

MESCO, Inc. and Subsidiaries

**Consolidated Financial Statements
For the year ended March 31,
2017 and 2018**



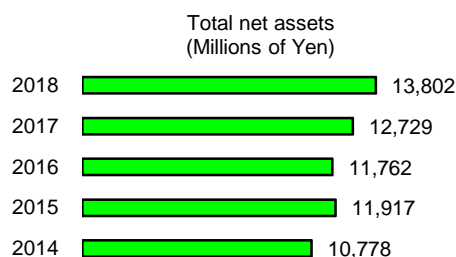
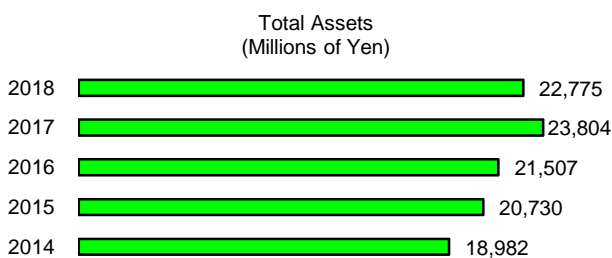
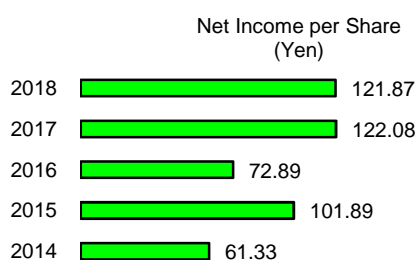
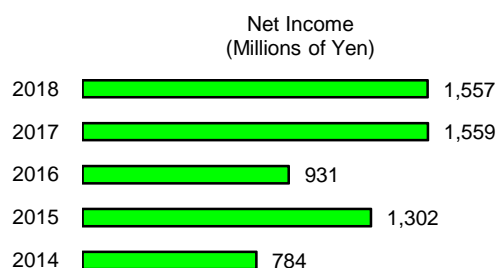
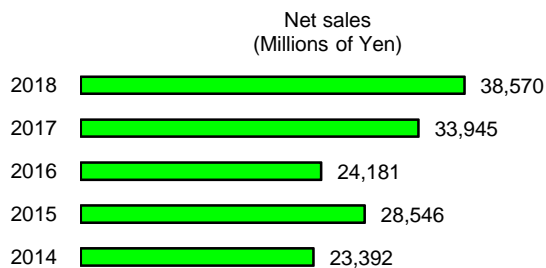
Financial Highlights

Mesco, Inc. and Consolidated Subsidiaries
 Years ended March 31

Thousands of
U.S. dollars
2018

	Millions of yen			
	2016	2017	2018	
Consolidated Performance				
Net sales	¥24,181	¥33,945	¥38,570	\$363,014
Net income	931	1,559	1,557	14,650
Total assets	21,507	23,804	22,775	214,351
Total net assets	11,762	12,729	13,802	129,902
Net income per share(¥, \$)	72.89	122.08	121.87	\$1.15
Cash dividends per share(¥, \$)	38.00	54.00	66.00	\$0.62

- Notes: 1. All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥106.25 to US\$1.00, the rate prevailing at March 31, 2018.
 2. In this report, fiscal 2018 represents the year ended March 31, 2018.



Financial Section

Five-Year Summary

Mesco, Inc. and Consolidated Subsidiaries
 Years ended March 31

	Millions of yen				
	2014	2015	2016	2017	2018
Consolidated Performance					
For the year:					
Orders	¥28,308	¥25,277	¥42,316	¥30,953	¥28,252
Net sales	23,392	28,546	24,181	33,945	38,570
Cost of sales	19,563	23,872	20,318	29,182	33,643
Gross profit	3,829	4,674	3,863	4,764	4,928
Selling, general and administrative expenses	2,523	2,570	2,436	2,607	2,699
Operating income	1,307	2,103	1,427	2,157	2,229
Income before income taxes	1,368	2,164	1,479	2,214	2,299
Net income	784	1,302	931	1,559	1,557
At year-end:					
Total current assets	¥16,778	¥18,414	¥19,377	¥21,611	¥20,625
Total assets	18,982	20,730	21,507	23,804	22,775
Total current liabilities	7,107	7,652	8,560	9,883	7,850
Long-term liabilities	1,097	1,161	1,185	1,191	1,122
Total net assets	10,778	11,917	11,762	12,729	13,802
Per share data:					
Net income (¥)	¥61.33	¥101.89	¥72.89	¥122.08	¥121.87
Cash dividends applicable to the year (¥)	35.00	45.00	38.00	54.00	66.00
Number of employees (person)	333	333	332	348	360

