

# **MESCO, Inc. and Subsidiaries**

**Consolidated Financial Statements  
For the year ended March 31,  
2016 and 2017**

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

2015 2016 2017

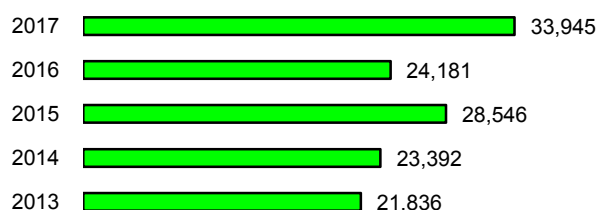
2017

## Consolidated Performance

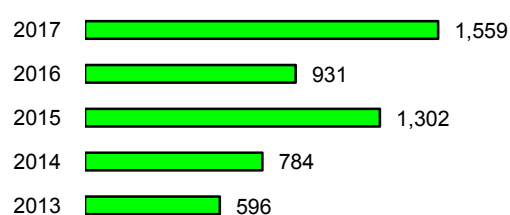
Net sales	¥28,546	¥24,181	<b>¥33,945</b>	<b>\$302,570</b>
Net income	1,302	931	<b>1,559</b>	<b>13,900</b>
Total assets	20,730	21,507	<b>23,804</b>	<b>212,171</b>
Total shareholder's equity	11,917	11,762	<b>12,729</b>	<b>113,459</b>
Net income per share(¥,\$)	101.89	72.89	<b>122.08</b>	<b>\$1.09</b>
Cash dividends per share(¥,\$)	45.00	38.00	<b>54.00</b>	<b>\$0.48</b>

- Notes:
- All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥112.19 to US\$1.00, the rate prevailing at March 31,2017.
  - In this report, fiscal 2017 represents the year ended March 31,2017.

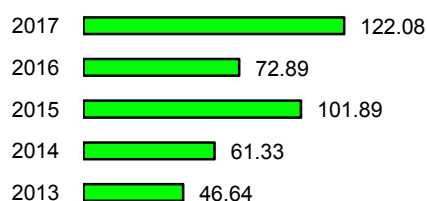
Net sales  
(Millions of Yen)



Net Income  
(Millions of Yen)



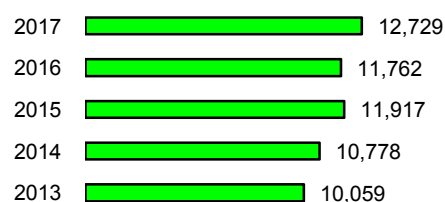
Net Income per Share  
(Yen)



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				
	2013	2014	2015	2016	2017
<b>Consolidated Performance</b>					
<b>For the year:</b>					
Orders	¥21,412	¥28,308	¥25,277	¥42,316	<b>¥30,953</b>
Net sales	21,836	23,392	28,546	24,181	<b>33,945</b>
Cost of sales	18,351	19,563	23,872	20,318	<b>29,182</b>
Gross profit	3,484	3,829	4,674	3,863	<b>4,764</b>
Selling, general and administrative expenses	2,450	2,523	2,570	2,436	<b>2,607</b>
Operating income	1,034	1,307	2,103	1,427	<b>2,157</b>
Income before income taxes	1,056	1,368	2,164	1,479	<b>2,214</b>
Net income	596	784	1,302	931	<b>1,559</b>
<b>At year-end:</b>					
Total current assets	¥13,431	¥16,778	¥18,414	¥19,377	<b>¥21,611</b>
Total assets	15,663	18,982	20,730	21,507	<b>23,804</b>
Total current liabilities	4,402	7,107	7,652	8,560	<b>9,883</b>
Long-term liabilities	1,202	1,097	1,161	1,185	<b>1,191</b>
Total shareholders' equity	10,059	10,778	11,917	11,762	<b>12,729</b>
<b>Per share data:</b>					
Net income (¥)	¥46.64	¥61.33	¥101.89	¥72.89	<b>¥122.08</b>
Cash dividends applicable to the year (¥)	26.00	35.00	45.00	38.00	<b>54.00</b>
<b>Number of employees ( person )</b>	<b>326</b>	<b>333</b>	<b>333</b>	<b>332</b>	<b>348</b>

# Financial Review

## Overview

During the fiscal year ended March 31, 2017, overseas markets saw signs of improvement in the United States and other industrialized countries, but the overall outlook remained contingent due to a prevailing uncertainty about the political situation and economic policy changes in countries such as the United States and the United Kingdom.

Meanwhile, the economy gradually recovered in Japan, although prospects ahead remain uncertain amid negative factors that include growing uncertainties regarding the global economy and volatility in financial and capital markets.

Under these circumstances, on a consolidated basis, the Company's net sales during fiscal year amounted ¥33,945 million (**US\$302,570 thousand**), up 40.4%, or ¥9,765 million, from the previous year.

At the earnings level, the gross profit gained 23.3% to ¥4,764 million (**US\$42,462 thousand**), and the gross profit margin was 14.0%, which was slightly down as compared to the previous year.

Selling, general and administrative (SGA) expenses increased 7.0% or ¥170 million, to ¥2,607 million (**US\$23,234 thousand**).

