

# **MESCO, Inc. and Subsidiaries**

**Consolidated Financial Statements  
For the year ended March 31,  
2015 and 2016**

The logo for MESCO, featuring the word "MESCO" in a bold, green, sans-serif font. The letters are thick and blocky, with a slight shadow effect.

# Financial Highlights

Mesco, Inc. and Consolidated Subsidiaries

Thousands of

Years ended March 31

Millions of yen

U.S. dollars

2014 2015 2016

2016

## Consolidated Performance

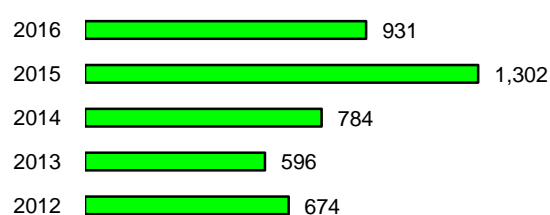
Net sales	¥23,392	¥28,546	<b>¥24,181</b>	<b>\$214,710</b>
Net income	784	1,302	<b>931</b>	<b>8,268</b>
Total assets	18,982	20,730	<b>21,507</b>	<b>190,971</b>
Total shareholder's equity	10,778	11,917	<b>11,762</b>	<b>104,442</b>
Net income per share(¥,\$)	61.33	101.89	<b>72.89</b>	<b>\$0.65</b>
Cash dividends per share(¥,\$)	35.00	45.00	<b>38.00</b>	<b>\$0.34</b>

- Notes:
- All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥112.62 to US\$1.00, the rate prevailing at March 31,2016.
  - In this report, fiscal 2016 represents the year ended March 31,2016.

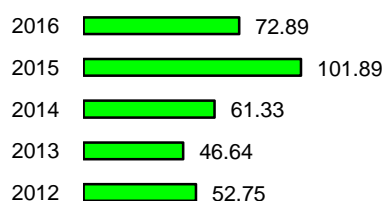
Net sales  
(Millions of Yen)



Net Income  
(Millions of Yen)



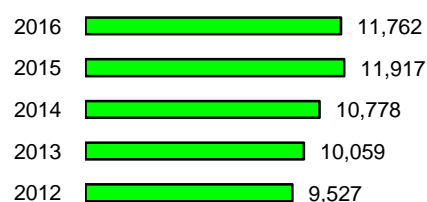
Net Income per Share  
(Yen)



Total Assets  
(Millions of Yen)



Total Shareholder's Equity  
(Millions of Yen)



## Financial Section

### Five-Year Summary

Mesco, Inc. and Consolidated Subsidiaries  
 Years ended March 31

	Millions of yen				
	2012	2013	2014	2015	2016
<b>Consolidated Performance</b>					
<b>For the year:</b>					
Orders	¥25,091	¥21,412	¥28,308	¥25,277	¥42,316
Net sales	25,097	21,836	23,392	28,546	24,181
Cost of sales	21,400	18,351	19,563	23,872	20,318
Gross profit	3,697	3,484	3,829	4,674	3,863
Selling, general and administrative expenses	2,539	2,450	2,523	2,570	2,436
Operating income	1,158	1,034	1,307	2,103	1,427
Income before income taxes	1,211	1,056	1,368	2,164	1,479
Net income	674	596	784	1,302	931
<b>At year-end:</b>					
Total current assets	¥15,111	¥13,431	¥16,778	¥18,414	¥19,377
Total assets	17,439	15,663	18,982	20,730	21,507
Total current liabilities	6,527	4,402	7,107	7,652	8,560
Long-term liabilities	1,385	1,202	1,097	1,161	1,185
Total shareholders' equity	9,527	10,059	10,778	11,917	11,762
<b>Per share data:</b>					
Net income (¥)	¥52.75	¥46.64	¥61.33	¥101.89	¥72.89
Cash dividends applicable to the year (¥)	25.00	26.00	35.00	45.00	38.00
<b>Number of employees ( person )</b>	319	326	333	333	332

## Financial Review

### Overview

During the fiscal year ended March 31, 2016, the global economy recovered moderately, led by improving conditions in the United States and Europe, but there was uncertainty over its outlook, given a slowdown in growth in China and other emerging economies in Asia and a fall in crude oil prices.

The Japanese economy continued to be on track for moderate recovery, with an improvement in corporate profitability as well as an increasing trend in capital investment. However, the strengthening of the yen and fall in stock prices toward end of the fiscal year made a negative impact on the economy in the following year.

Under these circumstances, on a consolidated basis, the Company's net sales during fiscal year amounted ¥24,181 million (**US\$214,710 thousand**), down 15.3%, or ¥4,365 million, from the previous year.

At the earnings level, the gross profit decreased 17.3% to ¥3,863 million (**US\$34,301 thousand**), and the gross profit margin was 16.0%, which was slightly down with compared to the previous year.

Selling, general and administrative (SGA) expenses decreased 5.2% or ¥134 million, to ¥2,436 million (**US\$21,632 thousand**).

As a result, operating income dropped 32.2%, or ¥677 million, to ¥1,426 million (**US\$12,670 thousand**), and, income before income taxes fell 31.6%, or ¥685 million, to ¥1,479 million (**US\$13,134 thousand**).

Income taxes totaled ¥548 million (**US\$4,866 thousand**), down 36.5%, or ¥314 million.

Consequently, net income decreased 28.5%, or ¥370 million, to ¥931 million (**US\$8,268 thousand**).

Net income per share was ¥72.89 (**US\$0.65**), and cash dividends applicable to the year was ¥38.00 (**US\$0.34**) per share.

### Segment Information

#### Engineering

The Engineering Group achieved an average sales recorded in the past decades, but a tendency of sales declining was seen in the field of the Electric materials manufacturing. As a result, the Engineering Group's net sales decreased 22.7%, or ¥4,936 million, to ¥16,767 million (**US\$148,885 thousand**).

This sales fall sent segment (ordinary) profit down 27.6%, or ¥519 million, to ¥1,362 million (**US\$12,097 thousand**).

#### Piping and Soundproof materials

The Piping and Soundproof materials Group's net sales edged up 4.4%, or ¥317 million, to ¥7,546 million (**US\$67,007 thousand**), reflecting satisfactory sales performance of Soundproof materials.

Whereas, segment (ordinary) profit dropped 17.3% or ¥155 million, to ¥741 million (**US\$ 6,576 thousand**) due to the declining of the Piping's profit.

### Financial Position

The Company's total assets rose 3.7%, or ¥777 million, during this period, amounting to ¥21,507 million (**US\$190,971 thousand**). This was chiefly attributable to an increase of ¥1,106 million in costs on uncompleted construction contracts.

Total liabilities increased 10.6%, or ¥932 million, to ¥9,745 million (**US\$86,529 thousand**), owing to a rise of ¥1,286 million in advances received.

Factors that included a decrease of ¥370 million in net income led to a slight reduction in total net assets of ¥154 million, to ¥11,762 million (**US\$104,442 thousand**)

Consequently, Company's equity ratio dropped 2.8 percentage-point, to 54.7%.

The Company had no interest-bearing debt at fiscal year-end.

## Cash Flows

Net cash provided by operating activities decreased ¥ 1,090 million, to net cash inflow of ¥ 1,044 million (US\$9,267 thousand), mainly reflecting ¥ 1,479 million of income before income taxes and ¥ 1,224 million of increase in advances received, which were partially offset by ¥ 1,106 million decrease in costs on uncompleted construction contracts.

Net cash used in investing activities came to net cash outflow of ¥ 157 million (US\$1,397 thousand), due mainly to ¥ 143 million increase in acquisition property, plant and equipments.

Net cash used in financing activities amounted to net cash outflow of ¥ 575 million (US\$5,106 thousand), chiefly owing to ¥ 575 million payments for cash dividends.

As a result, cash and cash equivalents at end of fiscal year gained ¥ 75 million, to ¥ 6,412 million (US\$56,939 thousand).