Financial Review

Overview

During the fiscal year ended March 31, 2018, Japan's economy continued on a gradual recovery trend owing to improvement in the employment situation and signs of recovery in exports and corporate capital investment.

Overseas, the global economy recovered modestly as a whole, however, on the political front, instability continued due to such matters as the issue of rising geopolitical risks in the Middle East and elsewhere, and protectionist U.S. trade policies.

Under these circumstances, on a consolidated basis, the Company's net sales during fiscal year amounted to ¥38,570 million (US\$363,014 thousand), up 13.6%, or ¥4,625 million, from the previous year.

At the earnings level, the gross profit gained 3.4% to ¥4,928 million (US\$46,377 thousand), and the gross profit margin was 12.8%, which was slightly down as compared to the previous year.

Selling, general and administrative (SGA) expenses increased 3.5% or ¥92 million, to ¥2,699 million (US\$25,400 thousand).

As a result, operating income advanced 3.3%, or ¥72 million, to ¥2,229 million (US\$20,977 thousand), and, income before income taxes grew 3.8%, or ¥85 million, to ¥2,299 million (US\$21,637 thousand).

Income taxes totaled ¥742 million (US\$6,987 thousand), up 13.5%, or ¥88 million.

Consequently, net income decreased 0.2%, or ¥3 million, to ¥1,557 million (US\$14,650 thousand).

Net income per share was ¥121.87 (US\$1.15), and cash dividends applicable to the year was ¥66.00 (US\$0.62) per share.

Segment Information

Engineering

The Engineering Group's net sales improved 15.6%, or ¥4,305 million, to ¥31,818 million (US\$299,467 thousand) due to an increase of domestic and foreign projects in the Non-ferrous metals smelting field and in the Electronic materials manufacturing field.

Whereas, segment (ordinary) profit dropped 1.3% or ¥35 million, to ¥2,645 million (US\$24,890 thousand) due to the declining of the Engineering's profit.

Piping and Soundproof materials

The Piping and Soundproof materials Group's net sales improved 5.0%, or ¥328 million, to ¥6,850 million (US\$64,473 thousand), reflecting some large-scale project's sales in piping for the submarine water supply and the tunnel fire extinction use.

Accordingly, segment (ordinary) profit rose 50.7% or ¥119 million, to ¥354 million (US\$3,335 thousand).

Financial Position

The Company's total assets decreased 4.3%, or ¥1,029 million, during this period, amounting to ¥22,775 million (US\$214,351 thousand). This was chiefly attributable to a decrease of ¥1,170 million in Costs on uncompleted construction contracts.

Total liabilities decreased 19.0%, or ¥2,102 million, to ¥8,973 million (US\$84,449 thousand), owing to a decrease of ¥1,721 million in notes and accounts payable.

Factors that included an increase of ¥867 million in net income led to an advance in total net assets of ¥1,073 million, to ¥13,802 million (US\$129,902 thousand).

Consequently, Company's equity ratio rose 7.1 percentage-point, to 60.6%.

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

Cash Flows

Net cash provided by operating activities increased ¥599 million, to net cash inflow of ¥1,235 million (US\$11,621 thousand), mainly reflecting ¥2,299 million of income before income taxes and ¥3,565 million of increase in advances received, which were partially offset by ¥3,467 million of increase in notes and accounts receivable and ¥1,724 million of decrease in notes and accounts payable.