As a result, operating income advanced 51.2%, or ¥730 million, to ¥2,157 million (**US\$19,228 thousand**), and, income before income taxes grew 49.7%, or ¥735 million, to ¥2,214 million (**US\$19,732 thousand**).

Income taxes totaled ¥654 million (**US\$5,832 thousand**), up 19.4%, or ¥106 million.

Consequently, net income rose 67.5%, or ¥628 million, to ¥1,559 million (**US\$13,900 thousand**).

Net income per share was ¥122.08 (**US\$1.09**), and cash dividends applicable to the year was ¥54.00 (**US\$0.48**) per share.

## Segment Information

### Engineering

The Engineering Group's net sales improved 64.1%, or ¥10,746 million, to ¥27,513 million (**US\$245,236 thousand**) due to an increase of large-scale projects such as the hydraulic power plant and the electric materials manufacturing plant.

This sales grew segment (ordinary) profit up 96.7%, or ¥1,317 million, to ¥2,679 million (**US\$23,883 thousand**).

### Piping and Soundproof materials

The Piping and Soundproof materials Group's net sales shrank 13.6%, or ¥1,024 million, to ¥6,522 million (**US\$58,138 thousand**), reflecting a drop of sales for the extinguishment pipes for the expressway tunnel's equipments and soundproof materials.

Accordingly, segment (ordinary) profit loss 68.3% or ¥506 million, to ¥235 million (**US\$ 2,095 thousand**).

## Financial Position

The Company's total assets rose 10.7%, or ¥2,296 million, during this period, amounting to ¥23,804 million (**US\$212,171 thousand**). This was chiefly attributable to an increase of ¥1,828 million in notes and accounts receivable trade.

Total liabilities increased 13.6%, or ¥1,330 million, to ¥11,074 million (**US\$98,712 thousand**), owing to a rise of ¥1,250 million in notes and accounts payable.

Factors that included an increase of ¥1,074 million in net income led to an advance in total net assets of ¥967 million, to ¥12,729 million (**US\$113,459 thousand**)

Consequently, Company's equity ratio dropped 1.2 percentage-point, to 53.5%.

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

## Cash Flows

Net cash provided by operating activities declined ¥ 408 million, to net cash inflow of ¥ 636 million (US\$5,669 thousand), mainly reflecting ¥ 2,214 million of income before income taxes, ¥ 1,253 million of Increase in notes and accounts payable and ¥ 6,759 million of increase in advances received, which were partially offset by ¥ 9,037 million of increase in notes and accounts receivable.

Net cash used in investing activities came to net cash outflow of ¥ 1,154 million (US\$10,285 thousand), due mainly to ¥ 103 million of payments in acquisition property, plant and equipments and ¥ 1,018 million of increase in time deposits.

Net cash used in financing activities amounted to net cash outflow of ¥ 488 million (US\$4,351 thousand), chiefly owing to ¥ 486 million payments for cash dividends.

As a result, cash and cash equivalents at the end of fiscal year diminished ¥ 1,092 million, to ¥ 5,320 million (US\$47,421 thousand).

## Forward-Looking Statement

The Japanese economy is expected to continue recovering gradually, but in the future, geopolitical risks around the world, unpredictable and serious trends of exchange rates and natural resource prices may cause a considerable impact to the Japanese economy.

In light of this environment, the Company projects that its consolidated net sales in fiscal 2017, ended March 31, 2018 will amount to ¥ 36,900 million, up 52.6% from the level in fiscal

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, 2018 ( Prospect )

	Millions of yen FY2018	Millions of U.S.dollars (Note 1) FY2018
Net sales	¥ 36,900	\$329
Net income	¥ 1,300	\$11.6
Net income per share ( ¥ , \$ )	¥ 101.76	\$0.91

# Consolidated Balance Sheets

MESCO, Inc and Consolidated Subsidiaries

Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2016	2017	2017
<b>Assets</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 5)	¥2,073	¥1,989	\$17,731
Notes and accounts receivable			
Trade	9,080	10,906	97,207
Unconsolidated subsidiaries	3	5	41
Costs on uncompleted construction contracts	2,520	2,677	23,865
Inventories (Note 3)	543	351	3,130
Deposits to the holding company (Note 5)	4,823	4,821	42,976
Deferred tax assets (Note 10)	205	288	2,565
Other current assets	140	586	5,223
Less: Allowance for doubtful accounts	(10)	(12)	(106)
<b>Total current assets</b>	<b>19,377</b>	<b>21,611</b>	<b>192,632</b>
<b>Investments and other assets:</b>			
Investment securities: (Note 12)			
Unconsolidated subsidiaries	70	56	503
Others	0	0	0
Deferred tax assets (Note 10)	188	249	2,223
Asset for retirement benefits (Note 11)	47	63	557
Others	256	256	2,284
Less: Allowance for doubtful accounts	(17)	(16)	(147)
<b>Total Investments and other assets</b>	<b>542</b>	<b>608</b>	<b>5,419</b>
<b>Property, plant and equipment:</b>			
Land	1,099	1,099	9,796
Buildings and structures	549	555	4,946
Machinery, vehicles and equipment	2,686	2,777	24,754
Construction in progress	2	3	30
	4,336	4,434	39,526
Less: Accumulated depreciation	(2,748)	(2,850)	(25,406)
<b>Total Property, plant and equipment</b>	<b>1,588</b>	<b>1,584</b>	<b>14,120</b>
<b>Total assets</b>	<b>¥21,507</b>	<b>¥23,804</b>	<b>\$212,171</b>