## Forward-Looking Statement

The global economy is expected to continue growing moderately, led by gradual recovery of US and European economy. There are potential risks, however, for the Japanese and global economies, including the impact of fluctuations in the financial capital market and the collapse in oil prices, normalization of US monetary policy, future economic trends in China and other emerging Asian countries, and geopolitical risks.

In light of this environment, the Company projects that its consolidated net sales in fiscal 2017, ended March 31, 2017 will amount to ¥ 36,900 million, up 52.6% from the level in fiscal 2016.

This projection was made by the Company based on information currently available, and it is subject to change due to various potential risks and uncertain elements. Accordingly, if events do not correspond to some of the many assumptions made by the Company to provide a basis for the projections, actual performance may be considerably different than projected performance.

Mesco and Consolidated Subsidiaries  
Years ended March 31, 2017 ( Prospect )

	Millions of yen FY2017	Millions of U.S.dollars (Note 1) FY2017
Net sales	¥ 36,900	\$328
Net income	¥ 1,300	\$11.5
Net income per share ( ¥ , \$ )	¥ 101.76	\$0.90

## Consolidated Balance Sheets

MESCO, Inc. and Consolidated Subsidiaries

Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 5)	¥2,288	¥2,073	\$18,411
Notes and accounts receivable			
Trade	9,402	9,082	80,645
Unconsolidated subsidiaries	—	—	—
Costs on uncompleted construction contracts	1,414	2,520	22,375
Inventories (Note 3)	419	543	4,821
Deposits to the holding company (Note 5)	4,541	4,823	42,828
Deferred tax assets (Note 10)	265	205	1,818
Other current assets	96	140	1,244
Less: Allowance for doubtful accounts	(11)	(10)	(85)
<b>Total current assets</b>	<b>18,414</b>	<b>19,377</b>	<b>172,057</b>
<b>Investments and other assets:</b>			
Investment securities: (Note 12)			
Unconsolidated subsidiaries	80	70	617
Others	0	0	0
Goodwill	—	—	—
Deferred tax assets (Note 10)	140	188	1,667
Asset for retirement benefits (Note 11)	216	47	416
Others	266	256	2,269
Less: Allowance for doubtful accounts	(17)	(17)	(152)
<b>Total Investments and other assets</b>	<b>685</b>	<b>542</b>	<b>4,817</b>
<b>Property, plant and equipment:</b>			
Land	1,099	1,099	9,758
Buildings and structures	547	549	4,875
Machinery, vehicles and equipment	2,694	2,686	23,847
Construction in progress	—	2	19
Lease assets	—	—	—
	4,340	4,336	38,499
Less: Accumulated depreciation	(2,709)	(2,748)	(24,401)
<b>Total Property, plant and equipment</b>	<b>1,631</b>	<b>1,588</b>	<b>14,098</b>
<b>Total assets</b>	<b>¥20,730</b>	<b>¥21,507</b>	<b>\$190,971</b>

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2015	2016	2016
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable:			
Trade	¥5,121	¥5,107	\$45,347
Others	179	179	1,590
Accrued income taxes	615	420	3,728
Advances received	914	2,201	19,541
Accrued bonuses	396	353	3,134
Allowance for warranties for completed construction	107	73	649
Allowance for expected losses on construction contracts in process	33	27	241
Other current liabilities	287	200	1,778
<b>Total current liabilities</b>	<b>7,652</b>	<b>8,560</b>	<b>76,008</b>
<b>Liability for retirement benefits(Note 11)</b>	<b>1,062</b>	<b>1,080</b>	<b>9,590</b>
<b>Directors' and corporate auditors' retirement benefits</b>	<b>70</b>	<b>71</b>	<b>631</b>
<b>Deferred tax liabilities (Note 10)</b>	<b>2</b>	<b>2</b>	<b>16</b>
<b>Others</b>	<b>27</b>	<b>32</b>	<b>283</b>
<b>Contingent Liabilities(Note 7)</b>			
<b>Net Assets(Note 8)</b>			
Shareholders' equity:			
Common stock			
Authorized - 32,000 thousand shares			
Issued - 12,780 thousand shares	1,085	1,085	9,637
Capital surplus	684	684	6,077
Retained earnings	9,781	10,137	90,013
Less: Treasury stock	(4)	(4)	(35)
<b>Total Shareholders' equity</b>	<b>11,547</b>	<b>11,903</b>	<b>105,693</b>
Valuation, translation adjustments and others:			
Unrealized gains ( losses ) on hedging derivatives, net of tax	219	(57)	(502)
Foreign currency translation adjustments	(2)	(26)	(231)
Remeasurement of defined benefit plans	153	(58)	(518)
<b>Total valuation, translation adjustments and others</b>	<b>370</b>	<b>(141)</b>	<b>(1,251)</b>
<b>Total net assets</b>	<b>11,917</b>	<b>11,762</b>	<b>104,442</b>
<b>Total liabilities and net assets</b>	<b>¥20,730</b>	<b>¥21,507</b>	<b>\$190,971</b>

See accompanying notes.

# Consolidated Statements of Income

MESCO, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2015	2016	2016
<b>Net sales (Note 9):</b>			
Construction contracts (Note 2)	25,316	¥21,024	\$186,680
Net sales on sideline business			
Net sales of merchandise	1,389	987	8,763
Net sales of finished goods	1,841	2,170	19,267
Total net sales of side line business	3,230	3,157	28,030
Total net sales	28,546	24,181	214,710
<b>Cost of sales:</b>			
Construction contracts (Note 2)	21,165	17,644	156,673
Cost of sales on sideline business			
Cost of merchandise sold	1,135	819	7,276
Cost of finished goods sold	1,572	1,854	16,460
Total cost of sales on sideline business	2,707	2,673	23,736
Total cost of sales	23,872	20,318	180,409
<b>Gross profit:</b>			
Construction contracts (Note 2)	4,151	3,379	30,007
Gross profit on sideline business			
Gross profit-merchandise	253	167	1,487
Gross profit-finished goods	269	316	2,807
Total gross profit on sideline business	522	484	4,294
Total gross profit	4,674	3,863	34,301
<b>Selling , general and administrative expenses (Note 6)</b>	2,570	2,436	21,632
Operating income (Note 9)	2,103	1,427	12,670
Other income (expense):			
Interest and dividends income	71	68	601
Interest expense	(0)	(0)	(1)
Equity in gains(losses) of unconsolidated subsidiaries	4	(4)	(32)
Foreign exchange gain (loss)	(0)	(2)	(19)
Loss on disposal of property, plant and equipment	(24)	(21)	(185)
Loss on valuation of membership	(0)	(1)	(6)
Others , net	11	12	106
Total other income	61	52	465
<b>Income before income taxes</b>	2,164	1,479	13,134
<b>Income taxes (Note 10):</b>			
Current	788	425	3,777
Deferred	74	123	1,089
Total income taxes	862	548	4,866
<b>Net income</b>	¥1,302	¥931	\$8,268
<b>Net income attributable to owners of parent</b>	¥1,302	¥931	\$8,268
	Yen	Yen	U.S. dollars(Note 1)
<b>Amounts per share of common stock:</b>			
Net income (Note 15)	¥101.89	¥72.89	\$0.65
Cash dividends applicable to the year	45.00	38.00	0.34



## Consolidated Statements of Comprehensive Income

MESCO, Inc and Consolidated Subsidiaries

Years ended March 31, 2015 and 2016

	Millions of yen	Millions of yen	Thousands of U.S.dollars (Note 1)
	2015	2016	2016
<b>Income before minority interests</b>	1,302	931	8,268
Other comprehensive income			
Unrealized gains (losses) on hedging derivatives, net of tax	17	(24)	(210)
Foreign currency translation adjustments	171	(269)	(2,387)
Remeasurements of defined benefit plans	88	(211)	(1,875)
Share of other comprehensive income of associates accounted for using equity method	9	(7)	(64)
<b>Total other comprehensive income (Note 16)</b>	286	(511)	(4,535)
<b>Comprehensive income (Note 16)</b>	1,588	420	3,733
(Breakdown)			
Comprehensive income attributable to :			
Owners of the parent	1,588	420	3,733
Non-controlling interests	—	—	—

See accompanying notes.