Net cash used in investing activities came to net cash outflow of ¥33 million (US\$308 thousand), due mainly to ¥100 million of payments in acquisition property, plant and equipments, ¥140 million of increase in time deposits and ¥59 million of decrease in time deposits.

Net cash used in financing activities amounted to net cash outflow of ¥689 million (US\$6,486 thousand), owing to ¥689 million payments for cash dividends.

As a result, cash and cash equivalents at the end of fiscal year increased ¥536 million, to ¥5,856 million (US\$55,115 thousand).

Forward-Looking Statement

The Japan's economy in the next fiscal year is expected to remain on its path of gradual recovery, as employment rates and income environment continue to improve. However, escalating anxieties such as the trend of U.S. trade policies and the global geopolitical risks have clouded the outlook for business conditions in Japan.

In light of this environment, the Company projects that its consolidated net sales in fiscal 2018, ended March 31, 2019 will amount to ¥33,600 million, down 12.9% from the level in fiscal 2017.

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, 2019 (Prospect)

	Millions of yen 2019	Millions of U.S.dollars (Note 1) 2019
Net sales	¥ 33,600	\$316.2
Net income	¥ 1,220	\$11.5
Net income per share (¥ , \$)	¥ 95.54	\$0.9

Consolidated Balance Sheets

MESCO, Inc. and Consolidated Subsidiaries

Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Assets			
Current assets:			
Cash and time deposits (Note 5)	¥1,989	¥2,199	\$20,694
Notes and accounts receivable			
Trade	10,906	10,625	100,004
Unconsolidated subsidiaries	5	5	43
Costs on uncompleted construction contracts	2,677	1,508	14,189
Inventories (Note 3)	351	598	5,626
Deposits to the holding company (Note 5)	4,821	5,141	48,382
Deferred tax assets (Note 10)	288	314	2,956
Other current assets	586	248	2,336
Less: Allowance for doubtful accounts	(12)	(12)	(110)
Total current assets	21,611	20,625	194,119
Investments and other assets:			
Investment securities: (Note 12)			
Unconsolidated subsidiaries	56	50	470
Others	0	0	0
Deferred tax assets (Note 10)	249	207	1,946
Asset for retirement benefits (Note 11)	63	100	945
Others	256	241	2,267
Less: Allowance for doubtful accounts	(16)	(11)	(100)
Total Investments and other assets	608	587	5,529
Property, plant and equipment:			
Land	1,099	1,099	10,344
Buildings and structures	555	577	5,429
Machinery, vehicles and equipment	2,777	2,792	26,279
Construction in progress	3	3	33
	4,434	4,471	42,084
Less: Accumulated depreciation	(2,850)	(2,909)	(27,381)
Total Property, plant and equipment	1,584	1,562	14,704
Total assets	¥23,804	¥22,775	\$214,351

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2017	2018	2018
Liabilities and Net Assets			
Current Liabilities:			
Notes and accounts payable:			
Trade	¥6,357	¥4,637	\$43,639
Others	179	179	1,686
Accrued income taxes	691	563	5,295
Advances received	1,754	1,567	14,744
Accrued bonuses	371	384	3,613
Allowance for warranties for completed construction	84	123	1,159
Allowance for expected losses on construction contracts in process	242	220	2,072
Other current liabilities	206	178	1,677
Total current liabilities	9,883	7,850	73,885
Liability for retirement benefits(Note 11)	1,103	1,042	9,811
Directors' and corporate auditors' retirement benefits	60	52	493
Deferred tax liabilities (Note 10)	0	1	6
Others	27	27	254
Contingent Liabilities(Note 7)			
Net Assets(Note 8)			
Shareholders' equity:			
Common stock			
Authorized - 32,000 thousand shares			
Issued - 12,780 thousand shares	1,085	1,085	10,215
Capital surplus	684	684	6,441
Retained earnings	11,211	12,078	113,677
Less: Treasury stock	(7)	(7)	(61)
Total Shareholders' equity	12,975	13,841	130,272
Valuation, translation adjustments and others:			
Unrealized gains (losses) on hedging derivatives,net of tax	(18)	9	87
Foreign currency translation adjustments	(159)	(53)	(496)
Remeasurement of defined benefit plans	(69)	4	39
Total valuation, translation adjustments and others	(246)	(39)	(370)
Total net assets	12,729	13,802	129,902
Total liabilities and net assets	¥23,804	¥22,775	\$214,351

See accompanying notes.