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2016	2017	2017
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable:			
Trade	¥5,107	¥6,357	\$56,665
Others	179	179	1,596
Accrued income taxes	420	691	6,158
Advances received	2,201	1,754	15,631
Accrued bonuses	353	371	3,307
Allowance for warranties for completed construction	73	84	747
Allowance for expected losses on construction contracts in process	27	242	2,153
Other current liabilities	200	206	1,839
<b>Total current liabilities</b>	<b>8,560</b>	<b>9,883</b>	<b>88,096</b>
<b>Liability for retirement benefits(Note 11)</b>	<b>1,080</b>	<b>1,103</b>	<b>9,835</b>
<b>Directors' and corporate auditors' retirement benefits</b>	<b>71</b>	<b>60</b>	<b>538</b>
<b>Deferred tax liabilities (Note 10)</b>	<b>2</b>	<b>0</b>	<b>3</b>
<b>Others</b>	<b>32</b>	<b>27</b>	<b>241</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	9,674
Capital surplus	684	684	6,100
Retained earnings	10,137	11,211	99,931
Less: Treasury stock	(4)	(7)	(58)
<b>Total Shareholders' equity</b>	<b>11,903</b>	<b>12,975</b>	<b>115,648</b>
Valuation, translation adjustments and others:			
Unrealized gains ( losses ) on hedging derivatives, net of tax	(57)	(18)	(157)
Foreign currency translation adjustments	(26)	(159)	(1,419)
Remeasurement of defined benefit plans	(58)	(69)	(613)
<b>Total valuation, translation adjustments and others</b>	<b>(141)</b>	<b>(246)</b>	<b>(2,188)</b>
<b>Total net assets</b>	<b>11,762</b>	<b>12,729</b>	<b>113,459</b>
<b>Total liabilities and net assets</b>	<b>¥21,507</b>	<b>¥23,804</b>	<b>\$212,171</b>

See accompanying notes.

# Consolidated Statements of Income

MESCO, Inc and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2016	2016	2016
<b>Net sales (Note 9):</b>			
Construction contracts (Note 2)	¥21,024	¥31,104	\$277,245
Net sales on sideline business			
Net sales of merchandise	987	1,049	9,351
Net sales of finished goods	2,170	1,792	15,974
Total net sales of side line business	3,157	2,841	25,325
Total net sales	24,181	33,945	302,570
<b>Cost of sales:</b>			
Construction contracts (Note 2)	17,644	26,788	238,777
Cost of sales on sideline business			
Cost of merchandise sold	819	868	7,738
Cost of finished goods sold	1,854	1,525	13,594
Total cost of sales on sideline business	2,673	2,393	21,332
Total cost of sales	20,318	29,182	260,109
<b>Gross profit:</b>			
Construction contracts (Note 2)	3,379	4,316	38,468
Gross profit on sideline business			
Gross profit-merchandise	167	181	1,613
Gross profit-finished goods	316	267	2,381
Total gross profit on sideline business	484	448	3,994
Total gross profit	3,863	4,764	42,462
<b>Selling , general and administrative expenses (Note 6)</b>	2,436	2,607	23,234
Operating income	1,427	2,157	19,228
Other income (expense):			
Interest and dividends income	68	62	555
Interest expense	(0)	(0)	(1)
Equity in gains(losses) of unconsolidated subsidiaries	(4)	(11)	(100)
Foreign exchange gain (loss)	(2)	(2)	(20)
Loss on disposal of property, plant and equipment	(21)	(1)	(10)
Loss on valuation of membership	(1)	(2)	(15)
Others , net	12	11	95
Total other income	52	57	505
<b>Income before income taxes</b>	1,479	2,214	19,732
<b>Income taxes (Note 10):</b>			
Current	425	799	7,126
Deferred	123	(145)	(1,293)
Total income taxes	548	654	5,832
<b>Net income</b>	¥931	¥1,559	\$13,900
<b>Net income attributable to owners of parent</b>	¥931	¥1,559	\$13,900
	Yen	Yen	U.S. dollars(Note 1)
<b>Amounts per share of common stock:</b>			
Net income (Note 15)	¥72.89	¥122.08	\$1.09
Cash dividends applicable to the year	38.00	54.00	0.48



## Consolidated Statements of Comprehensive Income

MESCO, Inc and Consolidated Subsidiaries

Years ended March 31, 2016 and 2017

	Millions of yen 2016	Millions of yen 2017	Thousands of U.S.dollars (Note 1) 2017
<b>Income before minority interests</b>	931	1,559	13,900
Other comprehensive income			
Unrealized gains (losses) on hedging derivatives, net of tax	(24)	8	74
Foreign currency translation adjustments	(269)	(101)	(898)
Remeasurements of defined benefit plans	(211)	(10)	(93)
Share of other comprehensive income of associates accounted for using equity method	(7)	(2)	(17)
<b>Total other comprehensive income (Note 16)</b>	<b>(511)</b>	<b>(105)</b>	<b>(933)</b>
<b>Comprehensive income (Note 16)</b>	<b>420</b>	<b>1,455</b>	<b>12,967</b>
(Breakdown)			
Comprehensive income attributable to :			
Owners of the parent	420	1,455	12,967
Non-controlling interests	—	—	—

See accompanying notes.

