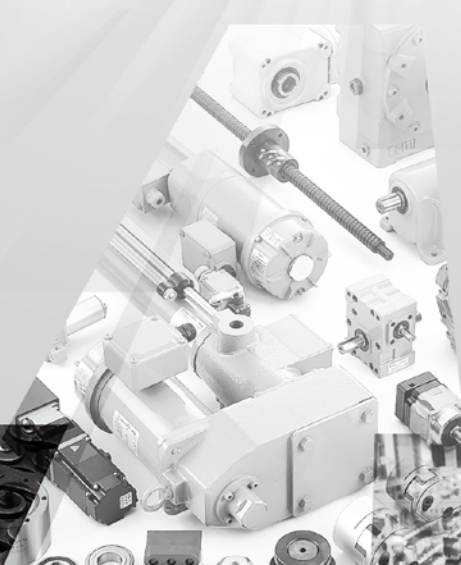


TSUBAKIMOTO CHAIN CO.
and Consolidated Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended March 31, 2017
with Independent Auditor's Report



Consolidated Balance Sheet

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2017

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and deposits (Notes 5 and 19)	¥ 26,332	¥ 20,195	\$ 234,709
Short-term investments (Notes 5, 6 and 19)	7,965	7,533	71,004
Trade notes and accounts receivable (Note 5)	41,109	47,543	366,426
Electronically recorded monetary claims (Note 5)	9,651	1,183	86,029
Inventories (Note 7)	33,875	33,153	301,947
Deferred tax assets (Note 9)	3,095	2,946	27,590
Other current assets	3,715	4,382	33,118
Allowance for doubtful accounts (Note 5)	(344)	(403)	(3,071)
Total current assets	125,400	116,536	1,117,753
Property, plant and equipment, at cost:			
Land (Notes 8 and 12)	37,142	37,609	331,071
Buildings and structures (Notes 8 and 16)	66,462	65,364	592,409
Machinery, equipment and vehicles (Note 16)	112,040	106,771	998,671
Tools, furniture and fixtures (Note 16)	25,058	24,599	223,353
Construction in progress	6,270	6,120	55,890
Subtotal	246,974	240,465	2,201,397
Less accumulated depreciation	(141,539)	(137,687)	(1,261,604)
Property, plant and equipment, net (Note 23)	105,435	102,777	939,793
Investments and other assets:			
Investments in securities (Notes 5 and 6)	22,913	19,660	204,234
Investments in unconsolidated subsidiaries and an affiliate	3,751	4,931	33,441
Long-term loans receivable	14	15	129
Deferred tax assets (Note 9)	2,458	2,474	21,913
Intangible assets	3,841	4,352	34,241
Other assets	3,525	3,486	31,425
Allowance for doubtful accounts	(125)	(128)	(1,120)
Total investments and other assets	36,379	34,792	324,265
Total assets (Note 23)	¥ 267,215	¥ 254,106	\$ 2,381,812

See accompanying notes to consolidated financial statements.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Short-term loans (Notes 5 and 8)	¥ 9,953	¥ 9,316	\$ 88,719
Current portion of long-term debt and finance lease obligations (Notes 5 and 8)	10,373	1,401	92,466
Trade notes and accounts payable (Note 5)	24,811	24,986	221,152
Electronically recorded obligations (Note 5)	651	—	5,803
Income taxes payable (Note 9)	2,631	2,169	23,458
Accrued bonuses to employees	3,965	3,732	35,349
Accrued expenses	3,117	2,923	27,790
Provision for loss on construction contracts (Note 14)	89	30	797
Other current liabilities	10,963	10,965	97,724
Total current liabilities	66,558	55,525	593,262
Long-term liabilities:			
Long-term debt and finance lease obligations (Notes 5 and 8)	14,519	24,384	129,422
Long-term accounts payable	33	62	302
Liability for retirement benefits (Note 10)	13,395	13,432	119,399
Provision for retirement benefits for directors and audit & supervisory board members	106	114	948
Deferred tax liabilities (Note 9)	10,173	9,037	90,685
Deferred tax liabilities on land revaluation (Note 12)	5,001	5,001	44,579
Asset retirement obligations	415	262	3,701
Other long-term liabilities	793	471	7,068
Total long-term liabilities	44,439	52,766	396,107
Contingent liabilities (Note 11)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock:			
Authorized—299,000,000 shares in 2017 and 2016			
Issued —191,406,969 shares in 2017 and 2016	17,076	17,076	152,212
Capital surplus	12,661	12,658	112,861
Retained earnings (Note 24)	123,063	112,395	1,096,922
Treasury stock, at cost:			
4,345,450 shares in 2017 and 4,330,756 shares in 2016	(2,086)	(2,074)	(18,598)
Total shareholders' equity	150,715	140,056	1,343,397
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 6)	9,694	7,602	86,412
Net unrealized deferred gain on derivative instruments (Note 21)	21	54	190
Net unrealized loss on land revaluation (Note 12)	(10,614)	(10,614)	(94,610)
Translation adjustments	3,709	6,171	33,064
Retirement benefits liability adjustments (Note 10)	(1,053)	(1,229)	(9,386)
Total accumulated other comprehensive income	1,758	1,985	15,669
Non-controlling interests	3,744	3,774	33,375
Total net assets	156,218	145,815	1,392,442
Total liabilities and net assets	¥267,215	¥254,106	\$2,381,812

Consolidated Statement of Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 23)	¥198,762	¥203,976	\$1,771,661
Cost of sales (Notes 14 and 15)	138,191	142,241	1,231,762
Gross profit	60,571	61,735	539,899
Selling, general and administrative expenses (Note 15)	38,924	40,164	346,949
Operating income (Note 23)	21,647	21,570	192,949
Other income (expenses):			
Interest and dividend income	770	796	6,869
Interest expense	(284)	(325)	(2,532)
Equity in earnings of an affiliate	17	49	155
Foreign exchange loss, net	(261)	(168)	(2,329)
Insurance income (Note 17)	—	66	—
Gain on sales of investments in securities (Note 6)	10	—	93
Gain on liquidation of subsidiaries	—	8	—
Loss on sales or disposal of property, plant and equipment, net	(73)	(124)	(658)
Loss on impairment of property, plant and equipment (Notes 16 and 23)	(28)	(1,718)	(256)
Loss on devaluation of investments in unconsolidated subsidiaries (Note 5)	(101)	(7)	(906)
Loss on devaluation of investments in securities (Note 6)	—	(9)	—
Restructuring loss	(219)	—	(1,954)
Other, net	99	306	882
Profit before income taxes	21,575	20,444	192,312
Income taxes (Note 9):			
Current	6,698	7,436	59,704
Deferred	23	207	206
	6,721	7,643	59,911
Profit	14,854	12,800	132,401
Profit attributable to:			
Non-controlling interests	257	33	2,296
Owners of parent (Note 22)	¥ 14,596	¥ 12,766	\$ 130,105

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥14,854	¥12,800	\$132,401
Other comprehensive (loss) income:			
Net unrealized holding gain (loss) on securities	2,105	(3,289)	18,768
Net unrealized deferred (loss) gain on derivative instruments	(33)	29	(295)
Net unrealized gain on land revaluation	—	277	—
Translation adjustments	(2,601)	(4,025)	(23,191)
Retirement benefits liability adjustments	176	(689)	1,576
Share of other comprehensive loss of an affiliate accounted for by the equity method	(34)	(19)	(307)
Total other comprehensive loss, net (Note 18)	(386)	(7,718)	(3,449)
Comprehensive income	¥14,467	¥ 5,081	\$128,951
Comprehensive income (loss) attributable to:			
Owners of parent	¥14,369	¥ 5,174	\$128,081
Non-controlling interests	97	(92)	870