## Consolidated Statements of Changes in Net Assets

MESCO, Inc. and Consolidated Subsidiaries  
 Years ended March 31, 2015 and 2016

	Number of shares of common stock issued (Thousands)	Shareholders' equity					Valuation, translation adjustments and others				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on hedging derivatives, net of tax	Foreign currency translation adjustments	Remesurements of defined benefit plans	Total valuation, translation adjustments and others	Total net assets
		(Note 8)					Millions of yen				
<b>Net assets at April 1, 2015</b>	12,780	¥1,085	¥684	¥9,781	¥(3)	¥11,547	¥(2)	¥219	¥153	¥370	¥11,917
Cash dividends				(575)		(575)					(575)
Net income attributable to owners of parent				931		931					931
Net changes during the year					(1)	(1)	(23)	(276)	(211)	(511)	(511)
<b>Balance at March 31, 2016</b>	<b>12,780</b>	<b>¥1,085</b>	<b>¥684</b>	<b>¥10,137</b>	<b>¥(4)</b>	<b>¥11,903</b>	<b>¥(26)</b>	<b>¥(57)</b>	<b>¥(58)</b>	<b>¥(141)</b>	<b>¥11,762</b>

	Number of shares of common stock issued (Thousands)	Shareholders' equity					Valuation, translation adjustments and others				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on hedging derivatives, net of tax	Foreign currency translation adjustments	Remesurements of defined benefit plans	Total valuation, translation adjustments and others	Total net assets
		(Note 8)					Millions of yen				
<b>Net assets at April 1, 2014</b>	12,780	¥1,085	¥684	¥8,927	¥(2)	¥10,694	¥(20)	¥39	¥65	¥84	¥10,778
Cash dividends				(447)		(447)					(447)
Net income attributable to owners of parent				1,302		1,302					1,302
Net changes during the year					(2)	(2)	17	180	88	286	284
<b>Balance at March 31, 2015</b>	<b>12,780</b>	<b>¥1,085</b>	<b>¥684</b>	<b>¥9,781</b>	<b>¥(4)</b>	<b>¥11,547</b>	<b>¥(2)</b>	<b>¥219</b>	<b>¥153</b>	<b>¥370</b>	<b>¥11,917</b>

	Number of shares of common stock issued (Thousands)	Shareholders' equity					Valuation, translation adjustments and others				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on hedging derivatives, net of tax	Foreign currency translation adjustments	Remesurements of defined benefit plans	Total valuation, translation adjustments and others	Total net assets
		(Note 8)					Thousands of U.S. dollars (Note 1)				
<b>Net assets at April 1, 2015</b>		\$9,637	\$6,077	\$86,850	\$(32)	\$102,532	\$(21)	\$1,949	\$1,357	\$3,285	\$105,817
Cash dividends				(5,105)		(5,105)					(5,105)
Net income attributable to owners of parent				8,268		8,268					8,268
Net changes during the year					(3)	(3)	(210)	(2,451)	(1,875)	(4,535)	(4,538)
<b>Balance at March 31, 2016</b>		<b>\$9,637</b>	<b>\$6,077</b>	<b>\$90,013</b>	<b>\$(35)</b>	<b>\$105,693</b>	<b>\$(231)</b>	<b>\$(502)</b>	<b>\$(518)</b>	<b>\$(1,251)</b>	<b>\$104,442</b>

See accompanying notes.

# Consolidated Statements of Cash Flows

MESCO, Inc and Consolidated Subsidiaries

Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2015	2016	2016
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥2,164	¥1,479	\$13,134
Depreciation and amortization	154	162	1,441
Increase(Decrease) in allowance for doubtful accounts	(2)	(1)	(10)
Foreign exchange gain	(4)	2	20
Equity in gains of unconsolidated subsidiaries	(4)	4	32
Decrease(Increase) in asset for employees' retirement benefits	(216)	(121)	(1,073)
Increase(Decrease) in liability for employees' retirement benefits	180	(2)	(20)
Increase(Decrease) in allowance for warranties for completed construction	(13)	(34)	(297)
Increase(Decrease) in allowance for expected losses on construction contracts in process	(43)	(6)	(52)
Interest and dividends income	(71)	(68)	(601)
Decrease (Increase) in notes and accounts receivable	1,377	352	3,122
Decrease (Increase) in costs on uncompleted construction contracts	98	(1,106)	(9,822)
Decrease (Increase) in inventories	(47)	(124)	(1,099)
Increase (Decrease) in accounts payable	146	(7)	(58)
Increase (Decrease) in advances received	(1,130)	1,224	10,867
Others, net	166	(145)	(1,292)
Subtotal	2,753	1,610	14,292
Interest and dividends received	71	59	527
Interest paid	(0)	(0)	(1)
Income taxes paid	(692)	(625)	(5,551)
Income taxes received	3	—	—
Net cash provided by operating activities	2,134	1,044	9,267
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(1)	(1)	(7)
Acquisition of property, plant and equipment	(121)	(143)	(1,272)
Acquisition of intangible assets	(35)	(17)	(154)
Others , net	6	4	37
Net cash used in investing activities	(150)	(157)	(1,397)
<b>Cash flows from financing activities:</b>			
Payment for cash dividends to the Company's shareholders	(448)	(575)	(5,104)
Payment for purchase of treasury stock	(1)	—	—
Net cash used in financing activities	(449)	(575)	(5,104)
Effect of exchange rate changes on cash and cash equivalents	125	(236)	(2,100)
Net increase in cash and cash equivalents	1,660	75	667
Cash and cash equivalents at beginning of year	4,679	6,338	56,274
Cash and cash equivalents at end of year (Note 5)	¥6,339	¥6,413	\$56,941

See accompanying notes.

# Notes to Consolidated Financial Statements

MESCO, Inc. and Consolidated Subsidiaries

Years ended March 31, 2015 and 2016

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## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of MESCO, Inc. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Amounts less than one million yen have been rounded off in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen shown herein do not necessarily agree with the sums of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.62 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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## 2. Summary of Significant Accounting Policies

### a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany transactions, accounts and unrealized profits among the Companies have been eliminated in consolidation. Investments in the unconsolidated subsidiaries and significant affiliates, which the Company and its subsidiaries are able to influence, in a material degree, their financial and operating decision-making, is accounted for by the equity method after the elimination of unrealized intercompany profits. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are recorded based on the fair value at the time when the Company acquired control of the respective subsidiaries.

### b) Goodwill

The consolidation difference between acquisition cost and net assets at the date of acquisition is shown as the goodwill.

### c) Foreign currency translation and foreign currency financial statements

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made. Monetary claims and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rates of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings. All assets, liabilities, revenues and expenses of consolidated foreign subsidiaries are translated into Japanese yen at the rates prevailing at their balance sheet dates. The resulting translation adjustments are shown as "Foreign currency translation adjustments," a component of net assets.

### d) Cash and cash equivalents

In the accompanying statements of cash flows, cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition which have high liquidity and negligible risk of price fluctuation.

**e) Marketable securities and investment securities**

Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as a component of net assets.

Realized gains and losses on sale of such securities are computed using average cost.

Other available-for-sale securities with no available fair market value are stated at average cost.

**f) Derivative transactions and hedge accounting**

The Company generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless they are used for hedging purposes and qualified for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company generally defers recognition of gains or losses resulting from changes in their fair value until the related gains or losses on the hedged items are recognized.

All of derivative contracts are based on actual demand and not for trading in the short term or for speculation.

For commodities forward transaction for purchases of inventories and currency forward contracts , the Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items with the corresponding changes in the hedging derivative instruments.

The hedge effectiveness is skipped for currency forward contracts that are believed to have high hedge effectiveness, such as in cases where hedging instruments and hedged items share the same important characteristics.