## Consolidated Statements of Changes in Net Assets

MESCO, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2017

	Number of shares of common stock issued (Thousands)	Shareholders' equity					Valuation, translation adjustments and others				
		Common stock	Capital surplus	Retained earnings (Note 8)	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
		Millions of yen									
<b>Net assets at April 1, 2016</b>	12,780	¥1,085	¥684	¥10,137	¥(4)	<b>¥11,903</b>	¥(26)	¥(57)	¥(58)	¥(141)	<b>¥11,762</b>
Cash dividends				(485)		<b>(485)</b>					<b>(485)</b>
Net income attributable to owners of parent				1,559		<b>1,559</b>					<b>1,559</b>
Net changes during the year					(3)	<b>(3)</b>	8	103	(10)	(105)	<b>(107)</b>
<b>Balance at March 31, 2017</b>	<b>12,780</b>	<b>¥1,085</b>	<b>¥684</b>	<b>¥11,211</b>	<b>¥(7)</b>	<b>¥12,975</b>	<b>¥(18)</b>	<b>¥(159)</b>	<b>¥(69)</b>	<b>¥(246)</b>	<b>¥12,729</b>

	Number of shares of common stock issued (Thousands)	Shareholders' equity					Valuation, translation adjustments and others				
		Common stock	Capital surplus	Retained earnings (Note 8)	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
		Millions of yen									
<b>Net assets at April 1, 2015</b>	12,780	¥1,085	¥684	¥9,781	¥(3)	<b>¥11,547</b>	¥(2)	¥219	¥153	¥370	<b>¥11,917</b>
Cash dividends				(575)		<b>(575)</b>					<b>(575)</b>
Net income attributable to owners of parent				931		<b>931</b>					<b>931</b>
Net changes during the year					(1)	<b>(1)</b>	(23)	(276)	(211)	(511)	<b>(511)</b>
<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>

	Shareholders' equity					Valuation, translation adjustments and others				
	Common stock	Capital surplus	Retained earnings (Note 8)	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
	Thousands of U.S. dollars (Note 1)									
<b>Net assets at April 1, 2016</b>	\$9,674	\$6,100	\$90,358	\$(35)	<b>\$106,098</b>	\$(232)	\$(504)	\$(520)	\$(1,255)	<b>\$104,843</b>
Cash dividends			(4,327)		<b>(4,327)</b>					<b>(4,327)</b>
Net income attributable to owners of parent			13,900		<b>13,900</b>					<b>13,900</b>
Net changes during the year				(23)	<b>(23)</b>	74	(915)	(93)	(933)	<b>(956)</b>
<b>Balance at March 31, 2017</b>	<b>\$9,674</b>	<b>\$6,100</b>	<b>\$99,931</b>	<b>\$(58)</b>	<b>\$115,648</b>	<b>\$(157)</b>	<b>\$(1,419)</b>	<b>\$(613)</b>	<b>\$(2,188)</b>	<b>\$113,459</b>

See accompanying notes.

# Consolidated Statements of Cash Flows

MESCO, Inc and Consolidated Subsidiaries

Years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2016	2017	2017
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥1,479	¥2,214	\$19,732
Depreciation and amortization	162	143	1,273
Increase(Decrease) in allowance for doubtful accounts	(1)	2	15
Foreign exchange gain	2	1	6
Equity in losses(gains) of unconsolidated subsidiaries	4	11	100
Decrease(Increase) in asset for employees' retirement benefits	(121)	(13)	(117)
Increase(Decrease) in liability for employees' retirement benefits	(2)	6	51
Increase(Decrease) in allowance for warranties for completed construction	(34)	11	95
Increase(Decrease) in allowance for expected losses on construction contracts in process	(6)	214	1,911
Interest and dividends income	(68)	(62)	(555)
Decrease (Increase) in notes and accounts receivable	352	(9,037)	(80,554)
Decrease (Increase) in costs on uncompleted construction contracts	(1,106)	(134)	(1,192)
Decrease (Increase) in inventories	(124)	192	1,709
Increase (Decrease) in accounts payable	(7)	1,253	11,171
Increase (Decrease) in advances received	1,224	6,759	60,244
Others, net	(145)	(432)	(3,852)
Subtotal	1,610	1,126	10,037
Interest and dividends received	59	62	550
Interest paid	(0)	(0)	(1)
Income taxes paid	(625)	(552)	(4,917)
Net cash provided by operating activities	1,044	636	5,669
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(1)	(1,018)	(9,074)
Acquisition of property, plant and equipment	(143)	(103)	(922)
Acquisition of intangible assets	(17)	(36)	(318)
Others , net	4	3	30
Net cash used in investing activities	(157)	(1,154)	(10,285)
<b>Cash flows from financing activities:</b>			
Payment for cash dividends to the Company's shareholders	(575)	(486)	(4,328)
Payment for purchase of treasury stock	—	(3)	(23)
Net cash used in financing activities	(575)	(488)	(4,351)
Effect of exchange rate changes on cash and cash equivalents	(236)	(86)	(769)
Net increase in cash and cash equivalents	75	(1,092)	(9,735)
Cash and cash equivalents at beginning of year	6,338	6,412	57,157
Cash and cash equivalents at end of year (Note 5)	¥6,412	¥5,320	\$47,421

See accompanying notes.