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized deferred gain on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥17,076	¥12,658	¥103,183	¥(2,055)	¥10,882	¥ 25	¥(10,892)	¥10,101	¥ (540)	¥3,851	¥144,291
Cash dividends paid	—	—	(3,554)	—	—	—	—	—	—	—	(3,554)
Profit attributable to owners of parent for the year	—	—	12,766	—	—	—	—	—	—	—	12,766
Purchases of treasury stock	—	—	—	(18)	—	—	—	—	—	—	(18)
Sales of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Other net changes during the year	—	—	—	—	(3,280)	29	277	(3,929)	(689)	(77)	(7,669)
Balance at March 31, 2016	¥17,076	¥12,658	¥112,395	¥(2,074)	¥ 7,602	¥ 54	¥(10,614)	¥ 6,171	¥(1,229)	¥3,774	¥145,815
Cumulative effect of change in accounting principle (Note 3)	—	—	26	—	—	—	—	—	—	—	26
Restated balance at April 1, 2016	17,076	12,658	112,421	(2,074)	7,602	54	(10,614)	6,171	(1,229)	3,774	145,841
Cash dividends paid	—	—	(3,928)	—	—	—	—	—	—	—	(3,928)
Profit attributable to owners of parent for the year	—	—	14,596	—	—	—	—	—	—	—	14,596
Purchases of treasury stock	—	—	—	(12)	—	—	—	—	—	—	(12)
Decrease resulting from initial consolidation of subsidiaries	—	—	(22)	—	—	—	—	—	—	—	(22)
Transfer to capital surplus from retained earnings	—	3	(3)	—	—	—	—	—	—	—	—
Other net changes during the year	—	—	—	—	2,091	(33)	—	(2,462)	176	(29)	(256)
Balance at March 31, 2017	¥17,076	¥12,661	¥123,063	¥(2,086)	¥ 9,694	¥ 21	¥(10,614)	¥ 3,709	¥(1,053)	¥3,744	¥156,218

	Thousands of U.S. dollars (Note 1)										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized deferred gain on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$152,212	\$112,829	\$1,001,830	\$(18,487)	\$67,766	\$ 486	\$(94,610)	\$ 55,013	\$(10,962)	\$33,641	\$1,299,720
Cumulative effect of change in accounting principle (Note 3)	—	—	232	—	—	—	—	—	—	—	232
Restated balance at April 1, 2016	152,212	112,829	1,002,062	(18,487)	67,766	486	(94,610)	55,013	(10,962)	33,641	1,299,952
Cash dividends paid	—	—	(35,016)	—	—	—	—	—	—	—	(35,016)
Profit attributable to owners of parent for the year	—	—	130,105	—	—	—	—	—	—	—	130,105
Purchases of treasury stock	—	—	—	(111)	—	—	—	—	—	—	(111)
Decrease resulting from initial consolidation of subsidiaries	—	—	(196)	—	—	—	—	—	—	—	(196)
Transfer to capital surplus from retained earnings	—	31	(31)	—	—	—	—	—	—	—	—
Other net changes during the year	—	—	—	—	18,645	(295)	—	(21,949)	1,575	(266)	(2,290)
Balance at March 31, 2017	\$152,212	\$112,861	\$1,096,922	\$(18,598)	\$86,412	\$ 190	\$(94,610)	\$ 33,064	\$ (9,386)	\$33,375	\$1,392,442

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2016
Cash flows from operating activities:		
Profit before income taxes	¥ 21,575	¥ 20,444
Adjustments for:		
Depreciation and amortization (Note 23)	10,342	10,402
Loss on impairment of property, plant and equipment (Notes 16 and 23)	28	1,718
Amortization of goodwill (Note 23)	568	555
Loss on sales or disposal of property, plant and equipment, net	73	124
Loss on devaluation of investments in unconsolidated subsidiaries	101	7
Loss on devaluation of investments in securities	—	9
Gain on sales of investments in securities	(9)	—
Decrease in allowance for doubtful accounts	(61)	(3)
Increase in liability for retirement benefits	248	252
Increase in trade notes and accounts receivable	(2,455)	(2,335)
Increase in inventories	(1,188)	(710)
Increase (decrease) in trade notes and accounts payable	839	(676)
Other, net	973	(1,490)
Subtotal	31,037	28,299
Interest and dividends received	794	838
Interest paid	(271)	(328)
Proceeds from insurance income	—	66
Income taxes paid	(6,126)	(9,785)
Net cash provided by operating activities	25,434	19,090
Cash flows from investing activities:		
Decrease in time deposits, net	1,050	787
Purchases of investments in securities	(229)	(194)
Proceeds from sales of investments in securities	19	—
Acquisition of shares of a subsidiaries resulting in change in scope of consolidation (Note 19)	(239)	(381)
Proceeds from sales of shares of a subsidiary	18	—
Payment for investments in unconsolidated subsidiary	(168)	(98)
Proceeds from liquidation of subsidiaries	—	34
Decrease (increase) in short-term loans receivable, net	143	(193)
Decrease in long-term loans receivable, net	1	56
Purchases of property, plant and equipment	(14,151)	(13,750)
Proceeds from sales of property, plant and equipment	135	147
Net cash used in investing activities	(13,420)	(13,593)
Cash flows from financing activities:		
Increase (decrease) in short-term loans, net	913	(190)
Proceeds from long-term loans	566	738
Repayment of long-term loans	(1,254)	(2,278)
Repayment of finance lease obligations	(231)	(180)
Payments for installment payables	(8)	(8)
Proceeds from share issuance to non-controlling interests	—	151
Cash dividends paid	(3,928)	(3,554)
Cash dividends paid to non-controlling interests	(127)	(136)
Purchases of treasury stock	(12)	(18)
Net cash used in financing activities	(4,084)	(5,476)
Effect of exchange rate changes on cash and cash equivalents	(649)	(957)
Net increase (decrease) in cash and cash equivalents	7,279	(937)
Cash and cash equivalents at beginning of the year (Note 19)	26,422	27,360
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	440	—
Cash and cash equivalents at end of the year (Note 19)	¥ 34,142	¥ 26,422
		\$ 304,325

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2017

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the "Company") and consolidated subsidiaries 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 addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

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.

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 ¥112.19 = U.S. \$1.00, the exchange rate prevailing on March 31, 2017. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements both in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions have been eliminated in consolidation.

The balance sheet dates of certain consolidated subsidiaries are December 31 or January 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the periods from January 1 or February 1 through March 31 have been adjusted, if necessary. For one overseas consolidated subsidiary whose fiscal year-end is December 31, for consolidation purposes, the financial statements are prepared as of and for the year ended March 31.

The number of consolidated subsidiaries and an affiliate accounted for by the equity method for the years ended March 31, 2017 and 2016 is summarized below:

	2017	2016
Domestic subsidiaries	9	9
Overseas subsidiaries	51	47
Overseas affiliate	1	1

(b) Cash and cash equivalents

For the preparation of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(c) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts 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.

(d) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their 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, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

All securities held by the Company and its consolidated subsidiaries are classified as "other securities" and have been accounted for as outlined above.

(e) Derivatives and hedging activities

Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt ("special treatment"). Receivables, payables and loans hedged by forward foreign exchange contracts which meet certain conditions are accounted for by the allocation method. Under the allocation method, such receivables, payables and loans denominated in foreign currencies are translated at the corresponding contract rates.

The hedge effectiveness of derivative transactions is assessed by comparing the cumulative changes in cash flows or fair values of the underlying hedged items with those of the hedging instruments in the period from the start of the hedging relationship to the assessment date. However, an assessment of hedge effectiveness is omitted for forward foreign exchange contracts meeting certain conditions for applying the allocation method and interest-rate swaps meeting certain conditions for applying the special treatment.