Consolidated Statements of Income

MESCO, Inc and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2017	2018	2018
Net sales (Note 9):			
Construction contracts (Note 2)	¥31,104	¥35,451	\$333,655
Net sales on sideline business			
Net sales of merchandise	1,049	1,313	12,361
Net sales of finished goods	1,792	1,806	16,998
Total net sales of side line business	2,841	3,119	29,359
Total net sales	33,945	38,570	363,014
Cost of sales:			
Construction contracts (Note 2)	26,788	30,925	291,061
Cost of sales on sideline business			
Cost of merchandise sold	868	1,115	10,491
Cost of finished goods sold	1,525	1,603	15,085
Total cost of sales on sideline business	2,393	2,718	25,577
Total cost of sales	29,182	33,643	316,638
Gross profit:			
Construction contracts (Note 2)	4,316	4,526	42,594
Gross profit on sideline business			
Gross profit-merchandise	181	199	1,870
Gross profit-finished goods	267	203	1,913
Total gross profit on sideline business	448	402	3,783
Total gross profit	4,764	4,928	46,377
Selling , general and administrative expenses (Note 6)	2,607	2,699	25,400
Operating income	2,157	2,229	20,977
Other income (expense):			
Interest and dividends income	62	62	585
Interest expense	(0)	(0)	(1)
Equity in gains(losses) of unconsolidated subsidiaries	(11)	(10)	(98)
Foreign exchange gain (loss)	(2)	2	19
Loss on disposal of property, plant and equipment	(1)	(0)	(3)
Loss on valuation of membership	(2)	(3)	(28)
Others , net	11	20	188
Total other income	57	70	661
Income before income taxes	2,214	2,299	21,637
Income taxes (Note 10):			
Current	799	770	7,244
Deferred	(145)	(27)	(257)
Total income taxes	654	742	6,987
Net income	¥1,559	¥1,557	\$14,650
Net income attributable to owners of parent	¥1,559	¥1,557	\$14,650
	Yen	Yen	U.S. dollars(Note 1)
Amounts per share of common stock:			
Net income (Note 15)	¥122.08	¥121.87	\$1.15
Cash dividends applicable to the year	54.00	66.00	0.62

See accompanying notes.

Consolidated Statements of Comprehensive Income

MESCO, Inc and Consolidated Subsidiaries
 Years ended March 31, 2017 and 2018

	Millions of yen 2017	Millions of yen 2018	Thousands of U.S.dollars (Note 1) 2018
Income before minority interests	1,559	1,557	14,650
Other comprehensive income			
Unrealized gains (losses) on hedging derivatives, net of tax	8	27	253
Foreign currency translation adjustments	(101)	103	965
Remeasurements of defined benefit plans	(10)	73	685
Share of other comprehensive income of associates accounted for using equity method	(2)	4	37
Total other comprehensive income (Note 16)	(105)	206	1,940
Comprehensive income (Note 16)	1,455	1,763	16,590
(Breakdown)			
Comprehensive income attributable to :			
Owners of the parent	1,455	1,763	16,590
Non-controlling interests	—	—	—

See accompanying notes.