# Notes to Consolidated Financial Statements

MESCO, Inc. and Consolidated Subsidiaries

Years ended March 31, 2016 and 2017

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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, 2017, which was ¥112.19 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) Employee's retirement benefits**

The Company provided employee's 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) Director's and statutory auditor's retirement benefits**

Directors and corporate auditors are generally entitled to receive retirement benefits based on the Company's 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 2016 and 2017. 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 2017 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**

(Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

In accordance with the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" ( ASBJ Practical Issues Task Force No.32, issued on June 17,2016 ) and changed the depreciation method for buildings and accompanying facilities and structures acquired on or after April 1, 2016 from declining-balance method to straight-line method, starting from the 1st quarter of the year ended March 31,2017.

There is an immaterial impact to the consolidated financial statements of the year ended March 31,2017.

(Additional Information)

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year ended March 31, 2017, the Company has applied the "Guidance on Recoverability of Deferred Tax Asstes" ( ASBJ Guidance No.26, March 28, 2016 ).

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### 3. Inventories

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

	Millions of yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Merchandise and finished goods	¥148	¥100	\$891
Raw material and supplies	395	251	2,239
Total	¥543	¥351	\$3,130

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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)
	2016	2017	2017
Allowance for expected losses on construction contracts in process	¥27	¥242	\$2,153
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, 2016 and 2017 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Cash and time deposits	¥2,073	¥1,989	\$17,731
Time deposits with maturities exceeding three months from the date of deposit	(484)	(1,491)	(13,286)
Deposits to the holding company	4,823	4,821	42,976
Total: Cash and cash equivalents	¥6,412	¥5,320	\$47,421

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### 6. Research and Development Expenses

Research and development expenses included in general and administrative expenses amounted to ¥39 million and 43 million (US\$381 thousand), for the years ended March 31, 2016 and 2017, respectively.

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### 7. Contingent Liabilities

Contingent liabilities at March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
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, 2016 and 2017 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, 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
<b>Total</b>	<b>16,767</b>	<b>7,546</b>	<b>24,314</b>
<b>Segment profit (loss)</b>	<b>¥1,362</b>	<b>¥741</b>	<b>¥2,103</b>
<b>Segment Assets</b>	<b>¥10,004</b>	<b>¥6,060</b>	<b>¥16,064</b>
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
<b>Total</b>	<b>148,885</b>	<b>67,007</b>	<b>215,892</b>
<b>Segment profit (loss)</b>	<b>\$12,097</b>	<b>\$6,576</b>	<b>\$18,673</b>
<b>Segment Assets</b>	<b>\$88,829</b>	<b>\$53,810</b>	<b>\$142,639</b>
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

Segment information as of and for the fiscal year ended March 31, 2017 was as follows:

	Millions of yen		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2017			
Sales			
Outside customers	¥27,498	¥6,447	¥33,945
intergroup	15	75	90
Total	27,513	6,552	34,035
Segment profit (loss)	¥2,679	¥235	¥2,915
Segment Assets	¥12,519	¥5,776	¥18,295
Depreciation expense	31	89	120
Interest income	35	—	35
Investment gains(losses) on equity method	(11)	—	(11)
Investments of unconsolidated subsidiaries	56	—	56
Capital expenditures	26	92	118

	Thousands of U.S. dollars ( Note 1 )		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2017			
Sales			
Outside customers	\$245,102	\$57,468	\$302,570
intergroup	134	670	804
Total	245,236	58,138	303,374
Segment profit (loss)	\$23,883	\$2,095	\$25,978
Segment Assets	\$111,587	\$51,487	\$163,075
Depreciation expense	277	797	1,073
Interest income	316	—	316
Investment gains(losses) on equity method	(100)	—	(100)
Investments of unconsolidated subsidiaries	503	—	503
Capital expenditures	232	819	1,051

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

Millions of yen

Sales	March 31,2016	March 31,2017
Segment total	¥24,314	¥34,036
Intergroup	(133)	(90)
Sales on financial report	24,181	33,945

Millions of yen

Profits	March 31,2016	March 31,2017
Segment total	¥2,103	¥2,915
Corporation	(602)	(698)
Ordinary Profits on financial report	1,501	2,217

Millions of yen

Assets	March 31,2016	March 31,2017
Segment total	¥16,064	¥18,295
Corporation	5,443	5,508
Total Assets on financial report	21,507	23,804

Millions of yen

Others	Segment total		Adjustments		Financial report	
	2016	2017	2016	2017	2016	2017
Depreciation expense	¥137	¥120	¥25	¥22	¥162	¥143
Amortization of Goodwill	—	—	—	—	—	—
Interest income	36	35	32	27	68	62
Interest Expense	—	—	0	0	0	0
Investment gains(losses) on equity method	(4)	(11)	—	—	(4)	(11)
Investments of unconsolidated subsidiaries	70	56	—	—	70	56
Capital expenditures	122	118	23	34	145	151

Thousands of U.S.dollars(Note 1)

Sales	March 31,2016	March 31,2017
Segment total	\$215,892	\$303,374
Intergroup	(1,182)	(804)
Sales on financial report	214,710	302,570