(f) Inventories

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method, the individual identification method or the moving average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market.

(g) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are stated at cost. Depreciation is mainly 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 structures attached to the buildings) acquired on or after April 1, 1998 and structures attached to buildings and other structures acquired on or after April 1, 2016.

The principal estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 13 years

(h) Goodwill

Goodwill is amortized primarily over a period of 5 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leases

For lease transactions involving the transfer of ownership, leased assets are depreciated by the same depreciation method applied to property, plant and equipment owned by the lessee.

For lease transactions not involving the transfer of ownership, leased assets are depreciated over their lease term using the straight-line method with a residual value of zero.

(j) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which are charged to income in the current year.

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

Directors and audit & supervisory board members of domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. Provision for retirement benefits for directors and audit & supervisory board members have been made at an estimated amount based on the internal rules.

(m) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for anticipated future losses on outstanding projects if such future loss on construction projects is anticipated at the year end and the loss amount can be reasonably estimated.

(n) Retirement benefits to employees

The liability for retirement benefits to employees is recorded based on the retirement benefit obligation less the fair value of the pension plan assets. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period which is shorter than the average estimated remaining years of service of the eligible employees (10 years).

As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by the simplified method. Under the simplified method, the retirement benefit obligation for employees is stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet dates.

(o) Recognition of contract revenue and cost

The Company and its consolidated subsidiaries recognize revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company and its consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

(p) Intangible assets and research and development costs

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

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

(q) 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. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests, net unrealized holding gain on securities, and net unrealized deferred gain on derivative instruments are translated at their historical exchange rates. Revenue and expense accounts of the overseas consolidated subsidiaries are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of profit but are reported as “Translation adjustments” as a component of accumulated other comprehensive income (loss) and as “Non-controlling interests” in the accompanying consolidated balance sheets.

(r) Distribution of retained earnings

Under the Companies Act of Japan (the “Act”), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such distributions. Please refer to “Distribution of retained earnings” in Note 24.

3. CHANGE IN ACCOUNTING POLICY

(a) The Company and its consolidated subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) (hereinafter, the “Recoverability Implementation Guidance”) from the beginning of the fiscal year ended March 31, 2017 and partially revised the accounting method for assessing the recoverability of deferred tax.

The Recoverability Implementation Guidance has been applied in accordance with the transitional treatment set forth in Article 49 (4) of said guidance. The differences between (i) the amounts of deferred tax assets and deferred tax liabilities when the corresponding provisions stipulated in Items 1 to 3 of Article 49 (3) of the Recoverability Implementation Guidance were applied as of April 1, 2016, and (ii) the amounts of deferred tax assets and deferred tax liabilities recognized as of March 31, 2016, were recorded as adjustments to retained earnings as of April 1, 2016.

As a result, deferred tax assets and retained earnings increased by ¥26 million and ¥26 million, respectively, as of April 1, 2016.

Therefore, the beginning balance of retained earnings as of April 1, 2016 increased by ¥26 million as shown in the consolidated statement of changes in net assets.

(b) The Company and its domestic consolidated subsidiaries adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) as a result of revisions to the Corporate Tax Act of Japan. Accordingly, the depreciation method for both structures attached to buildings and other structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impacts on the consolidated financial statements as a result of this change were immaterial for the fiscal year ended March 31, 2017.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Not applicable.

5. FINANCIAL INSTRUMENTS

(1) Overview

(a) Policies for financial instruments

The Company and its consolidated subsidiaries obtain necessary funding principally by bank borrowings and bonds issuance. Temporary surplus funds are managed through low-risk financial assets. Derivatives are utilized for mitigating fluctuation risks of foreign currency exchange rates or interest rates, and not utilized for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables, notes, accounts receivable and electronically recorded monetary claims, are exposed to the credit risk of customers. The Company and its consolidated subsidiaries conduct their business globally and the trade receivables denominated in foreign currencies incurred from export transactions are exposed to the fluctuation risk of foreign currencies. This risk is mitigated by utilizing forward foreign exchange contracts.

Securities are mainly composed of stocks of the companies with which the Group has business relationships or capital alliances and they are exposed to fluctuation risk of market prices.

Almost all trade payables, notes, accounts payable and electronically recorded obligations, are due within one year. Certain trade payables resulting from import transactions, are denominated in foreign currencies and the Company and its consolidated subsidiaries utilize forward foreign exchange contracts, as with trade receivables. Loans and bonds are utilized for necessary financing of operating funds and capital expenditures. Certain portions of loans are exposed to the fluctuation risks of foreign currency exchange rates and interest rates because of borrowings in foreign currency and floating interest rates and these risks are hedged by utilizing derivative transactions (interest-rate swap agreements and currency swap agreements).

Derivative transactions are entered into to hedge the foreign currency fluctuation risk of trade receivables, trade payables and debt securities denominated in foreign currencies by utilizing forward foreign exchange contracts, and to hedge interest rate fluctuation risks and foreign currency fluctuation risks of certain loans by utilizing interest-rate swap agreements and currency swap agreements. Refer to "Derivatives and hedging activities" in Note 2 "Summary of Significant Accounting Policies" and Note 21 "Derivatives and Hedging Activities" for information on hedge accounting, such as hedging instruments and hedged items.

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with internal rules of credit management of the Company, each business department manages the collection due dates and receivable balances of its customers, periodically monitors the financial conditions of customers and tries to identify credit risk of customers with worsening financial conditions at the early stage to mitigate any risk. Consolidated subsidiaries perform similar credit management.

The Company and certain consolidated subsidiaries enter into derivative transactions with financial institutions with high credit ratings to mitigate the risk of credit loss in the event of nonperformance by the counterparties.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates and interest rates)

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts for hedging currency fluctuation risk arising from trade receivables, trade payables and debt securities denominated in foreign currencies. The Company also utilizes interest-rate swap agreements and currency swap agreements to mitigate interest rate risk and foreign currency exchange risk on debt denominated in foreign currencies.

The Company and its consolidated subsidiaries continuously review securities holdings by monitoring periodically the market value and financial condition of the securities' issuers (companies with business relationships or business alliances with the Company and its consolidated subsidiaries) and by evaluating those relationships.

Each business department determines the amount of each forward foreign exchange contract within the actual underlying transaction amount, and the responsible finance department enters into and manages these forward foreign exchange contracts. The finance department enters into and manages interest-rate swap agreements and currency swap agreements in the course of undertaking borrowing contracts.

(iii) Monitoring of liquidity risk (the risk that the Company and its consolidated subsidiaries may not be able to meet its obligations on scheduled due dates)

The Company and its consolidated subsidiaries manage liquidity risk by preparing cash flow plans on a timely basis and so forth.

(iv) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no quoted market price 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. In addition, the notional amounts of derivatives in Note 21 do not necessarily indicate the market risk of the derivative transactions.

(2) Fair value of financial instruments

Carrying value, fair value, and the difference related to financial instruments at March 31, 2017 and 2016 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.

