | | | |
| | Reportable Segments | | | | | | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Other | Adjustments and eliminations | Total |
| Loss on impairment of fixed assets | ¥ 5,971 | ¥ – | ¥ – | ¥ – | ¥ 600 | ¥ 32 | ¥ 6,603 |

| | *Millions of yen* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2017 | | | | | | |
| | Reportable Segments | | | | | | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Other | Adjustments and eliminations | Total |
| Loss on impairment of fixed assets | ¥ 714 | ¥ – | ¥ – | ¥ – | ¥ 0 | ¥ 23 | ¥ 737 |

| | *Thousands of U.S. dollars* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2017 | | | | | | |
| | Reportable Segments | | | | | | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Other | Adjustments and eliminations | Total |
| Loss on impairment of fixed assets | $ 6,364 | $ – | $ – | $ – | $ 0 | $ 205 | $ 6,569 |

## 25. Segment Information (continued)

The amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2016 and 2017 is summarized as follows:

| | *Millions of yen* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2016 | | | | | | |
| | Reportable Segments | | | | | | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Other | Adjustments and eliminations | Total |
| Amortization | ¥ 22 | ¥ – | ¥ – | ¥ – | ¥ – | ¥ – | ¥ 22 |
| Balance at the year end | ¥ 14 | ¥ – | ¥ – | ¥ – | ¥ – | ¥ – | ¥ 14 |

| | *Millions of yen* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2017 | | | | | | |
| | Reportable Segments | | | | | | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Other | Adjustments and eliminations | Total |
| Amortization | ¥ 3 | ¥ – | ¥ – | ¥ – | ¥ – | ¥ – | ¥ 3 |
| Balance at the year end | ¥ 11 | ¥ – | ¥ – | ¥ – | ¥ – | ¥ – | ¥ 11 |

| | *Thousands of U.S. dollars* | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year ended March 31, 2017 | | | | | | |
| | Reportable Segments | | | | | | |
| | Steel Sheet Segment | Roll Segment | Grating Segment | Real Estate Segment | Other | Adjustments and eliminations | Total |
| Amortization | $ 27 | $ – | $ – | $ – | $ – | $ – | $ 27 |
| Balance at the year end | $ 98 | $ – | $ – | $ – | $ – | $ – | $ 98 |

Goodwill was recognized as a result of capital increase of consolidated subsidiary in November 2014 and March 2015.

Loss on impairment of goodwill of ¥162 million has been recorded in the consolidated statement of operations for the year ended March 31, 2016.

## 26. Subsequent Events

### (a) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2017, was approved at a meeting of the Board of Directors held on May 10, 2017.

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Cash dividends of ¥40 ($0.36) per share | ¥ 1,204 | $ 10,732 |

### (b) Purchase of treasury stock

At the meeting of the Board of Directors of the Company held on May 10, 2017, in accordance with Article 459 (1) of the Act and Article 35 of the Company's articles of incorporation, the Company approved the purchase of up to 160,000 shares of treasury stock for an aggregate acquisition cost not exceeding ¥500 million ($4,457 thousand) during the period from May 11, 2017 through June 23, 2017, to support the execution of a flexible capital management policy in response to changes in the business environment. As a result, the Company purchased 160,000 shares of treasury stock for a total amount of ¥487 million ($4,341 thousand) on the Tokyo Stock Exchange.