Thousands of U.S.dollars(Note 1)

Profits	March 31,2016	March 31,2017
Segment total	\$18,673	\$25,978
Corporation	(5,348)	(6,221)
Ordinary Profits on financial report	13,325	19,757

Thousands of U.S.dollars(Note 1)

Assets	March 31,2016	March 31,2017
Segment total	\$142,639	\$163,075
Corporation	48,333	49,097
Total Assets on financial report	190,971	212,171

Thousands of U.S.dollars(Note 1)

Others	Segment total		Adjustments		Financial report	
	2016	2017	2016	2017	2016	2017
Depreciation expense	\$1,220	\$1,073	\$222	\$200	\$1,441	\$1,273
Amortization of Goodwill	—	—	—	—	—	—
Interest and Dividends received	319	316	282	239	601	555
Interest Expense	0	0	1	1	1	1
Investment gains(losses) on equity method	(32)	(100)	—	—	(32)	(100)
Investments of unconsolidated subsidiaries	617	503	—	—	617	503
Capital expenditures	1,084	1,051	206	299	1,291	1,350

(e) Relative Information  
March 31,2017

1. Area information  
Sales

Millions of yen

Japan	Others	Total
¥31,200	¥2,745	¥33,945

Thousands of U.S.dollars(Note 1)

Japan	Others	Total
\$278,101	\$24,469	\$302,570

2. Main Customer Information

Millions of yen

Customer's name	Sales	Relevant Segment
Kamioka Smelting Co., Ltd.	¥9,704	Engineering
Mitsui Mining and Smelting Co., Ltd.	4,646	Engineering
Hachinohe Smelting Co., Ltd.	3,431	Engineering

Thousands of U.S.dollars(Note 1)

Customer's name	Sales	Relevant Segment
Kamioka Smelting Co., Ltd.	\$86,495	Engineering
Mitsui Mining and Smelting Co., Ltd.	41,410	Engineering
Hachinohe Smelting Co., Ltd.	30,586	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 32.9% for the years ended March 31, 2016 and 30.7% for the years ended March 31, 2017, 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, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
<b>Deferred tax assets:</b>			
Unpaid enterprise tax	¥28	¥36	\$324
Accrued business office taxes	3	3	31
Excess accrued bonuses to employees	108	114	1,015
Allowance for warranties for completed construction	22	26	229
Allowance for expected losses on construction contracts in process	8	74	661
Employees' retirement benefits	330	337	3,002
Directors' and corporate auditors' retirement benefits	22	18	164
Excess bad debt expenses	9	9	76
Loss on valuation of golf course membership	11	11	101
Loss on valuation of inventories	1	1	9
Accrued social insurance	19	19	174
Others	23	20	178
Subtotal	¥583	¥669	\$5,963
Valuation allowance	(¥17)	(¥16)	(\$146)
<b>Total deferred tax assets</b>	<b>¥567</b>	<b>¥653</b>	<b>\$5,817</b>
<b>Deferred tax liabilities:</b>			
Retained earnings of foreign subsidiaries	(¥160)	(¥96)	(\$859)
Accumulated adjustments for retirement benefit	(¥14)	(¥19)	(\$170)
Others	(¥2)	(¥0)	(\$3)
<b>Total deferred tax liabilities</b>	<b>(¥176)</b>	<b>(¥116)</b>	<b>(\$1,032)</b>
<b>Net deferred tax assets</b>	<b>¥391</b>	<b>¥537</b>	<b>\$4,785</b>

The net deferred tax assets at March 31, 2016 and 2017 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Deferred tax assets - current	¥205	¥289	\$2,574
Deferred tax assets - non current	¥188	¥249	\$2,223
Deferred tax liabilities - non current	(¥2)	(¥0)	(\$3)

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, 2016 and 2017.

	2016	2017
Statutory income tax rate	32.9%	30.7%
Permanent difference due to non-deductible expense	1.1	0.9
Inhabitant tax	1.0	0.7
Valuation allowance	(0.0)	(0.0)
Difference in tax rates of foreign consolidated subsidiaries	(0.1)	(0.1)
Retained earnings of foreign consolidated subsidiaries	(0.6)	(2.9)
Change in income tax rates	1.7	0.0
Others	1.0	0.3
<b>Tax rate calculated based on the Company's consolidated financial statements</b>	<b>37.0%</b>	<b>29.6%</b>

## 11. Employee's 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)
	2016	2017	2017
Balance at the beginning of the fiscal year	¥2,201	¥2,264	\$20,184
Service cost	118	158	1,411
Interest cost	22	—	—
Actuarial loss(gain)	110	116	1,038
Benefits paid	(186)	(188)	(1,679)
Balance at the end of the fiscal year	¥2,264	¥2,351	\$20,954

#### (b) Movement in plan assets

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Balance at the beginning of the fiscal year	¥1,354	¥1,231	\$10,974
Expected return on plan assets	28	19	169
Actuarial loss(gain)	(108)	105	934
Contributions paid by the employer	44	43	383
Benefits paid	(88)	(88)	(784)
Balance at the end of the fiscal year	¥1,231	¥1,310	\$11,677