**g) Inventories**

Costs on uncompleted construction contracts : At cost on an individual basis

Inventories of side line business : At cost on an individual basis

Other inventories : At cost using average method

The carrying value of inventories on the balance sheet is presented at book value after write-down for a decline in earnings

**h) Property, plant and equipment**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is generally computed by the declining-balance method based on the estimated durable years of these depreciable assets, except the straight-line method is applied to: (1) buildings, excluding building fixtures, acquired after March 31, 1998 and (2) property, plant and equipment of consolidated subsidiaries. The durable years of these assets generally range from 6 to 36 years for buildings and structures and 2 to 20 years for machinery and equipment.

**i) Allowance for doubtful accounts**

The Company and consolidated subsidiaries provide the allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

**j) Allowance for warranties on completed construction**

Allowance for warranties on completed construction is provided as an estimated amount calculated using an actual percentage of related losses during a past certain period.

**k) Allowance for expected losses on contraction contracts in process**

An allowance is provided for estimated future losses related to the construction contracts in process.

**l) Employees' retirement benefits**

The Company provided employees' retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date. The liabilities and expenses for employees' retirement were determined based on the amounts actuarially calculated using certain assumptions.

**m) Directors' and statutory auditors' retirement benefits**

Directors and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. Their retirement benefits are accrued at the amount required to pay in accordance with the internal rules if the directors and corporate auditors had retired at the balance sheet date.

**n) Research and development expenses**

Research and development expenses are charged to statements of income as incurred.

**o) Income taxes**

The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain adjustments required for consolidation and tax purposes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

**p) Net income, diluted net income and cash dividends per share**

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective fiscal year.

Diluted net income per share is not presented as there were no shares with dilutive effects in 2015 and 2016. Cash dividends per share represent the historical amount applicable to the respective year.

**q) Bonuses to directors and corporate auditors**

Bonuses for directors and corporate auditors are accounted for as expense with an allowance of the estimated amount attributable for the fiscal year.

**r) Recognition of revenues and related costs**

Recognition of net sales and cost of sales of completed construction contracts

Construction contracts whose outcome can be estimated reliably: Percentage-of-completion method

Other construction contracts: Completed-contract method

**s) Reclassification**

Certain prior year amounts have been reclassified to conform to the 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

**t) Accounting of consumption tax**

Consumption tax generally withheld upon sale, as well as that paid for purchases of goods or services, are recorded as a liability or an asset, and are excluded from the relevant revenue, costs or expenses.

**u) Accounting Change**

(Accounting Standard for Business Combinations)

The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standard Board of Japan ("ASBJ") Statement No.21 of September 13,2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statements No.22 of September 13,2013) and "Accounting Standard for Business Divestitures" (ASBJ Statements No.7 of September 13,2013).

Accordingly,the Company has changed presentation of net income and non-parent interests, which is presented as non-controlling interests from the previous minority interests. To reflect the changes, the related accounts of consolidated financial statements for the previous fiscal year have been reclassified.

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### 3. Inventories

Inventories as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Merchandise and finished goods	¥177	¥148	\$1,315
Raw material and supplies	242	395	3,506
Total	¥419	¥543	\$4,821

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### 4. Allowance for expected losses on construction contracts in process

Amounts of costs on uncompleted construction contracts and merchandise and finished goods, for which a construction loss is anticipated, matching with allowance for expected losses on construction contracts were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Allowance for expected losses on construction contracts in process	¥33	¥27	\$241
Costs on uncompleted construction contracts	0	0	0
Merchandise and finished goods	0	0	0
Total	¥0	¥0	\$0

Note: Costs on uncompleted construction contracts for which a construction loss is anticipated and allowance for expected losses on construction contracts in process are presented without being offset.

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### 5. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2015 and 2016 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Cash and time deposits	¥2,288	¥2,073	\$18,411
Time deposits with maturities exceeding three months from the date of deposit	(492)	(484)	(4,301)
Deposits to the holding company	4,541	4,823	42,828
Total: Cash and cash equivalents	¥6,338	¥6,412	\$56,939

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### 6. Research and Development Expenses

Research and development expenses included in general and administrative expenses amounted to ¥55 million and 39 million (US\$342 thousand), for the years ended March 31, 2015 and 2016, respectively.

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### 7. Contingent Liabilities

Contingent liabilities at March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Notes receivable securitized with recourse	—	—	—
Total	—	—	—



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## **8.Net Assets**

The Japanese Company Law provides that an amount equal to 10 % of cash dividends and other cash appropriations of retained earnings must be set aside as a legal earnings reserve included in retained earnings until the total amount of capital surplus and the legal earnings reserve equals 25% of common stock.

The excess of the total amount of capital surplus and the legal earnings reserve over 25% of common stock can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Company Law.

## 9. Segment information

The operations of the Companies for the years ended March 31, 2015 and 2016 were summarized as follows.

### (a) Overview of reportable segments

The reportable segments of the Company are those units for which separate financial statements can be obtained among the constituent units of the Company and which are regularly examined by the Board of Directors for decisions on the allocation of management resources and for assessing business performance.

The Company has business sectors categorized by products and services in head office, and each business sectors plans business strategies comprehensively and operates business activities domestically and internationally.

As a result, the Company reports two segments, such as "Engineering" and "Piping and Soundproof materials" based on business sectors categorized by products and services.

### (b) Basis for Calculating amounts of net sales, profit or loss, assets, and other items by reported segment

Accounting procedure for reported segments is mostly the same as procedures indicated in 2.

Summary of Significant Accounting Policies. Profit for reported segments is based on ordinary income. Sales for inter-segment are based on actual market prices.

### (c) Information on amounts of net sales, profit or loss, assets, and other items by reported segment

Segment information as of and for the fiscal year ended March 31, 2015 was as follows:

	Millions of yen		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2015			
Sales			
Outside customers	¥21,679	¥6,867	¥28,546
intergroup	26	362	388
Total	21,704	7,229	28,934
Segment profit (loss)	¥1,881	¥896	¥2,777
Segment Assets	¥8,958	¥6,358	¥15,316
Depreciation expense	36	93	129
Interest income	40	—	40
Investment gains(losses) on equity method	4	—	4
Investments of unconsolidated subsidiaries	80	—	80
Capital expenditures	28	118	146

	Thousands of U.S. dollars ( Note 1 )		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2015			
Sales			
Outside customers	\$180,430	\$57,157	\$237,587
intergroup	214	3,011	3,225
Total	180,644	60,168	240,813
Segment profit (loss)	\$15,658	\$7,457	\$23,114
Segment Assets	\$74,560	\$52,916	\$127,476
Depreciation expense	298	778	1,076
Interest income	337	—	337
Investment gains(losses) on equity method	37	—	37
Investments of unconsolidated subsidiaries	669	—	669
Capital expenditures	231	987	1,218

Segment information as of and for the fiscal year ended March 31, 2016 was as follows:

	Millions of yen		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2016			
Sales			
Outside customers	¥16,745	¥7,435	¥24,181
intergroup	22	111	133
Total	16,767	7,546	24,314
Segment profit (loss)	¥1,362	¥741	¥2,103
Segment Assets	¥10,004	¥6,060	¥16,064
Depreciation expense	31	107	137
Interest income	36	—	36
Investment gains(losses) on equity method	(4)	—	(4)
Investments of unconsolidated subsidiaries	70	—	70
Capital expenditures	37	85	122

	Thousands of U.S. dollars ( Note 1 )		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2016			
Sales			
Outside customers	\$148,690	\$66,020	\$214,710
intergroup	195	987	1,182
Total	148,885	67,007	215,892
Segment profit (loss)	\$12,097	\$6,576	\$18,673
Segment Assets	\$88,829	\$53,810	\$142,639
Depreciation expense	272	948	1,220
Interest income	319	—	319
Investment gains(losses) on equity method	(32)	—	(32)
Investments of unconsolidated subsidiaries	617	—	617
Capital expenditures	325	759	1,084