Consolidated Statements of Changes in Net Assets

MESCO, Inc. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2018

	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									
Net assets at April 1, 2017	12,780	¥1,085	¥684	¥11,211	¥(7)	¥12,975	¥(18)	¥(159)	¥(69)	¥(246)	¥12,729
Cash dividends				(690)		(690)					(690)
Net income attributable to owners of parent				1,557		1,557					1,557
Net changes during the year							27	106	73	206	206
Balance at March 31, 2018	12,780	¥1,085	¥684	¥12,078	¥(7)	¥13,841	¥9	¥(53)	¥4	¥(39)	¥13,802

	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									
Net assets at April 1, 2016	12,780	¥1,085	¥684	¥10,137	¥(4)	¥11,903	¥(26)	¥(57)	¥(58)	¥(141)	¥11,762
Cash dividends				(485)		(485)					(485)
Net income attributable to owners of parent				1,559		1,559					1,559
Net changes during the year					(3)	(3)	8	103	(10)	(105)	(107)
Balance at March 31, 2017	12,780	¥1,085	¥684	¥11,211	¥(7)	¥12,975	¥(18)	¥(159)	¥(69)	¥(246)	¥12,729

	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)									
Net assets at April 1, 2017	\$10,215	\$6,441	\$105,518	\$(61)	\$122,113	\$(166)	\$(1,498)	\$(647)	\$(2,311)	\$119,802
Cash dividends			(6,491)		(6,491)					(6,491)
Net income attributable to owners of parent			14,650		14,650					14,650
Net changes during the year						253	1,002	685	1,940	1,940
Balance at March 31, 2018	\$10,215	\$6,441	\$113,677	\$(61)	\$130,272	\$87	\$(496)	\$39	\$(370)	\$129,902

See accompanying notes.

Consolidated Statements of Cash Flows

MESCO, Inc and Consolidated Subsidiaries

Years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2017	2018	2018
Cash flows from operating activities:			
Income before income taxes	¥2,214	¥2,299	\$21,637
Depreciation and amortization	143	146	1,377
Increase(Decrease) in allowance for doubtful accounts	2	(6)	(57)
Foreign exchange gain	1	1	8
Equity in losses(gains) of unconsolidated subsidiaries	11	10	98
Decrease(Increase) in asset for employees' retirement benefits	(13)	(3)	(29)
Increase(Decrease) in liability for employees' retirement benefits	6	9	85
Increase(Decrease) in allowance for warranties for completed construction	11	39	370
Increase(Decrease) in allowance for expected losses on construction contracts in process	214	(21)	(200)
Interest and dividends income	(62)	(62)	(585)
Decrease (Increase) in notes and accounts receivable	(9,037)	(3,467)	(32,628)
Decrease (Increase) in costs on uncompleted construction contracts	(134)	1,360	12,796
Decrease (Increase) in inventories	192	(247)	(2,320)
Increase (Decrease) in accounts payable	1,253	(1,724)	(16,223)
Increase (Decrease) in advances received	6,759	3,565	33,550
Others, net	(432)	170	1,596
Subtotal	1,126	2,069	19,475
Interest and dividends received	62	63	594
Interest paid	(0)	(0)	(1)
Income taxes paid	(552)	(898)	(8,448)
Net cash provided by operating activities	636	1,235	11,621
Cash flows from investing activities:			
Increase in time deposits	(1,018)	(59)	(552)
Decrease in time deposits	-	140	1,314
Acquisition of property, plant and equipment	(103)	(100)	(941)
Acquisition of intangible assets	(36)	(13)	(125)
Others , net	3	(0)	(3)
Net cash used in investing activities	(1154)	(33)	(308)
Cash flows from financing activities:			
Payment for cash dividends to the Company's shareholders	(486)	(689)	(6,486)
Payment for purchase of treasury stock	(3)	-	-
Net cash used in financing activities	(488)	(689)	(6,486)
Effect of exchange rate changes on cash and cash equivalents	(86)	23	216
Net increase in cash and cash equivalents	(1,092)	536	5,043
Cash and cash equivalents at beginning of year	6,412	5,320	50,073
Cash and cash equivalents at end of year (Note 5)	¥5,320	¥5,856	\$55,115

See accompanying notes.

Notes to Consolidated Financial Statements

MESCO, Inc. and Consolidated Subsidiaries

Years ended March 31, 2017 and 2018

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, 2018, which was ¥106.25 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.

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 2017 and 2018.

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 2018 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 standards not yet applied, etc.