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

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Funded retirement benefit obligations	¥1,184	¥1,247	\$11,119
Plan assets	(1,231)	(1,310)	(11,677)
	(47)	(63)	(557)
Unfunded retirement benefit obligations	1,080	1,103	9,835
Total Net liability(asset) for retirement benefits at the end of the fiscal year	1,033	1,041	9,278
Liability for retirement benefits	1,080	1,103	9,835
Asset for retirement benefits	(46)	(63)	(557)
Total Net liability(asset) for retirement benefits at the end of the fiscal year	¥1,033	¥1,041	\$9,278

#### (d) Retirement benefit costs

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Service cost	¥118	¥158	\$1,411
Interest cost	22	—	—
Expected return on plan assets	(28)	(19)	(169)
Net actuarial loss amortization	(92)	(3)	(30)
Total retirement benefit costs for the fiscal years ended March31	¥19	¥136	\$1,212

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

	Thousands of Yen		Thousands of U.S. dollars(Note1)
	2016	2017	2017
Actual gains and losses that are yet to be recognized	¥84	¥99	\$882
Total balance at the end of the fiscal year	¥84	¥99	\$882

(f) Plan assets

1. Plan assets comprise

	2016	2017
Equity securities	65.0%	<b>56.2%</b>
Bonds	31.0%	<b>39.9%</b>
Other	4.0%	<b>3.9%</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 2016 and 2017 were as follows :

	2016	2017
Discount rate	0.0%	<b>0.0%</b>
Long-term expected rate of return	2.07%	<b>1.54%</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, 2017 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, 2017</b>			
Assets:			
(a) Cash and time deposits:	¥1,989	¥1,989	¥ —
(b) Notes and accounts receivable from completed construction contracts:	10,910	10,910	—
(c) Deposits to the holding company:	4,821	4,821	—
<b>Total:</b>	<b>17,721</b>	<b>17,721</b>	<b>—</b>
Liabilities:			
(a) Notes and accounts payable for construction contracts:	(6,357)	(6,357)	—
(b) Advances received on uncompleted construction contracts:	(1,754)	(1,754)	—
<b>Total:</b>	<b>(8,111)</b>	<b>(8,111)</b>	<b>—</b>
Derivative transactions	(26)	(26)	—

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, 2017</b>			
Assets:			
(a) Cash and time deposits:	\$17,731	17,731	\$ —
(b) Notes and accounts receivable from completed construction contracts:	97,248	97,248	—
(c) Deposits to the holding company:	42,976	42,976	—
<b>Total:</b>	<b>157,954</b>	<b>157,954</b>	<b>—</b>
Liabilities:			
(a) Notes and accounts payable for construction contracts:	(56,665)	(56,665)	—
(b) Advances received on uncompleted construction contracts:	(15,631)	(15,631)	—
<b>Total:</b>	<b>(72,296)</b>	<b>(72,296)</b>	<b>—</b>
Derivative transactions	(233)	(233)	—

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	<b>¥56</b>	<b>\$503</b>

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 , 2017 to March 31 , 2018	April 1 , 2018 to March 31 , 2022
<b>Year ended March 31, 2017</b>		
(a)Cash and time deposits:	<b>¥1,989</b>	¥ —
(b)Notes and accounts receivable from completed construction contracts:	<b>10,910</b>	—
(c) Deposits to the holding company:	<b>4,821</b>	—
<b>Total:</b>	<b>17,721</b>	—

	Thousands of U.S.dollars (Note 1)	
	April 1 , 2017 to March 31 , 2018	April 1 , 2018 to March 31 , 2022
<b>Year ended March 31, 2017</b>		
(a)Cash and time deposits:	<b>\$17,731</b>	\$ —
(b)Notes and accounts receivable from completed construction contracts:	<b>97,248</b>	—
(c) Deposits to the holding company:	<b>42,976</b>	—
<b>Total:</b>	<b>157,954</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 Company's 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, 2017 were as follows:

#### Currency-related derivatives

Type	Hedged items		Millions of	Thousands of
			yen	U.S. dollars(Note 1)
			2017	2017
Forward contracts				
Selling:				
	Notes and accounts	Contract amounts	¥59	\$522
Malaysia	receivable from completed	(Due over one year)	(—)	(—)
Ringgits :	construction contracts	Market value	58	517
		Unrealized gain(loss)	0	6
Buying:				
	Notes and accounts	Contract amounts	¥1,000	\$8,910
U.S.dollars:	payable for construction	(Due over one year)	(—)	(—)
	contracts	Market value	974	8,684
		Unrealized gain(loss)	(25)	(226)
	Notes and accounts	Contract amounts	¥46	\$407
Euros:	payable for construction	(Due over one year)	(—)	(—)
	contracts	Market value	45	400
		Unrealized gain(loss)	(1)	(6)
		Contract amounts	¥1,104	\$9,839
	Total	(Due over one year)	(—)	(—)
		Market value	1,077	9,601
		Unrealized gain(loss)	(25)	(227)

#### 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, 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)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage held by the holding company				
(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)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage held by the holding company				
(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)



2. Year ended March 31, 2017

(1) Transactions of the Company with its holding company and significant shareholders, for the year ended March 31, 2017 were as follows:

Millions of Yen				
2017				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2017			
(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	¥4,607	Notes and accounts receivable from completed construction contracts	¥1,852
			Advances received on uncompleted construction contracts	—
(b) Holding Company	Purchases	649	Notes and accounts payable from completed construction contracts	173
			Other current liabilities	15
(c) 42,129	Withdrawal of funds	(2)	Deposits to the holding company	4,821
(d) Direct 63.4%	Interest income	27	—	—
	Interest expense	0	—	—