## (d) Adjustments of difference between the total of Segment information and the total of financial report

Millions of yen

Sales	March 31,2015	March 31,2016
Segment total	¥28,934	¥24,314
Intergroup	(388)	(133)
Sales on financial report	28,546	24,181

Millions of yen

Profits	March 31,2015	March 31,2016
Segment total	¥2,777	¥2,103
Corporation	(591)	(602)
Ordinary Profits on financial report	2,186	1,501

Millions of yen

Assets	March 31,2015	March 31,2016
Segment total	¥15,316	¥16,064
Corporation	5,414	5,443
Total Assets on financial report	20,730	21,507

Millions of yen

Others	Segment total		Adjustments		Financial report	
	2015	2016	2015	2016	2015	2016
Depreciation expense	¥129	¥137	¥24	¥25	¥153	¥162
Amortization of Goodwill	—	—	—	—	—	—
Interest income	40	36	30	32	71	68
Interest Expense	—	—	0	0	0	0
Investment gains(losses) on equity method	4	(4)	—	—	4	(4)
Investments of unconsolidated subsidiaries	80	70	—	—	80	70
Capital expenditures	146	122	23	23	169	145

Thousands of U.S.dollars(Note 1)

Sales	March 31,2015	March 31,2016
Segment total	\$240,813	\$215,892
Intergroup	(3,225)	(1,182)
Sales on financial report	237,587	214,710

Thousands of U.S.dollars(Note 1)

Profits	March 31,2015	March 31,2016
Segment total	\$23,114	\$18,673
Corporation	(4,916)	(5,348)
Ordinary Profits on financial report	18,198	13,325

Thousands of U.S.dollars(Note 1)

Assets	March 31,2015	March 31,2016
Segment total	\$127,476	\$142,639
Corporation	45,060	48,333
Total Assets on financial report	172,536	190,971

Thousands of U.S.dollars(Note 1)

Others	Segment total		Adjustments		Financial report	
	2015	2016	2015	2016	2015	2016
Depreciation expense	\$1,076	\$1,220	\$197	\$222	\$1,273	\$1,441
Amortization of Goodwill	—	—	—	—	—	—
Interest and Dividends received	337	319	255	282	591	601
Interest Expense	0	0	1	1	1	1
Investment gains(losses) on equity method	37	(32)	—	—	37	(32)
Investments of unconsolidated subsidiaries	669	617	—	—	669	617
Capital expenditures	1,218	1,084	193	206	1,411	1,291

(e) Relative Information

March 31,2016

1. Area information

Sales

Millions of yen

Japan	Others	Total
¥21,260	¥2,921	¥24,181

Thousands of U.S.dollars(Note 1)

Japan	Others	Total
\$188,778	\$25,932	\$214,710

2. Main Customer Information

Millions of yen

Customer's name	Sales	Relevant Segment
Hachinohe Smelting Co., Ltd.	¥3,672	Engineering
Mitsui Mining and Smelting Co., Ltd.	3,336	Engineering

Thousands of U.S.dollars(Note 1)

Customer's name	Sales	Relevant Segment
Hachinohe Smelting Co., Ltd.	\$32,605	Engineering
Mitsui Mining and Smelting Co., Ltd.	29,621	Engineering

## 10. Income Taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 35.4% for the years ended March 31, 2015 and 32.9% for the years ended March 31, 2016, respectively.

Its foreign subsidiaries were subject to the income taxes of the countries in which they operate.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
<b>Deferred tax assets:</b>			
Unpaid enterprise tax	¥44	¥28	\$245
Accrued business office taxes	4	3	31
Excess accrued bonuses to employees	130	108	962
Allowance for warranties for completed construction	35	22	199
Allowance for expected losses on construction contracts in process	11	8	74
Employees' retirement benefits	342	330	2,928
Directors' and corporate auditors' retirement benefits	23	22	194
Excess bad debt expenses	9	9	77
Loss on valuation of golf course membership	11	11	94
Loss on valuation of inventories	5	1	6
Accrued social insurance	22	19	168
Loss on impairment of fixed assets	5	—	—
Others	21	23	203
<b>Subtotal</b>	<b>¥662</b>	<b>¥583</b>	<b>\$5,181</b>
Valuation allowance	¥17	(¥17)	(\$147)
<b>Total deferred tax assets</b>	<b>¥644</b>	<b>¥567</b>	<b>\$5,034</b>
<b>Deferred tax liabilities:</b>			
Retained earnings of foreign subsidiaries	(¥169)	(¥160)	(\$1,422)
Accumulated adjustments for retirement benefit	(¥70)	(¥14)	(\$16)
Others	(¥2)	(¥2)	(\$127)
<b>Total deferred tax liabilities</b>	<b>(¥241)</b>	<b>(¥176)</b>	<b>(\$1,565)</b>
<b>Net deferred tax assets</b>	<b>¥404</b>	<b>¥391</b>	<b>\$3,469</b>

The net deferred tax assets at March 31, 2014 and 2015 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Deferred tax assets - current	¥265	¥205	\$1,818
Deferred tax assets - non current	¥140	¥188	\$1,667
Deferred tax liabilities - non current	(2)	(2)	(16)

The following table summarizes the significant differences between the statutory effective tax rate and the tax rate calculated based on the Company's consolidated financial statements for the year ended March 31, 2014 and 2015.

	2015	2016
Statutory income tax rate	35.4%	32.9%
Permanent difference due to non-deductible expense	1.1	1.1
Inhabitant tax	0.7	1.0
Valuation allowance	(0.1)	(0.0)
Difference in tax rates of foreign consolidated subsidiaries	(0.6)	(0.1)
Retained earnings of foreign consolidated subsidiaries	0.8	(0.6)
Change in income tax rates	2.7	1.7
Others	(0.2)	1.0
<b>Tax rate calculated based on the Companies' consolidated financial statements</b>	<b>39.8%</b>	<b>37.0%</b>

## 11. Employees' Retirement Benefits

The Company provides two retirement benefit plans for employees, an unfunded retirement plan and a funded retirement plan, under which all eligible employees are entitled to benefits based on the length of service and basic rate of pay at the time of termination.

### Defined benefit plans

#### (a) Movement in retirement benefit obligations

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Balance at the beginning of the fiscal year	¥2,169	¥2,201	\$19,541
Service cost	116	118	1,044
Interest cost	22	22	195
Actuarial loss(gain)	15	110	979
Benefits paid	(¥120)	(¥186)	(1,652)
Balance at the end of the fiscal year	¥2,201	¥2,264	\$20,107

#### (b) Movement in plan assets

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Balance at the beginning of the fiscal year	¥1,160	¥1,354	\$12,027
Expected return on plan assets	13	28	249
Actuarial loss(gain)	189	(108)	(956)
Contributions paid by the employer	40	44	394
Benefits paid	(¥48)	(¥88)	(781)
Balance at the end of the fiscal year	¥1,354	¥1,231	\$10,932

#### (c) Reconciliation from retirement benefit obligations and plan assets to liability(asset) for retirement benefit

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Funded retirement benefit obligations	¥1,138	¥1,184	\$10,517
Plan assets	(1,354)	(1,231)	(10,932)
	(216)	(47)	(416)
Unfunded retirement benefit obligations	1,062	1,080	9,590
Total Net liability(asset) for retirement benefits at the end of the fiscal year	846	1,033	9,175
Liability for retirement benefits	1,062	1,080	9,433
Asset for retirement benefits	¥216	(¥46)	1,919
Total Net liability(asset) for retirement benefits at the end of the fiscal year	¥846	¥1,033	\$7,514

#### (d) Retirement benefit costs

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Service cost	¥116	¥118	\$1,044
Interest cost	22	22	195
Expected return on plan assets	(13)	(28)	(249)
Net actuarial loss amortization	(48)	(92)	(819)
Total retirement benefit costs for the fiscal years ended March31	¥76	¥19	\$172

#### (e) Accumulated adjustments for retirement benefit

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2015	2016	2016
Actual gains and losses that are yet to be recognized	(¥226)	¥84	\$745
Total balance at the end of the fiscal year	(¥226)	¥84	\$745

(f) Plan assets

1. Plan assets comprise

	2015	2016
Equity securities	65.0%	<b>59.4%</b>
Bonds	31.0%	<b>37.5%</b>
Other	4.0%	<b>3.1%</b>
Total	100.0%	<b>100.0%</b>

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(g) Actuarial assumptions

The principal actuarial assumptions at March, 31 2015 and 2016 were as follows :

	2015	2016
Discount rate	1.0%	<b>0.0%</b>
Long-term expected rate of return	1.14%	<b>2.07%</b>



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## 12. Financial Instruments

### (a) Conditions of Financial Instruments

#### 1. Policy for financial instruments

The Companies raise funds primarily through bank loans.