	2017			2016		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Millions of yen						
Assets:						
Cash and deposits	¥ 26,332	¥ 26,332	¥ —	¥20,195	¥20,195	¥ —
Trade notes and accounts receivable	41,109	—	—	47,543	—	—
Electronically recorded monetary claims	9,651	—	—	1,183	—	—
Allowance for doubtful accounts* ¹	(344)	—	—	(403)	—	—
	50,416	50,416	—	48,323	48,323	—
Short-term investments and investments in securities	30,522	30,522	—	26,835	26,835	—
Total assets	¥107,271	¥107,271	¥ —	¥95,355	¥95,355	¥ —
Liabilities:						
Trade notes and accounts payable	¥ 24,811	¥ 24,811	¥ —	¥24,986	¥24,986	¥ —
Electronically recorded obligations	651	651	—	—	—	—
Short-term loans	9,953	9,953	—	9,316	9,316	—
Long-term debt* ²	24,681	24,878	(196)	25,500	25,793	(292)
Total liabilities	¥ 60,096	¥ 60,293	¥(196)	¥59,804	¥60,096	¥(292)
Derivatives, net* ³	¥ (296)	¥ (296)	¥ —	¥ 352	¥ 352	¥ —

	2017		
	Carrying value	Fair value	Difference
Thousands of U.S. dollars			
Assets:			
Cash and deposits	\$234,709	\$234,709	\$ —
Trade notes and accounts receivable	366,426	—	—
Electronically recorded monetary claims	86,029	—	—
Allowance for doubtful accounts* ¹	(3,071)	—	—
	449,383	449,383	—
Short-term investments and investments in securities	272,064	272,064	—
Total assets	\$956,157	\$956,157	\$ —
Liabilities:			
Trade notes and accounts payable	\$221,152	\$221,152	\$ —
Electronically recorded obligations	5,803	5,803	—
Short-term loans	88,719	88,719	—
Long-term debt* ²	219,995	221,750	(1,755)
Total liabilities	\$535,670	\$537,425	\$(1,755)
Derivatives, net* ³	\$ (2,642)	\$ (2,642)	\$ —

*1 Allowance for doubtful accounts on specific bad debts is deducted from "Trade notes, accounts receivable" and "Electronically recorded monetary claims."

*2 Long-term debt includes the current portion of long-term debt.

*3 Assets and liabilities arising from derivatives are shown at net value, and the amount in parentheses represents a net liability position.

Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions

Assets

Cash and deposits, trade notes and accounts receivable, electronically recorded monetary claims

Since these items are settled in a short time period, their carrying value approximates fair value.

Short-term investments and investments in securities

The fair value of equity securities is based on their quoted market price. Since certificates of deposit are settled in a short time period, their carrying value approximates fair value.

For information on securities classified by holding purpose, please refer to Note 6 "Short-Term Investments and Investments in Securities" of the notes to the consolidated financial statements.

Liabilities

Trade notes and accounts payable, electronically recorded obligations, short-term loans

Since these items are settled in a short time period, their carrying value approximates fair value.

Long-term debt

The fair value of long-term loans is based on the present value of the total principal and interest discounted by the estimated interest rates to be applied if similar new loans are made.

A long-term loan with a floating interest rate is hedged by interest-rate swap agreements and accounted for as a loan with a fixed interest rate. The fair value of this long-term loan hedged by interest-rate swap agreements is based on the present value of the total principal, interest and cash flows of interest-rate swap agreements discounted by the reasonably estimated interest rate to be applied if a similar new loan was made.

The fair value of bonds payable is based on present value of the total of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and current credit risk.

Derivative transactions

Please refer to Note 21 "Derivatives and Hedging Activities."

The amounts of financial instruments for which it is extremely difficult to determine the fair value are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted securities	¥1,771	¥2,977	\$15,786

Because no quoted market price is available and it is extremely difficult to determine the fair value, these amounts are not included in the preceding table related to carrying value and fair value of financial instruments.

Losses on devaluation of investments in unconsolidated subsidiaries for the years ended March 31, 2017 and 2016 amounted to ¥101 million (\$906 thousand) and ¥7 million, respectively.

The redemption schedule for monetary assets and securities with maturities subsequent to March 31, 2017 and 2016 are as follows:

	Millions of yen			
	2017			
	Due within one year	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and deposits	¥26,298	¥ —	¥—	¥—
Trade notes and accounts receivable	41,109	—	—	—
Electronically recorded monetary claims	9,651	—	—	—
Short-term investments and investments in securities:				
Other securities with maturity dates				
Debt securities	—	335	—	—
Other	7,965	—	—	—
	¥85,025	¥335	¥—	¥—

	Millions of yen			
	2016			
	Due within one year	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and deposits	¥20,148	¥ —	¥—	¥—
Trade notes and accounts receivable	47,543	—	—	—
Electronically recorded monetary claims	1,183	—	—	—
Short-term investments and investments in securities:				
Other securities with maturity dates				
Debt securities	—	339	—	—
Other	7,533	—	—	—
	¥76,409	¥339	¥—	¥—

	Thousands of U.S. dollars			
	2017			
	Due within one year	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and deposits	\$234,412	\$ —	\$—	\$—
Trade notes and accounts receivable	366,426	—	—	—
Electronically recorded monetary claims	86,029	—	—	—
Short-term investments and investments in securities:				
Other securities with maturity dates				
Debt securities	—	2,991	—	—
Other	71,004	—	—	—
	\$757,872	\$2,991	\$—	\$—

6. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

(a) Short-term investments and investments in securities with determinable market value classified as other securities at March 31, 2017 and 2016 are summarized as follows:

	2017			2016		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥22,137	¥ 8,296	¥13,841	¥18,740	¥ 7,905	¥10,834
Subtotal	22,137	8,296	13,841	18,740	7,905	10,834
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	83	88	(4)	222	256	(33)
Debt securities	335	341	(5)	339	345	(5)
Other	7,965	7,965	—	7,533	7,533	—
Subtotal	8,385	8,395	(10)	8,095	8,135	(39)
Total	¥30,522	¥16,691	¥13,831	¥26,835	¥16,040	¥10,794

	2017		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$197,324	\$ 73,946	\$123,378
Subtotal	197,324	73,946	123,378
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	744	788	(43)
Debt securities	2,991	3,041	(50)
Other	71,004	71,004	—
Subtotal	74,740	74,834	(94)
Total	\$272,064	\$148,780	\$123,284

(b) Sales of other securities for the year ended March 31, 2017 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Sales	¥19	\$170
Gross realized gain	10	93
Gross realized loss	1	9

There were no sales of other securities for the year ended March 31, 2016.

(c) The Company recorded loss on devaluation of investments in securities of ¥9 million for the year ended March 31, 2016.

The recording of a loss on devaluation of investments in securities is based on internal rules such as if the fair value at balance sheet date has fallen more than 50% from its carrying value or if fair value at the balance sheet date has continually fallen by more than 30% and less than 50% from its carrying value over the past 2 years.

There were no losses on devaluation of investments in securities for the year ended March 31, 2017.

7. INVENTORIES

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods	¥15,577	¥15,188	\$138,848
Work in process	9,934	10,042	88,549
Raw materials and supplies	8,363	7,922	74,549
	¥33,875	¥33,153	\$301,947

8. SHORT-TERM LOANS, LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

Short-term loans consisted principally of loans from banks and insurance companies at weighted average interest rates of 0.9% and 0.8% at March 31, 2017 and 2016, respectively.

Long-term debt and finance lease obligations at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans, principally from banks and insurance companies, due through 2021 at an average annual interest rate of 1.5% and 0.7% at March 31, 2017 and 2016, respectively:			
Secured	¥ 26	¥ 424	\$ 236
Unsecured	14,654	15,076	130,623
Straight bonds payable due 2019 at an interest rate of 0.41%	10,000	10,000	89,134
Lease obligations	212	284	1,893
	24,893	25,785	221,889
Less current portion	10,373	1,401	92,466
Total	¥14,519	¥24,384	\$129,422

Other interest-bearing liabilities included in other current liabilities and long-term accounts payable represented installment payables at an average annual interest rate of 3.1% at March 31, 2016.