Thousands of U.S.dollars (Note1)

2017				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2017			
(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	\$41,063	Notes and accounts receivable from completed construction contracts	\$16,505
			Advances received on uncompleted construction contracts	—
(b) Holding Company	Purchases	5,789	Notes and accounts payable from completed construction contracts	1,544
			Other current liabilities	137
(c) 42,129	Withdrawal of funds	(17)	Deposits to the holding company	42,976
(d) Direct 63.4%	Interest income	239	—	—
	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 27 workers on loan ( 26 support persons on engineering service and 1 support person on administrative 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, 2017.
- 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, 2017 were as follows:

Millions of Yen				
2017				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2017			
(c) Capital (Thousands of Baht)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Siam Mesco Co.,Ltd.	Sales	¥8	Notes and accounts receivable from completed	¥5
(b) Unconsolidated subsidiary				
(c) 3,000	Purchases	65	—	—
(d) 49.0%				

Thousands of U.S.dollars (Note1)				
2017				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2017			
(c) Capital (Thousands of Baht)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage of the Company				
(a) Siam Mesco Co.,Ltd.	Sales	\$68	Notes and accounts receivable from completed	\$41
(b) Unconsolidated subsidiary				
(c) 3,000	Purchases	580	—	—
(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, 2017 were as follows:

Millions of Yen				
2017				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2017			
(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	¥435	Notes and accounts receivable from completed construction contracts	¥56
(c) 460 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥751
(b) Company with the same parent company	Sales	¥3,431	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	2	Other current receivable	6
(d) —	Purchases	38	Notes and accounts payable from completed construction contracts	12
			Other current liabilities	2
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥1,520
(b) Company with the same parent company	Sales	¥9,743	Other current liabilities	1
(c) 4,600 millions of yen			Advances received on uncompleted construction contracts	1,049
(d) —				

Thousands of U.S.dollars (Note1)				
2017				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2017			
(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	\$3,881	Notes and accounts receivable from completed construction contracts	\$496
(c) 460 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$6,696
(b) Company with the same parent company	Sales	\$30,586	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	18	Other current receivable	51
(d) —	Purchases	334	Notes and accounts payable from completed construction contracts	109
			Other current liabilities	20
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$13,551
(b) Company with the same parent company	Sales	\$86,842	Other current receivables	\$13
(c) 4,600 millions of yen			Advances received on uncompleted construction contracts	9,350
(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, 2016 and 2017 were as follows:

	Net income (Millions of yen)	Weighted- average shares (Thousands)	Net income per share (Yen)
<b>Year ended March 31, 2016</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, 2017</b>				
Net income available to common shareholders	<b>¥1,559</b>	<b>12,774</b>	<b>¥122.08</b>	<b>\$1.09</b>

## 16. Consolidated Statement of Comprehensive Income

### Year ended March 31, 2016 and 2017

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)
	2016	2017	2017
Unrealized gains (losses) on hedging derivatives:			
Increase(decrease) during the year	(¥37)	(¥25)	(\$227)
Reclassification adjustments	4	37	334
Sub-total, before tax	(34)	12	107
Tax (expense) or benefit	10	(4)	(33)
Sub-total, net of tax	(24)	8	74
Foreign currency translation adjustments:			
Increase(decrease) during the year	(269)	(101)	(898)
Sub-total, net of tax	(269)	(101)	(898)
Share of other comprehensive income of associates accounted for using equity			
Increase(decrease) during the year	(7)	(2)	(17)
Sub-total, net of tax	(7)	(2)	(17)
Retirement Benefits adjustments			
Increase(decrease) during the year	(¥218)	(¥12)	(104)
Reclassification adjustments	(92)	(3)	(30)
Sub-total, before tax	(310)	(15)	(134)
Tax (expense) or benefit	98	5	41
Sub-total, net of tax	(211)	(10)	(93)
Total other comprehensive income	(511)	(105)	(933)

**Directors and Auditors**  
(As of June 23, 2017)

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

**Tetsuro Mizuki**  
**Shusaku Maehara**  
**Yoshihiko Koura**  
Managing Director

Directors  
**Motohiro Kihara**  
**Yoichi Tanaka**  
**Shoji Kawano**  
**Naoyuki Ito**  
**Katsunori Kobayashi**  
**Kazuhiko Aoki**

Auditors  
**Yoshiya Matsuo**  
**Jun-ichi Yamamoto**  
**Yasuhiro Osawa**

**Corporate Data**  
(As of March 31, 2017)

**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:** 1,060

**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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### Branch Offices

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#### Kamioka

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#### Philippine Branch

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the Republic of the Philippines

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No.2, Jalan SS 16/4, Subang Jaya, 47500 Petaling  
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#### TAIWAN MESCO Co.,Ltd.

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Phone : 886-49-25-7701 Fax : 886-49-25-7702

#### SIAM MESCO Co.,Ltd.

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( soi 35 ) Khlongtoey-Nuea, Vadhana, Bangkok 10110  
Thailand  
Phone : 66-2-260-8441 Fax : 66-2-260-8442

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