Temporary fund surpluses are managed principally through short-term deposits.

The Companies utilize financial assets with high degrees of safety for surplus funds.

The Companies use derivatives to reduce risk as described below and do not enter into derivatives for trading in the short term or for speculation.

#### 2. Description of financial instruments, risk

Notes and accounts receivable from completed construction contracts- are exposed to the credit risks of customers.

Because the Companies are expanding their business globally, certain trade receivables denominated in foreign currencies are exposed to foreign currency exchange rate fluctuation risk. For this risk, currency forward contracts are used on a certain portion of the positions that are considered as necessary.

Deposits to the holding company is deposits paid to the holding company in accordance with the policy of management for temporary fund surpluses.

Investment securities are equity securities, and most of which is equity securities for unconsolidated subsidiaries.

The majority of notes and accounts payable for construction contracts have payment due dates of less than one year. A portion of those are denominated in foreign currencies in association with the import of materials and equipments, raw materials and others are thus exposed to foreign currency exchange rate fluctuation risks. For this risk, currency forward contracts are used on a certain portion of the positions that are considered as necessary.

Derivative transactions entered into by the Companies are implemented and controlled based on the Company's internal policies. Moreover, in order to mitigate credit risk, the Companies only conduct business with highly rated financial institutions and trading companies.

Regarding derivative transactions please refer to "Notes to Consolidated Financial Statements 13. Derivative Transactions".

#### 3. Description of risk management system

Supplementary explanation regarding fair value of financial instruments

The fair value of financial instruments is measured based on the market price, if available, or reasonably estimated value if a market price is not available. Because fair value is estimated based on certain assumptions, the fair value might differ if different assumptions are used.

In addition, the contract amount of the derivative transactions described below in Notes 13 (Derivative Transactions) does not represent the market risk of the derivative transactions.

### (b) Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and differences as of March 31, 2016 are as next page. In addition, financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please refer to "2. Financial instruments whose fair value is extremely difficult to measure")

	Millions of yen		
	Consolidated balance sheet amount	Fair value	Difference
<b>Year ended March 31, 2016</b>			
Assets:			
(a)Cash and time deposits:	¥2,073	¥2,073	¥ —
(b)Notes and accounts receivable from completed construction contracts:	9,082	9,082	—
(c) Deposits to the holding company:	4,823	4,823	—
<b>Total:</b>	<b>15,979</b>	<b>15,979</b>	<b>—</b>
Liabilities:			
(a)Notes and accounts payable for construction contracts:	5,107	5,107	—
(b)Advances received on uncompleted construction contracts:	2,201	2,201	—
<b>Total:</b>	<b>7,308</b>	<b>7,308</b>	<b>—</b>
Derivative transactions	(37)	(37)	—
Notes:Derivative assets and liabilities are on net basis. Items that are net liabilities are shown in parenthesis.			

	Thousands of U.S.dollars (Note 1)		
	Consolidated balance sheet amount	Fair value	Difference
<b>Year ended March 31, 2016</b>			
Assets:			
(a)Cash and time deposits:	\$18,411	18,411	\$ —
(b)Notes and accounts receivable from completed construction contracts:	80,645	80,645	—
(c) Deposits to the holding company:	42,828	42,828	—
<b>Total:</b>	<b>141,885</b>	<b>141,885</b>	<b>—</b>
Liabilities:			
(a)Notes and accounts payable for construction contracts:	45,347	45,347	—
(b)Advances received on uncompleted construction contracts:	19,541	19,541	—
<b>Total:</b>	<b>64,888</b>	<b>64,888</b>	<b>—</b>
Derivative transactions	(333)	(333)	—
Notes:Derivative assets and liabilities are on net basis. Items that are net liabilities are shown in parenthesis.			

Notes:

1. Method of estimating fair value of financial instruments

Assets:

(a)Cash and time deposits and (c)Deposits to the holding company:

The consolidated balance sheet amounts approximate fair value because of the short maturity of these instruments.

(b)Notes and accounts receivable from completed construction contracts:

The fair values of these financial instruments are equivalent to the book value, because of the short term settlements;  
although, the fair value of notes and accounts receivable from completed construction contracts due over one year are based on the present value of discounted cash flows using the interest rate determined by the factors such as bonds issued by the government of Japan.

Liabilities:

(a)Notes and accounts payable for construction contracts (b)Advances received on uncompleted construction contracts  
The consolidated balance sheet amounts approximate fair value because of the short maturity of these instruments.

Derivative transactions:

Contract amount, fair value, unrealized gain or loss, and others are described in "Notes to Consolidated Financial Statements 13. Derivative Transactions" .

2. Financial instruments whose fair value is extremely difficult to measure

Classification	Consolidated balance sheet amount	
	Millions of yen	Thousands of U.S.dollars(Note 1)
Unlisted equity securities	¥70	\$617

Investment securities is only unlisted equity securities, and there is no market value and it is extremely difficult to measure the fair value.

3. The redemption schedule for money claim with maturity date subsequent to the consolidated balance sheets date

	Millions of yen	
	April 1 , 2016 to March 31 , 2017	April 1 , 2017 to March 31 , 2021
<b>Year ended March 31, 2016</b>		
(a)Cash and time deposits:	¥2,073	¥ —
(b)Notes and accounts receivable from completed construction contracts:	9,082	—
(c) Deposits to the holding company:	4,823	—
<b>Total:</b>	<b>15,979</b>	<b>—</b>

	Thousands of U.S.dollars (Note 1)	
	April 1 , 2016 to March 31 , 2017	April 1 , 2017 to March 31 , 2021
<b>Year ended March 31, 2016</b>		
(a)Cash and time deposits:	\$18,411	\$ —
(b)Notes and accounts receivable from completed construction contracts:	80,645	—
(c) Deposits to the holding company:	42,828	—
<b>Total:</b>	<b>141,885</b>	<b>—</b>

### 13. Derivative Transactions

The Company used currency forward contracts to hedge transactions, such as sales denominated in foreign currencies and forecasted purchases of inventories (mainly construction materials and raw materials) against foreign currency exchange risk.

The Companies utilized commodities forward transaction to reduce the Companies' exposure to fluctuations in raw material prices which is subject to international market fluctuation.

All of these contracts were based on actual demand and not for trading in the short term or for speculation.

Derivative transactions for which hedge accounting had been applied as of March 31, 2016 were as follows:

#### Currency-related derivatives

Type	Hedged items		Millions of	Thousands of
			yen	U.S. dollars(Note 1)
			2016	2016
Forward contracts				
Buying:				
U.S.dollars:	Notes and accounts payable for construction contracts	Contract amounts	¥968	\$8,596
		(Due over one yea	(136)	(1,216)
		Market value	932	8,274
		Unrealized gain(loss)	(36)	(322)
Euros:	Notes and accounts payable for construction contracts	Contract amounts	¥24	\$212
		(Due over one yea	(—)	(—)
		Market value	23	202
		Unrealized gain(loss)	(1)	(10)
Malaysia Ringgits	Notes and accounts payable for construction contracts	Contract amounts	¥8	\$72
		(Due over one yea	(—)	(—)
		Market value	8	71
		Unrealized gain(loss)	(0)	(0)
Total		Contract amounts	¥1,000	\$8,880
		(Due over one yea	(136)	(1,216)
		Market value	963	8,548
		Unrealized gain(loss)	(37)	(333)

#### Notes:

(a)The deferred hedge method is applied as hedge accounting methods.