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2017 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥10,373	\$ 92,466
2019	172	1,540
2020	10,029	89,396
2021	3,724	33,198
2022	586	5,230
2023 and thereafter	6	55
Total	¥24,893	\$221,889

Assets pledged as collateral for short-term loans of ¥120 million (\$1,069 thousand) and ¥130 million, the current portion of long-term debt of ¥26 million (\$236 thousand) and ¥397 million and long-term debt of nil and ¥26 million at March 31, 2017 and 2016, respectively, were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥ 486	¥ 965	\$ 4,333
Land	1,242	1,366	11,073
	¥1,728	¥2,331	\$15,407

The Company has concluded line-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lines of credit	¥15,000	¥15,000	\$133,701
Credit utilized	—	—	—
Available credit	¥15,000	¥15,000	\$133,701

9. INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.8% and 33.0% for the years ended March 31, 2017 and 2016, respectively.

Disclosure of a reconciliation between the statutory and effective tax rates for the year ended March 31, 2017 has been omitted as such difference was immaterial.

A reconciliation of the statutory and effective tax rates for the year ended March 31, 2016 is summarized as follows:

	2016
Statutory tax rate	33.0%
Permanent non-taxable differences such as dividend income	(0.4)
Tax exemption on investment	(0.4)
Tax credits such as research and development costs and other	(0.3)
Equity in earnings of an affiliate	(0.1)
Decrease of deferred tax liabilities, resulting from change in the corporate tax rates	(0.1)
Per capita portion of inhabitants' taxes	0.3
Permanent non-deductible differences such as entertainment expenses	0.4
Difference between statutory tax rate in Japan and effective tax rates of overseas consolidated subsidiaries	1.1
Changes in the valuation allowance	2.3
Other	1.6
Effective tax rate	37.4%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Liability for retirement benefits	¥ 3,995	¥ 4,012	\$ 35,609
Accrued bonuses	917	888	8,173
Inventories	547	614	4,877
Loss on impairment	418	469	3,734
Other	6,091	5,829	54,297
Gross deferred tax assets	11,969	11,815	106,692
Less: valuation allowance	(1,601)	(1,631)	(14,273)
Total deferred tax assets	10,368	10,184	92,419
Deferred tax liabilities:			
Unrealized holding gain on securities	(4,112)	(3,188)	(36,656)
Deferred gain on replacement of property	(4,046)	(4,055)	(36,069)
Net unrealized gain on revaluation of assets and liabilities of subsidiaries	(2,183)	(2,223)	(19,462)
Undistributed earnings of overseas subsidiaries	(2,103)	(2,033)	(18,751)
Other	(2,542)	(2,298)	(22,660)
Total deferred tax liabilities	(14,988)	(13,799)	(133,600)
Net deferred tax liabilities	¥ (4,620)	¥ (3,615)	\$ (41,181)

10. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain consolidated overseas subsidiaries also have defined benefit pension plans.

As permitted under the accounting standard for retirement benefits, certain domestic consolidated subsidiaries calculate their retirement benefit obligation for their employees by the simplified method.

The changes in the retirement benefit obligation for the years ended March 31, 2017 and 2016 are as follows (excluding the retirement benefit obligation calculated by the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥13,439	¥12,124	\$119,788
Service cost	683	627	6,089
Interest cost	42	136	380
Actuarial loss	7	1,075	68
Retirement benefits paid	(742)	(666)	(6,620)
Prior service cost	(47)	—	(423)
Other	(61)	141	(547)
Balance at the end of the year	¥13,320	¥13,439	\$118,734

The changes in plan assets for the years ended March 31, 2017 and 2016 are as follows (excluding the retirement benefit obligation calculated by the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥1,243	¥1,064	\$11,086
Expected return on plan assets	22	20	201
Actuarial loss, net	(40)	(74)	(359)
Contributions by the Group	109	112	971
Retirement benefit paid	(57)	(71)	(512)
Other	(32)	192	(292)
Balance at the end of the year	¥1,244	¥1,243	\$11,095

The changes in the liability for retirement benefits calculated by the simplified method for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥1,237	¥1,209	\$11,030
Retirement benefit expenses	141	147	1,258
Retirement benefits paid	(41)	(90)	(369)
Contributions to the plans	(28)	(28)	(255)
Other	10	—	97
Balance at the end of the year	¥1,319	¥1,237	\$11,760

A reconciliation of the ending balance of retirement benefit obligation and plan assets and liability for retirement benefits recorded in the consolidated balance sheets at March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 1,810	¥ 1,907	\$ 16,140
Plan assets at fair value	(1,571)	(1,574)	(14,003)
	239	332	2,136
Unfunded retirement benefit obligation	13,155	13,100	117,262
Net liability for retirement benefits in the balance sheet	13,395	13,432	119,399
Liability for retirement benefit obligation	13,395	13,432	119,399
Net liability for retirement benefits in the balance sheet	¥13,395	¥13,432	\$119,399

The above table includes retirement benefit obligations calculated by the simplified method.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 683	¥ 627	\$6,089
Interest cost	42	136	380
Expected return on plan assets	(22)	(20)	(201)
Amortization of unrecognized actuarial loss	302	175	2,698
Amortization of unrecognized prior service cost	(47)	—	(423)
Retirement benefit expense calculated by the simplified method	141	147	1,258
Other	3	9	33
Retirement benefit expenses	¥1,103	¥1,076	\$9,834

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gain (loss)	¥254	¥(974)	\$2,271

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial loss	¥1,517	¥1,772	\$13,528

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

	2017	2016
Debt securities	13%	14%
Equity securities	9%	14%
General accounts at life insurance companies	35%	36%
Other	43%	36%
Total	100%	100%

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rates	Principally 0.10%	Principally 0.10%
Expected rate of return on plan assets	Principally 2.0%	Principally 2.0%

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

Total contributions required to be paid by the Company and its consolidated subsidiaries to the defined contribution pension plans amounted to ¥666 million (\$5,937 thousand) and ¥686 million for the years ended March 31, 2017 and 2016, respectively.

11. CONTINGENT LIABILITIES

At March 31, 2017 and 2016, the Company and its consolidated subsidiaries were contingently liable for the following items:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Notes receivable discounted	¥ 15	¥14	\$ 133
Electronically recorded monetary claims discounted	13	—	117
Guarantees of home mortgage loans by employees	37	46	331
Guarantees of loans made by an unconsolidated subsidiary	132	54	1,182

12. NET UNREALIZED LOSS ON LAND REVALUATION

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as "Net unrealized loss on land revaluation" under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its corresponding fair value by ¥12,000 million (\$106,961 thousand) at March 31, 2017 and 2016.

13. SHAREHOLDERS' EQUITY

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 Company's legal reserve amounted to ¥3,376 million (\$30,099 thousand) at March 31, 2017 and 2016.

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

				Number of shares
	April 1, 2016	Increase	Decrease	2017 March 31, 2017
Issued shares of common stock	191,406,969	—	—	191,406,969
Treasury stock	4,330,756	14,694	—	4,345,450

				Number of shares
	April 1, 2015	Increase	Decrease	2016 March 31, 2016
Issued shares of common stock	191,406,969	—	—	191,406,969
Treasury stock	4,311,895	18,861	—	4,330,756

Increase in the number of shares of treasury stock was due to purchases of fractional shares of less than one unit.

14. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Reversal of and provision for loss on construction contracts included in cost of sales for the years ended March 31, 2017 and 2016 amounted to ¥58 million (\$525 thousand) and ¥50 million, respectively.

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2017 and 2016 amounted to ¥4,341 million (\$38,694 thousand) and ¥4,300 million, respectively.

16. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The amount of loss on impairment of property, plant and equipment for the year ended March 31, 2017 has been omitted as such amount was immaterial.

For the year ended March 31, 2016, an overseas consolidated subsidiary wrote down the following fixed assets to their respective recoverable values because the profitability of its chains business decreased significantly and it does not expect them to be recoverable in the amount of ¥1,718 million. Assets are grouped principally by each business or each business location.