(Accounting standard for revenue recognition, etc.)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 on March 30,2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 on March 30,2018, Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed comprehensive accounting standards for revenue recognition and published the "Revenue from Contracts with Customers" (IFRS 15 in the IASB and Topic 606 in the FASB) in May 2014. Given that IFRS 15 will be applied from a fiscal year starting on or after January 1, 2018 and that Topic 606 will be applied from a fiscal year starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them in step with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to be adding alternative accounting treatments without losing comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned date of application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application of the accounting standards, etc.

The amount of the impact on consolidated financial statements is currently under review.

3. Inventories

Inventories as of March 31, 2017 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Merchandise and finished goods	¥100	¥346	\$3,255
Raw material and supplies	251	252	2,371
Total	¥351	¥598	\$5,626

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)
	2017	2018	2018
Allowance for expected losses on construction contracts in process	¥242	¥220	\$2,072
Costs on uncompleted construction contracts	—	—	—
Merchandise and finished goods	—	—	—
Total	¥242	¥220	\$2,072

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.

5. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2017 and 2018 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Cash and time deposits	¥1,989	¥2,199	\$20,694
Time deposits with maturities exceeding three months from the date of deposit	(1,491)	(1,483)	(13,961)
Deposits to the holding company	4,821	5,141	48,382
Total: Cash and cash equivalents	¥5,320	¥5,856	\$55,115

6. Research and Development Expenses

Research and development expenses included in general and administrative expenses amounted to ¥43 million and 37 million (US\$352 thousand), for the years ended March 31, 2017 and 2018, respectively.

7. Contingent Liabilities

Contingent liabilities at March 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Notes receivable securitized with recourse	—	—	—
Total	—	—	—

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, 2017 and 2018 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, 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

Segment information as of and for the fiscal year ended March 31, 2018 was as follows:

	Millions of yen		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2018			
Sales			
Outside customers	¥31,771	¥6,799	¥38,570
intergroup	48	51	98
Total	31,818	6,850	38,669
Segment profit (loss)	¥2,645	¥354	¥2,999
Segment Assets	¥10,626	¥6,227	¥16,852
Depreciation expense	33	91	124
Interest income	35	—	35
Investment gains(losses) on equity method	(10)	—	(10)
Investments of unconsolidated subsidiaries	50	—	50
Capital expenditures	22	85	107

	Thousands of U.S. dollars (Note 1)		
	Engineering	Piping and Soundproof materials	Total
Year ended March 31, 2018			
Sales			
Outside customers	\$299,019	\$63,995	\$363,014
intergroup	448	478	926
Total	299,467	64,473	363,940
Segment profit (loss)	\$24,890	\$3,335	\$28,224
Segment Assets	\$100,005	\$58,604	\$158,609
Depreciation expense	311	856	1,167
Interest income	325	—	325
Investment gains(losses) on equity method	(98)	—	(98)
Investments of unconsolidated subsidiaries	470	—	470
Capital expenditures	209	800	1,009

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

Millions of yen

Sales	March 31,2017	March 31,2018
Segment total	¥34,036	¥38,669
Intergroup	(90)	(98)
Sales on financial report	33,945	38,570

Millions of yen

Profits	March 31,2017	March 31,2018
Segment total	¥2,915	¥2,999
Corporation	(698)	(701)
Ordinary Profits on financial report	2,217	2,298

Millions of yen

Assets	March 31,2017	March 31,2018
Segment total	¥18,295	¥16,852
Corporation	5,508	5,923
Total Assets on financial report	23,804	22,775

Millions of yen

Others	Segment total		Adjustments		Financial report	
	2017	2018	2017	2018	2017	2018
Depreciation expense	¥120	¥124	¥22	¥22	¥143	¥146
Amortization of Goodwill	—	—	—	—	—	—
Interest income	35	35	27	28	62	62
Interest Expense	—	—	0	0	0	0
Investment gains(losses) on equity method	(11)	(10)	—	—	(11)	(10)
Investments of unconsolidated subsidiaries	56	50	—	—	56	50
Capital expenditures	118	107	34	10	151	117

Thousands of U.S.dollars(Note 1)