(b)Market values of currency forward contracts are based on prices provided by financial institutions.

## 14.Related Party Transactions

1. Year ended March 31, 2015

(1) Transactions of the Company with its holding company and significant shareholders, for the year ended March 31, 2015 were as follows:

Millions of Yen				
2015				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2015			
(c) Capital (Millions of yen)				
(d) Equity ownership percentage held by the holding company	Description of transaction	Amount	Account	Amount
(a) Mitsui Mining And Smelting Co.,Ltd.	Sales	¥3,289	Notes and accounts receivable from completed construction contracts	¥386
(b) Holding Company	Purchases	530	Notes and accounts payable from completed construction contracts	121
			Other current liabilities	16
(c) 42,129	Withdrawal of funds	1,937	Deposits to the holding company	4,541
(d) Direct 63.4%	Interest income	29	—	—
	Interest expense	0	—	—

### Thousands of U.S.dollars (Note1)

2015				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2015			
(c) Capital (Millions of yen)				
(d) Equity ownership percentage held by the holding company	Description of transaction	Amount	Account	Amount
(a) Mitsui Mining And Smelting Co.,Ltd.	Sales	\$27,372	Notes and accounts receivable from completed construction contracts	\$3,215
(b) Holding Company	Purchases	4,409	Notes and accounts payable from completed construction contracts	1,015
			Other current liabilities	137
(c) 42,129	Withdrawal of funds	16,118	Deposits to the holding company	37,795
(d) Direct 63.4%	Interest income	243	—	—
	Interest expense	1	—	—

#### Notes :

- The amounts stated above do not include consumption tax, except for the balance at fiscal year end, which includes the consumption tax amount.
- Business conditions and policy of business conditions
  - The amount of orders was determined properly on an arm's – length basis as in the case of other general transactions
  - The purchase amount of raw materials for metal processing was determined properly considering normal market prices as in the case of other general transactions
  - The interest rate of deposits paid to its holding company was determined properly considering normal market interest rates as in the case of other general transactions
- Workers on loan  
The Company accepted 26 workers on loan ( 25 support persons on engineering service ) from Mitsui Mining & Smelting Co.,Ltd.(its holding company) by request from the Company based upon the contract between the two parties for the year ended March 31, 2015.
- The transaction amount of withdrawal of funds is stated in net increase basis.

(2) Transactions of the Company with its unconsolidated subsidiary for the year ended March 31, 2015 were as follows:

Millions of Yen				
2015				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2015			
(c) Capital (Thousands of Baht)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Siam Mesco Co.,Ltd.	Sales	¥28	Notes and accounts receivable from completed	¥6
(b) Unconsolidated subsidiary				
(c) 3,000	Purchases	57	—	—
(d) 49.0%				

Thousands of U.S.dollars (Note1)				
2015				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2015			
(c) Capital (Thousands of Baht)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Siam Mesco Co.,Ltd.	Sales	\$234	Notes and accounts receivable from completed	\$52
(b) Unconsolidated subsidiary				
(c) 3,000	Purchases	475	—	—
(d) 49.0%				

Notes:

- The amounts stated above do not include consumption tax, except for the balance at fiscal year end, which includes the consumption tax amount.
- Business conditions and policy of business conditions
  - The amount of orders received was determined properly on an arm's – length basis as in the case of other general transactions
  - The purchase amount of raw materials for metal processing was determined properly considering normal market prices as in the case of other general transactions
- SIAM MESCO Co.,Ltd is regarded as subsidiary because a majority of directors are made up of by the Company's directors or employees.

(3) Transactions of the Company with companies with the same parent company and subsidiaries of other affiliates of the Company for the year ended March 31, 2015 were as follows:

Millions of Yen				
2015				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2015			
(c) Capital	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Miike Smelting Co.,Ltd.				
(b) Company with the same parent company	Sales	¥792	Notes and accounts receivable from completed construction contracts	¥521
(c) 100 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥137
(b) Company with the same parent company	Sales	¥4,101	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	11	Other current receivable	8
(d) —	Purchases	27	Notes and accounts payable from completed construction contracts	2
			Other current liabilities	2
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥911
(b) Company with the same parent company	Sales	¥1,338	Advances received on uncompleted construction contracts	236
(c) 4,600 millions of yen				
(d) —				

Thousands of U.S.dollars (Note1)

2015				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2015			
(c) Capital	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Miike Smelting Co., Ltd.				
(b) Company with the same parent company	Sales	\$6,590	Notes and accounts receivable from completed construction contracts	\$4,336
(c) 100 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$1,138
(b) Company with the same parent company	Sales	\$34,134	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	93	Other current receivable	68
(d) —	Purchases	226	Notes and accounts payable from completed construction contracts	16
			Other current liabilities	19
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$7,580
(b) Company with the same parent company	Sales	\$11,139	Advances received on uncompleted construction contracts	1,966
(c) 4,600 millions of yen				
(d) —				

Notes:

1. The amounts stated above do not include consumption tax, except for the balance at fiscal year end, which includes the consumption tax amount.

2. Business conditions and policy of business conditions

- (i) The amount of orders received was determined properly on an arm's – length basis as in the case of other general transactions
- (ii) The purchase amount of raw materials was determined properly considering normal market prices as in the case of other general transactions
- (iii) Rent expense of machineries was determined properly considering normal market prices as in the case of other general transactions

(4) Notes about parent company and significant affiliated company

Information on its parent company

Mitsui Mining & Smelting Co.,Ltd. (listed in Tokyo Stock Exchange)



2. Year ended March 31, 2016

(1) Transactions of the Company with its holding company and significant shareholders, for the year ended March 31, 2016 were as follows:

Millions of Yen				
2016				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2016			
(c) Capital (Millions of yen)				
(d) Equity ownership percentage held by the holding company	Description of transaction	Amount	Account	Amount
(a) Mitsui Mining And Smelting Co.,Ltd.	Sales	¥3,336	Notes and accounts receivable from completed construction contracts	¥1,620
			Advances received on uncompleted construction contracts	1
(b) Holding Company	Purchases	636	Notes and accounts payable from completed construction contracts	133
			Other current liabilities	17
(c) 42,129	Withdrawal of funds	282	Deposits to the holding company	4,823
(d) Direct 63.4%	Interest income	32	—	—
	Interest expense	0	—	—

Thousands of U.S.dollars (Note1)

2016				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2016			
(c) Capital (Millions of yen)				
(d) Equity ownership percentage held by the holding company	Description of transaction	Amount	Account	Amount
(a) Mitsui Mining And Smelting Co.,Ltd.	Sales	\$29,621	Notes and accounts receivable from completed construction contracts	\$14,382
			Advances received on uncompleted construction contracts	12
(b) Holding Company	Purchases	5,646	Notes and accounts payable from completed construction contracts	1,185
			Other current liabilities	151
(c) 42,129	Withdrawal of funds	2,506	Deposits to the holding company	42,828
(d) Direct 63.4%	Interest income	282	—	—
	Interest expense	1	—	—

Notes:

- The amounts stated above do not include consumption tax, except for the balance at fiscal year end, which includes the consumption tax amount.
- Business conditions and policy of business conditions
  - The amount of orders was determined properly on an arm's – length basis as in the case of other general transactions
  - The purchase amount of raw materials for metal processing was determined properly considering normal market prices as in the case of other general transactions
  - The interest rate of deposits paid to its holding company was determined properly considering normal market interest rates as in the case of other general transactions
- Workers on loan  
The Company accepted 26 workers on loan ( 26 support persons on engineering service ) from Mitsui Mining & Smelting Co.,Ltd.(its holding company) by request from the Company based upon the contract between the two parties for the year ended March 31, 2016.
- The transaction amount of withdrawal of funds is stated in net increase basis.