				Millions of yen
				2016
Location	Use	Classification		
Tianjin City, People's Republic of China	Chain production equipment and other	Machinery, equipment and vehicles	¥1,421	
		Buildings and structures	155	
		Tools, furniture and fixtures	141	
			¥1,718	

The recoverable value of the fixed assets was measured at net realizable value mainly using the net selling prices. If a fixed asset cannot be sold or diverted to other usage, such asset is valued at nil.

17. INSURANCE INCOME

There was no insurance income for the year ended March 31, 2017.

Insurance income recorded in the consolidated statement of income for the year ended March 31, 2016 consisted of insurance proceeds in the amount of ¥66 million, related to a loss caused by abnormally heavy snowfall in Japan on February 14 and 15, 2014.

18. OTHER COMPREHENSIVE INCOME

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

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 3,046	¥(5,125)	\$ 27,158
Reclassification adjustments	(10)	9	(93)
Before tax effect	3,036	(5,115)	27,064
Tax effect	(930)	1,825	(8,295)
Net unrealized holding gain (loss) on securities	2,105	(3,289)	18,768
Net unrealized deferred (loss) gain on derivative instruments:			
Amount arising during the year	(47)	40	(426)
Tax effect	14	(11)	131
Net unrealized deferred (loss) gain on derivative instruments	(33)	29	(295)
Net unrealized gain on land revaluation:			
Tax effect	—	277	—
Net unrealized gain on land revaluation	—	277	—
Translation adjustments:			
Amount arising during the year	(2,601)	(4,025)	(23,191)
Reclassification adjustments	—	—	—
Translation adjustments	(2,601)	(4,025)	(23,191)
Retirement benefits liability adjustments:			
Amount arising during the year	(26)	(1,197)	(235)
Reclassification adjustments	281	222	2,506
Before tax effect	254	(974)	2,271
Tax effect	(77)	284	(694)
Retirement benefits liability adjustments	176	(689)	1,576
Share of other comprehensive loss of an affiliate accounted for by the equity method:			
Amount arising during the year	(34)	(19)	(307)
Reclassification adjustments	—	—	—
Share of other comprehensive loss of an affiliate accounted for by the equity method	(34)	(19)	(307)
Other comprehensive loss	¥ (386)	¥(7,718)	\$ (3,449)

19. SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliations of cash and deposits shown in the consolidated balance sheets at March 31, 2017 and 2016 and cash and cash equivalents shown in the consolidated statements of cash flows for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥26,332	¥20,195	\$234,709
Time deposits with maturities exceeding three months	(155)	(1,307)	(1,388)
Short-term investments	7,965	7,533	71,004
Cash and cash equivalents	¥34,142	¥26,422	\$304,325

Assets acquired and liabilities assumed at the date of commencement of consolidation for the year ended March 31, 2017 has been omitted as such amount was immaterial.

On June 30, 2015, the Company newly consolidated the accounts of Schmidberger GmbH. Assets acquired and liabilities assumed at the date of commencement of consolidation and the related acquisition cost of the shares and payment for the acquisition of the subsidiary's shares are summarized as follows:

	Millions of yen
	2016
Current assets	¥ 278
Fixed assets	250
Goodwill	153
Current liabilities	(140)
Long-term liabilities	(135)
Acquisition cost of shares	405
Cash and cash equivalents	(84)
Payments for loans receivable to the newly consolidated subsidiaries between the date regarded as the acquisition date and the date when the Company obtained control	68
Effect of exchange rate changes	(8)
Acquisition of shares of a subsidiary resulting in change in scope of consolidation	¥ 381

20. LEASES

Future minimum lease payments subsequent to March 31, 2017 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥236	\$2,109
2019 and thereafter	226	2,018
	¥463	\$4,128

21. DERIVATIVES AND HEDGING ACTIVITIES

(1) Derivative transactions to which hedge accounting is not applied

(a) Currency related

The notional amounts of forward foreign exchange contracts to which hedge accounting has not been applied, the estimated fair value of the outstanding derivatives positions and unrealized gain (loss) at March 31, 2017 and 2016 are summarized as follows:

		Millions of yen					
		2017			2016		
Classification	Transactions	Notional amount	Estimated fair value*	Unrealized gain (loss)	Notional amount	Estimated fair value*	Unrealized gain (loss)
Over-the-counter transactions	Forward foreign exchange contracts:						
	Sell:						
	U.S. dollars	¥2,826	¥(137)	¥(137)	¥2,406	¥135	¥135
	Euros	1,240	(24)	(24)	971	40	40
	Canadian dollars	177	(4)	(4)	148	4	4
	Australian dollars	210	(16)	(16)	81	(0)	(0)
	Chinese yuan	2,038	(117)	(117)	1,992	102	102
	Buy:						
	Japanese yen	443	(26)	(26)	648	(5)	(5)
	U.S. dollars	19	(0)	(0)	—	—	—
	Total	¥6,955	¥(327)	¥(327)	¥6,249	¥276	¥276

		Thousands of U.S. dollars		
		2017		
Classification	Transactions	Notional amount	Estimated fair value*	Unrealized gain (loss)
Over-the-counter transactions	Forward foreign exchange contracts:			
	Sell:			
	U.S. dollars	\$25,193	\$(1,229)	\$(1,229)
	Euros	11,056	(215)	(215)
	Canadian dollars	1,578	(36)	(36)
	Australian dollars	1,876	(151)	(151)
	Chinese yuan	18,167	(1,044)	(1,044)
	Buy:			
	Japanese yen	3,955	(238)	(238)
	U.S. dollars	173	(0)	(0)
	Total	\$62,000	\$(2,916)	\$(2,916)

* Estimated fair value is determined mainly based on the prices quoted by financial institutions.

(b) Interest-rate related

There were no interest-rate related derivative transactions to which hedge accounting is not applied for the year ended March 31, 2017.

The notional amounts of interest-rate swap agreements to which hedge accounting has not been applied and the estimated fair value of the outstanding derivatives positions and unrealized gain (loss) at March 31, 2016 are summarized as follows:

		Millions of yen			
		2016			Unrealized loss
Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value*	
Interest-rate swap agreements:					
Fixed paid/floating received	Long-term loan	¥343	¥—	¥(2)	¥(2)

* Estimated fair value is determined mainly based on the prices quoted by financial institutions.

(2) Derivative transactions to which hedge accounting is applied

(a) Currency related

The notional amounts of forward foreign exchange contracts to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2017 and 2016 are summarized as follows:

		Millions of yen							
Method of hedge accounting	Transactions	Hedged items	2017			2016			
			Notional amount	Due after one year	Estimated fair value*2	Notional amount	Due after one year	Estimated fair value*2	
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:								
	Sell:								
	U.S. dollars	Accounts receivable	¥2,345	¥ —	¥ 29	¥2,361	¥—	¥60	
	Euros	(Forecasted transactions)	1,106	—	9	934	—	12	
	Australian dollars		162	—	(2)	134	—	(0)	
	Canadian dollars		142	—	0	128	—	(0)	
	Chinese yuan		1,301	—	(10)	1,034	—	6	
	U.S. dollars	Accounts receivable	—	—	—	81	—	*1	
	Total			¥5,057	¥ —	¥ 28	¥4,675	¥—	¥78
	Buy:								
	U.S. dollars	Accounts payable (Forecasted transactions)	¥ 52	¥ —	¥ 0	¥ 4	¥—	¥ (0)	
Total			¥ 52	¥ —	¥ 0	¥ 4	¥—	¥ (0)	
Principle method for forward foreign exchange contracts	Forward foreign exchange contracts:								
	Sell:								
	U.S. dollars	Foreign currency bond	¥ 328	¥328	¥ 1	¥ —	¥—	¥—	

		Thousands of U.S. dollars				
Method of hedge accounting	Transactions	Hedged items	2017			
			Notional amount	Due after one year	Estimated fair value*2	
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:					
	Sell:					
	U.S. dollars	Accounts receivable	\$20,903	\$ —	\$266	
	Euros	(Forecasted transactions)	9,859	—	88	
	Australian dollars		1,447	—	(19)	
	Canadian dollars		1,269	—	7	
	Chinese yuan		11,597	—	(93)	
	U.S. dollars	Accounts receivable	—	—	—	
	Total			\$45,077	\$ —	\$250
	Buy:					
	U.S. dollars	Accounts payable (Forecasted transactions)	\$ 470	\$ —	\$ 7	
Total			\$ 470	\$ —	\$ 7	
Principle method for forward foreign exchange contracts	Forward foreign exchange contracts:					
	Sell:					
	U.S. dollars	Foreign currency bond	\$ 2,924	\$2,924	\$ 16	

*1 For forward foreign exchange contracts, other than those corresponding to the forecasted transactions above, accounted for by the allocation method (refer to Note 2(e)), their fair value is included in that of the accounts receivable or payable and is disclosed in Note 5 "Financial Instruments."

