Innovation in Motion
TSUBAKI

TSUBAKIMOTO CHAIN CO.
and Consolidated Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

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

100th ANNIVERSARY
since 1917

Consolidated Balance Sheet

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**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	2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 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	**2017**
Cash flows from operating activities:			
Profit before income taxes	**¥ 21,575**	¥ 20,444	**$ 192,312**
Adjustments for:			
Depreciation and amortization (Note 23)	**10,342**	10,402	**92,188**
Loss on impairment of property, plant and equipment (Notes 16 and 23)	**28**	1,718	**256**
Amortization of goodwill (Note 23)	**568**	555	**5,063**
Loss on sales or disposal of property, plant and equipment, net	**73**	124	**658**
Loss on devaluation of investments in unconsolidated subsidiaries	**101**	7	**906**
Loss on devaluation of investments in securities	**—**	9	**—**
Gain on sales of investments in securities	**(9)**	—	**(83)**
Decrease in allowance for doubtful accounts	**(61)**	(3)	**(546)**
Increase in liability for retirement benefits	**248**	252	**2,215**
Increase in trade notes and accounts receivable	**(2,455)**	(2,335)	**(21,883)**
Increase in inventories	**(1,188)**	(710)	**(10,590)**
Increase (decrease) in trade notes and accounts payable	**839**	(676)	**7,478**
Other, net	**973**	(1,490)	**8,673**
Subtotal	**31,037**	28,299	**276,649**
Interest and dividends received	**794**	838	**7,085**
Interest paid	**(271)**	(328)	**(2,419)**
Proceeds from insurance income	**—**	66	**—**
Income taxes paid	**(6,126)**	(9,785)	**(54,610)**
Net cash provided by operating activities	**25,434**	19,090	**226,705**
Cash flows from investing activities:			
Decrease in time deposits, net	**1,050**	787	**9,363**
Purchases of investments in securities	**(229)**	(194)	**(2,048)**
Proceeds from sales of investments in securities	**19**	—	**170**
Acquisition of shares of a subsidiaries resulting in change in scope of consolidation (Note 19)	**(239)**	(381)	**(2,130)**
Proceeds from sales of shares of a subsidiary	**18**	—	**160**
Payment for investments in unconsolidated subsidiary	**(168)**	(98)	**(1,503)**
Proceeds from liquidation of subsidiaries	**—**	34	**—**
Decrease (increase) in short-term loans receivable, net	**143**	(193)	**1,281**
Decrease in long-term loans receivable, net	**1**	56	**17**
Purchases of property, plant and equipment	**(14,151)**	(13,750)	**(126,137)**
Proceeds from sales of property, plant and equipment	**135**	147	**1,203**
Net cash used in investing activities	**(13,420)**	(13,593)	**(119,621)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**913**	(190)	**8,141**
Proceeds from long-term loans	**566**	738	**5,046**
Repayment of long-term loans	**(1,254)**	(2,278)	**(11,185)**
Repayment of finance lease obligations	**(231)**	(180)	**(2,062)**
Payments for installment payables	**(8)**	(8)	**(78)**
Proceeds from share issuance to non-controlling interests	**—**	151	**—**
Cash dividends paid	**(3,928)**	(3,554)	**(35,016)**
Cash dividends paid to non-controlling interests	**(127)**	(136)	**(1,136)**
Purchases of treasury stock	**(12)**	(18)	**(111)**
Net cash used in financing activities	**(4,084)**	(5,476)	**(36,403)**
Effect of exchange rate changes on cash and cash equivalents	**(649)**	(957)	**(5,792)**
Net increase (decrease) in cash and cash equivalents	**7,279**	(937)	**64,888**
Cash and cash equivalents at beginning of the year (Note 19)	**26,422**	27,360	**235,515**
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	**440**	—	**3,922**
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.

						Millions of yen
			2017			2016
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
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	¥ —

			Thousands of U.S. dollars
			2017
	Carrying value	Fair value	Difference
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:

	Millions of yen					
	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

	Thousands of U.S. dollars		
	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			
				2017
	April 1, 2016	Increase	Decrease	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			
				2016
	April 1, 2015	Increase	Decrease	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:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**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
Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value*	Unrealized loss
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					
			2017			2016		
Method of hedge accounting	Transactions	Hedged items	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 (Forecasted transactions)	¥2,345	¥ —	¥ 29	¥2,361	¥—	¥60
	Euros		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		
			2017		
Method of hedge accounting	Transactions	Hedged items	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 (Forecasted transactions)	$20,903	$ —	$266
	Euros		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					
					2017			2016
Method of hedge accounting	Transactions	Hedged items	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		
					2017
Method of hedge accounting	Transactions	Hedged items	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					
					2017			2016
Method of hedge accounting	Transactions	Hedged items	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		
					2017
Method of hedge accounting	Transactions	Hedged items	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

	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Subtotal	Other*1	Total	Adjustments and eliminations*2	Consolidated
	Thousands of U.S. dollars								
	2017								
	Reportable Segments								
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
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 2017	Millions of yen 2016	Thousands of U.S. dollars 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 ShinNihon LLC

June 30, 2017
Osaka, Japan

Printed in Japan