(2) Transactions of the Company with its unconsolidated subsidiary for the year ended March 31, 2016 were as follows:

Millions of Yen				
2016				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2016			
(c) Capital (Thousands of Baht)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Siam Mesco Co.,Ltd.	Sales	¥7	Notes and accounts receivable from completed	¥3
(b) Unconsolidated subsidiary				
(c) 3,000	Purchases	0	—	—
(d) 49.0%				

Thousands of U.S.dollars (Note1)				
2016				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2016			
(c) Capital (Thousands of Baht)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Siam Mesco Co.,Ltd.	Sales	\$61	Notes and accounts receivable from completed	\$23
(b) Unconsolidated subsidiary				
(c) 3,000	Purchases	3	—	—
(d) 49.0%				

Notes:

- The amounts stated above do not include consumption tax, except for the balance at fiscal year end, which includes the consumption tax amount.
- Business conditions and policy of business conditions
  - The amount of orders received was determined properly on an arm's – length basis as in the case of other general transactions
  - The purchase amount of raw materials for metal processing was determined properly considering normal market prices as in the case of other general transactions
- SIAM MESCO Co.,Ltd is regarded as subsidiary because a majority of directors are made up of by the Company's directors or employees.

(3) Transactions of the Company with companies with the same parent company and subsidiaries of other affiliates of the Company for the year ended March 31, 2016 were as follows:

Millions of Yen				
2016				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2016			
(c) Capital	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Hikoshima Smelting Co.,Ltd.				
(b) Company with the same parent company	Sales	¥691	Notes and accounts receivable from completed construction contracts	¥716
(c) 460 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥487
(b) Company with the same parent company	Sales	¥3,672	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	10	Other current receivable	7
(d) —	Purchases	29	Notes and accounts payable from completed construction contracts	2
			Other current liabilities	2
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥464
(b) Company with the same parent company	Sales	¥1,630	Advances received on uncompleted construction contracts	1,195
(c) 4,600 millions of yen				
(d) —				

Thousands of U.S.dollars (Note1)

2016				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2016			
(c) Capital	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Hikoshima Smelting Co.,Ltd.				
(b) Company with the same parent company	Sales	\$6,131	Notes and accounts receivable from completed construction contracts	\$6,362
(c) 460 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$4,322
(b) Company with the same parent company	Sales	\$32,605	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	91	Other current receivable	66
(d) —	Purchases	261	Notes and accounts payable from completed construction contracts	16
			Other current liabilities	20
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$4,119
(b) Company with the same parent company	Sales	\$14,473	Advances received on uncompleted construction contracts	10,610
(c) 4,600 millions of yen				
(d) —				

Notes :

1. The amounts stated above do not include consumption tax, except for the balance at fiscal year end, which includes the consumption tax amount.
2. Business conditions and policy of business conditions
  - (i)The amount of orders received was determined properly on an arm's – length basis as in the case of other general transactions
  - (ii)The purchase amount of raw materials was determined properly considering normal market prices as in the case of other general transactions
  - (iii)Rent expense of machineries was determined properly considering normal market prices as in the case of other general transactions
- (4) Notes about parent company and significant affiliated company  
Information on its parent company  
Mitsui Mining & Smelting Co.,Ltd. (listed in Tokyo Stock Exchange)

## 15. Earnings per Share of Common Stock

Earnings per share of common stock at March 31, 2015 and 2016 were as follows:

	Net income (Millions of yen)	Weighted- average shares (Thousands)	Net income per share (Yen)
<b>Year ended March 31, 2015</b>			
Net income available to common shareholders	<b>¥1,302</b>	<b>12,776</b>	<b>¥101.89</b>

	Net income (Millions of yen)	Weighted- average shares (Thousands)	Net income per share (Yen)	Net income per share (U.S. dollars (Note 1))
<b>Year ended March 31, 2016</b>				
Net income available to common shareholders	<b>¥931</b>	<b>12,774</b>	<b>¥72.89</b>	<b>\$0.65</b>

## 16. Consolidated Statement of Comprehensive Income

### Year ended March 31, 2015 and 2016

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2016	2016
Unrealized gains (losses) on hedging derivatives:			
Increase(decrease) during the year	(¥4)	<b>(¥37)</b>	<b>(\$333)</b>
Reclassification adjustments	31	<b>4</b>	<b>31</b>
Sub-total, before tax	27	<b>(34)</b>	<b>(301)</b>
Tax (expense) or benefit	(10)	<b>10</b>	<b>92</b>
Sub-total, net of tax	17	<b>(24)</b>	<b>(210)</b>
Foreign currency translation adjustments:			
Increase(decrease) during the year	171	<b>(269)</b>	<b>(2,387)</b>
Sub-total, net of tax	171	<b>(269)</b>	<b>(2,387)</b>
Share of other comprehensive income of associates accounted for using equity			
Increase(decrease) during the year	9	<b>(7)</b>	<b>(64)</b>
Sub-total, net of tax	9	<b>(7)</b>	<b>(64)</b>
Retirement Benefits adjustments			
Increase(decrease) during the year	¥174	<b>(¥218)</b>	<b>(\$1,935)</b>
Reclassification adjustments	(48)	<b>(92)</b>	<b>(819)</b>
Sub-total, before tax	125	<b>(310)</b>	<b>(2,753)</b>
Tax (expense) or benefit	(38)	<b>98</b>	<b>879</b>
Sub-total, net of tax	88	<b>-211</b>	<b>(1,875)</b>
Total other comprehensive income	286	<b>(511)</b>	<b>(4,471)</b>

**Directors and Auditors**  
(As of June 24, 2016)

**Jun-ichi Araki**  
President and Representative Director

**Takashi Saito**  
Managing and Representative Director

Directors

**Tetsuro Mizuki**

**Shusaku Maehara**

**Kiichiro Hirato**

**Motohiro Kihara**

**Yasuhiko Koura**

**Yoichi Tanaka**

**Katsunori Kobayashi**

**Kazuhiko Aoki**

Auditors

**Katsuaki Masamichi**

**Jun-ichi Yamamoto**

**Yasuhiro Osawa**

**Coporate Data**  
(As of March 31, 2016)

**Established:** February 17, 1964

**Authorized Capital:** 32,000,000 shares

**Shares issued:** 12,780,000 shares

**Paid-in capital:** ¥ 1,085,350,000

**Stock listing:** Common stock is listed on  
the Tokyo stock exchange.

**Number of shareholders:** 893

**The Holding Company:**

	Percentage of outstanding shares (%)
Mitsui Mining & Smelting Co.,Ltd.	63.4

**Consolidated subsidiaries:**

	Paid-in Capital (Millions)	Share (%)
MESCO(U.S.A.),INC.	¥13	100
MESCOENG(MALAYSIA) SDN.BHD.	¥15	100
TAIWAN MESCO Co.,Ltd.	¥18	100

**Non-consolidated subsidiaries:**

	Paid-in Capital (Millions)	Share (%)
SIAM MESCO Co.,Ltd.	¥5	49

## Directory

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870-0011 Japan  
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### Branch Offices

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#### Kamioka

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#### Kyushu

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Phone:(0944)57-3190 Fax:(0944)54-5539

#### Philippine Branch

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the Republic of the Philippines

### Subsidiaries

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Suite E406, 4th Floor, East Tower, Wisma consplant,  
No.2, Jalan SS 16/4, Subang Jaya, 47500 Petaling  
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Phone : 60-3-580-8880 Fax : 60-3-580-5802

#### TAIWAN MESCO Co.,Ltd.

NO.150 Cheng-Kung 3 Road. Nantou City.  
Nantou Hsien, Taiwan, R.O.C.  
Phone : 886-49-25-7701 Fax : 886-49-25-7702

#### SIAM MESCO Co.,Ltd.

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