*2 Estimated fair value is determined mainly based on the prices quoted by financial institutions.

(b) Interest-rate and currency related

The notional amounts of currency swap contracts that include interest-rate swaps to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2017 and 2016 are summarized as follows:

		Millions of yen						
Method of hedge accounting	Transactions	Hedged items	2017			2016		
			Notional amount	Due after one year	Estimated fair value	Notional amount	Due after one year	Estimated fair value
Swap rates and currency applied to underlying long-term debt	Currency swap contracts including interest-rate swaps: (Receive/U.S. dollars and pay/Japanese yen, and Receive/floating and pay/fixed)	Long-term loans	¥8,200	¥—	*	¥8,200	¥8,200	*

		Thousands of U.S. dollars				
Method of hedge accounting	Transactions	Hedged items	2017			
			Notional amount	Due after one year	Estimated fair value	
Swap rates and currency applied to underlying long-term debt	Currency swap contracts including interest-rate swaps: (Receive/U.S. dollars and pay/Japanese yen, and Receive/floating and pay/fixed)	Long-term loans	\$73,090	\$—	*	

* Since interest-rate currency swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 5 "Financial Instruments."

(c) Interest-rate related

The notional amounts of interest-rate swaps to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2017 and 2016 are summarized as follows:

		Millions of yen								
Method of hedge accounting	Transactions	Hedged items	2017			2016				
			Notional amount	Due after one year	Estimated fair value	Notional amount	Due after one year	Estimated fair value		
Special treatment for interest-rate swaps	Interest-rate swaps: Fixed paid/floating received	Long-term loans	¥ 670	¥ 670	*1	¥ 670	¥ 670	*1		
			Fixed paid/fixed received*2	Straight bonds payable	10,000	10,000	*1	10,000	10,000	*1

		Thousands of U.S. dollars					
Method of hedge accounting	Transactions	Hedged items	2017				
			Notional amount	Due after one year	Estimated fair value		
Special treatment for interest-rate swaps	Interest-rate swaps: Fixed paid/floating received	Long-term loans	\$ 5,972	\$ —	*1		
			Fixed paid/fixed received*2	Straight bonds payable	89,134	89,134	*1

*1 Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 5 "Financial Instruments."

*2 These derivative transactions are used to hedge the fluctuation risk of interest rates during the transaction period until interest rate on the straight bond payable is determined.

22. AMOUNTS PER SHARE

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

	Yen		U.S. dollars
	2017	2016	2017
Net assets	¥815.10	¥759.27	\$7.27
Profit attributable to owners of parent	78.03	68.24	0.70
Cash dividends	24.00	20.00	0.21

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

Profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

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.

Diluted profit attributable to owners of parent per share for the years ended March 31, 2017 and 2016 has not been presented because no potentially dilutive shares of common stock were outstanding.

Information used in the calculation of profit attributable to owners of parent per share is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Profit attributable to owners of parent	¥14,596	¥12,766	\$130,105
Profit attributable to owners of parent not available for distribution to shareholders of common stock	—	—	—
Profit attributable to owners of parent on which profit attributable to owners of parent per share is calculated	¥14,596	¥12,766	\$130,105

	Thousands of shares	
	2017	2016
Weighted-average number of shares of common stock on which profit attributable to owners of parent per share is calculated	187,069	187,084

23. SEGMENT INFORMATION

(1) Outline of Reportable Segment Information

The reportable segments of the Company are components for which obtaining separate financial information is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to the reportable segments. The Company classifies its business segments based on products and services. Each business segment determines comprehensive domestic and overseas strategies in addition to pursuing business expansion in its respective product and service area. The reportable segments that comprise the Company's operations are: Chains, Power Transmission Units and Components, Automotive Parts and Materials Handling Systems.

(2) Calculation methods used for sales, operating income or loss, assets and other items of each reportable segment

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 2. Intersegment sales are recorded at the same price used in transactions with third parties.

(3) Information on sales, operating income or loss, assets and other items of each reportable segment
Information by reportable segment for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen									
	2017									
	Reportable Segments									
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Subtotal	Other*1	Total	Adjustments and eliminations*2	Consolidated	
Sales, operating income and assets:										
Sales to third parties	¥59,261	¥21,275	¥75,147	¥40,697	¥196,381	¥2,381	¥198,762	¥ —	¥198,762	
Inter-segment sales and transfers	1,339	288	—	345	1,973	620	2,594	(2,594)	—	
Total	¥60,600	¥21,563	¥75,147	¥41,043	¥198,354	¥3,001	¥201,356	¥(2,594)	¥198,762	
Segment profit (loss) (Operating income (loss))	¥ 7,102	¥ 2,218	¥12,385	¥ 706	¥ 22,413	¥ (1)	¥ 22,412	¥ (765)	¥ 21,647	
Segment assets	70,831	30,919	80,181	42,954	224,886	2,980	227,866	39,348	267,215	
Other items:										
Depreciation and amortization	¥ 2,696	¥ 914	¥ 5,585	¥ 1,135	¥ 10,332	¥ 10	¥ 10,342	¥ —	¥ 10,342	
Investments in an affiliate accounted for by the equity method	—	—	—	351	351	—	351	—	351	
Increase in property, plant and equipment and intangible assets	2,692	1,330	9,232	733	13,990	4	13,995	—	13,995	

	Millions of yen									
	2016									
	Reportable Segments									
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Subtotal	Other*1	Total	Adjustments and eliminations*3	Consolidated	
Sales, operating income and assets:										
Sales to third parties	¥62,442	¥21,602	¥73,473	¥44,115	¥201,634	¥2,342	¥203,976	¥ —	¥203,976	
Inter-segment sales and transfers	1,555	372	—	239	2,167	844	3,011	(3,011)	—	
Total	¥63,998	¥21,975	¥73,473	¥44,354	¥203,802	¥3,186	¥206,988	¥(3,011)	¥203,976	
Segment profit (Operating income)	¥ 6,172	¥ 2,428	¥12,258	¥ 659	¥ 21,517	¥ 84	¥ 21,601	¥(30)	¥ 21,570	
Segment assets	70,162	31,882	71,124	44,063	217,233	3,051	220,285	33,821	254,106	
Other items:										
Depreciation and amortization	¥ 2,981	¥ 886	¥ 5,247	¥ 1,276	¥ 10,392	¥ 10	¥ 10,402	¥ —	¥ 10,402	
Investments in an affiliate accounted for by the equity method	—	—	—	390	390	—	390	—	390	
Increase in property, plant and equipment and intangible assets	3,515	1,604	9,301	1,248	15,669	7	15,677	—	15,677	

Thousands of U.S. dollars

	Reportable Segments								Adjustments and eliminations*2	Consolidated
	Chains	Power	Automotive Parts	Materials Handling Systems	Subtotal	Other*1				
		Transmission Units and Components					Total			
Sales, operating income and assets:										
Sales to third parties	\$528,221	\$189,638	\$669,823	\$362,753	\$1,750,436	\$21,224	\$1,771,661	\$	—	\$1,771,661
Inter-segment sales and transfers	11,939	2,567	—	3,083	17,589	5,532	23,122	(23,122)	—	—
Total	\$540,161	\$192,205	\$669,823	\$365,837	\$1,768,026	\$26,757	\$1,794,783	\$(23,122)	—	\$1,771,661
Segment profit (loss) (Operating income (loss))	\$63,312	\$19,775	\$110,396	\$6,299	\$199,783	\$(9)	\$199,773	\$(6,824)	—	\$192,949
Segment assets	631,354	275,598	714,691	382,872	2,004,517	26,563	2,031,081	350,730	2,381,812	2,381,812
Other items:										
Depreciation and amortization	\$24,036	\$8,150	\$49,785	\$10,122	\$92,094	\$93	\$92,188	\$	—	\$92,188
Investments in an affiliate accounted for by the equity method	—	—	—	3,130	3,130	—	3,130	—	—	3,130
Increase in property, plant and equipment and intangible assets	24,003	11,863	82,291	6,542	124,699	44	124,744	—	—	124,744

*1 The "Other" segment consists of business segments not classified into the aforementioned four reporting segments, including building maintenance business, insurance agency business and others.

*2 (1) The adjustments and eliminations of segment profit or loss of ¥765 million (\$6,824 thousand) include the following: ¥134 million (\$1,197 thousand) of intersegment profit eliminations and ¥899 million (\$8,021 thousand) of corporate expenses, which are not allocable to the reportable segments.

(2) The adjustments and eliminations of segment assets of ¥39,348 million (\$350,730 thousand) include the following: ¥6,762 million (\$60,273 thousand) of intersegment transaction eliminations and ¥46,110 million (\$411,004 thousand) of corporate assets, which are not allocable to the reportable segments. The corporate assets are mainly cash and cash equivalents and investments in securities.

*3 (1) The adjustments and eliminations of segment profit of ¥30 million include the following: ¥246 million of intersegment profit eliminations and ¥276 million of corporate expenses, which are not allocable to the reportable segments.

(2) The adjustments and eliminations of segment assets of ¥33,821 million include the following: ¥7,381 million of intersegment transaction eliminations and ¥41,203 million of corporate assets, which are not allocable to the reportable segments. The corporate assets are mainly cash and cash equivalents and investments in securities.

(4) Geographical information

Sales to third parties by country or geographical area for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥89,588	¥92,882	\$798,543
U.S.A.	39,865	43,062	355,337
Europe	22,298	23,000	198,755
Indian-Ocean Rim	13,452	12,824	119,912
China	16,531	15,251	147,356
Korea and Taiwan	7,978	8,638	71,113
Other	9,047	8,316	80,642
Total	¥198,762	¥203,976	\$1,771,661

Property, plant and equipment by country or geographical area at March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥70,592	¥69,909	\$629,226
U.S.A.	14,422	12,481	128,550
Europe	4,831	4,514	43,062
Indian-Ocean Rim	3,647	4,542	32,508
China	7,349	7,616	65,507
Korea and Taiwan	4,001	3,249	35,670
Other	590	463	5,267
Total	¥105,435	¥102,777	\$939,793

The information by major customer for the years ended March 31, 2017 and 2016 is summarized as follows:

Customer	Related segment	Millions of yen		Thousands of U.S. dollars
		2017	2016	2017
Tsubakimoto Kogyo Co., Ltd.	Chains, Power Transmission Units and Components, Automotive Parts, and Materials Handling Systems	¥24,747	¥26,147	\$220,585

(5) Impairment loss on property, plant and equipment per reportable segments

	Millions of yen						
	2017						
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Impairment loss	¥13	¥6	¥—	¥8	¥—	¥—	¥28

	Millions of yen						
	2016						
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Impairment loss	¥1,718	¥—	¥—	¥—	¥—	¥—	¥1,718

	Thousands of U.S. dollars						
	2017						
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Impairment loss	\$118	\$61	\$—	\$77	\$—	\$—	\$256

(6) Information on amortization of goodwill per reportable segments and the balances as of and for the years ended March 31, 2017 and 2016

	Millions of yen						
	2017						
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 92	¥ 83	¥—	¥391	¥—	¥—	¥568
Balance at March 31, 2017	118	126	—	310	—	—	555

	Millions of yen						
	2016						
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 37	¥ 83	¥—	¥433	¥—	¥—	¥ 555
Balance at March 31, 2016	178	210	—	750	—	—	1,139

	Thousands of U.S. dollars						
	2017						
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Amortization	\$ 822	\$ 747	\$—	\$3,493	\$—	\$—	\$5,063
Balance at March 31, 2017	1,060	1,127	—	2,764	—	—	4,951

24. SUBSEQUENT EVENTS

(1) Distribution of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements as of and for the year ended March 31, 2017, was approved at the annual general meeting of the shareholders held on June 29, 2017:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥13.0 (\$0.12) per share)	¥2,431	\$21,675

(2) Business combination

(a) Overview of the transaction

On February 7, 2017, the Company entered into a share exchange agreement with Tsubaki Yamakyu Chain Co., one of its consolidated subsidiaries, in order to make it a wholly-owned subsidiary. Pursuant to this agreement of share exchange on the effective date of April 1, 2017, the Company acquired all of the shares of outstanding common stock of Tsubaki Yamakyu Chain Co. from its non-controlling interests. This transaction was made to improve the efficiency of group management and respond swiftly and flexibly to changes in the business environment. Tsubaki Yamakyu Chain Co. is engaged in designing, manufacturing and selling a variety of chains, automated equipment and labor-saving devices. In connection with this acquisition, capital surplus decreased by ¥96 million (\$856 thousand).

In accordance with Article 796, Section 2 of the Companies Act of Japan, the Company conducted the share exchange without obtaining approval at its general meeting of shareholders.

The date of business combination was April 1, 2017.

(b) Outline of accounting treatment

The transaction was treated as “transaction with non-controlling shareholders” which falls under the category of “common control transactions, etc.” set forth in “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on September 13, 2013) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 issued on September 13, 2013).

(c) Exchange ratio of shares and allotment type of shares

In connection with this transaction, the Company delivered 2,217,700 common shares to the non-controlling interests based on a share exchange ratio of one share of common stock of Tsubaki Yamakyu Chain Co. for 1.796 shares of the Company's common stock; however, the Company did not allot any of its shares for the shares of Tsubaki Yamakyu Chain Co. already owned by the Company. (The Company held 1,285,200 shares of common stock of Tsubaki Yamakyu Chain Co.)

The acquisition cost of shares of common stock of Tsubaki Yamakyu Chain Co. in exchange for shares of common stock of the Company amounted to ¥2,058 million (\$18,344 thousand).

(d) Basis for determination of exchange ratio of shares

The value per share of the Company (listed company) was determined based on its average market stock price. The value per share of Tsubaki Yamakyu Chain Co. (unlisted company) was determined based on the DCF method calculated by a third-party specialist, MYK Advisory Co., Ltd. The exchange ratio of shares was based on the combined results of these calculations and discussions between both parties.

Independent Auditor's Report

The Board of Directors
TSUBAKIMOTO CHAIN CO.

We have audited the accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, 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 TSUBAKIMOTO CHAIN CO. and its consolidated subsidiaries 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 1.

Ernst & Young Shin Nihon LLC

June 30, 2017
Osaka, Japan