Sales	March 31,2017	March 31,2018
Segment total	\$303,374	\$363,940
Intergroup	(804)	(926)
Sales on financial report	302,570	363,014

Thousands of U.S.dollars(Note 1)

Profits	March 31,2017	March 31,2018
Segment total	\$25,978	\$28,224
Corporation	(6,221)	(6,598)
Ordinary Profits on financial report	19,757	21,626

Thousands of U.S.dollars(Note 1)

Assets	March 31,2017	March 31,2018
Segment total	\$163,075	\$158,609
Corporation	49,097	55,742
Total Assets on financial report	212,171	214,351

Thousands of U.S.dollars(Note 1)

Others	Segment total		Adjustments		Financial report	
	2017	2018	2017	2018	2017	2018
Depreciation expense	\$1,073	\$1,167	\$200	\$210	\$1,273	\$1,377
Amortization of Goodwill	—	—	—	—	—	—
Interest and Dividends received	316	325	239	260	555	585
Interest Expense	—	—	1	1	1	1
Investment gains(losses) on equity method	(100)	(98)	—	—	(100)	(98)
Investments of unconsolidated subsidiaries	503	470	—	—	503	470
Capital expenditures	1,051	1,009	299	91	1,350	1,100

(e) Relative Information

March 31,2018

1. Area information

Sales

Millions of yen

Japan	Others	Total
¥33,455	¥5,116	¥38,570

Thousands of U.S.dollars(Note 1)

Japan	Others	Total
\$314,868	\$48,146	\$363,014

2. Main Customer Information

Millions of yen

Customer's name	Sales	Relevant Segment
Hachinohe Smelting Co., Ltd.	6,305	Engineering
Kamioka Smelting Co., Ltd.	9,443	Engineering

Thousands of U.S.dollars(Note 1)

Customer's name	Sales	Relevant Segment
Hachinohe Smelting Co., Ltd.	59,345	Engineering
Kamioka Smelting Co., Ltd.	88,873	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 30.7% for the years ended March 31, 2017 and 2018.

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, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Deferred tax assets:			
Unpaid enterprise tax	¥36	¥30	\$282
Accrued business office taxes	3	3	32
Excess accrued bonuses to employees	114	117	1,102
Allowance for warranties for completed construction	26	38	353
Allowance for expected losses on construction contracts in process	74	67	632
Employees' retirement benefits	337	318	2,992
Directors' and corporate auditors' retirement benefits	18	16	150
Excess bad debt expenses	9	7	61
Loss on valuation of golf course membership	11	11	104
Loss on valuation of inventories	1	6	56
Accrued social insurance	19	20	191
Others	20	44	417
Subtotal	¥669	¥677	\$6,374
Valuation allowance	(¥16)	(¥14)	(\$134)
Total deferred tax assets	¥653	¥663	\$6,240
Deferred tax liabilities:			
Retained earnings of foreign subsidiaries	¥96	¥107	\$1,011
Accumulated adjustments for retirement benefit	¥19	¥31	\$288
Unrealized gains (losses) on hedging derivatives, net of tax	—	¥4	\$38
Others	¥0	¥1	\$6
Total deferred tax liabilities	¥116	¥143	\$1,344
Net deferred tax assets	¥537	¥520	\$4,896

The net deferred tax assets at March 31, 2017 and 2018 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Deferred tax assets - current	¥289	¥314	\$2,956
Deferred tax assets - non current	¥249	¥207	\$1,946
Deferred tax liabilities - non current	¥0	¥1	\$6

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, 2017 and 2018.

	2017	2018
Statutory income tax rate	30.7%	30.7%
Permanent difference due to non-deductible expense	0.9	1.0
Inhabitant tax	0.7	0.7
Valuation allowance	(0.0)	(0.1)
Difference in tax rates of foreign consolidated subsidiaries	(0.1)	(0.8)
Retained earnings of foreign consolidated subsidiaries	(2.9)	0.5
Others	0.3	0.2
Tax rate calculated based on the Company's consolidated financial statements	29.6%	32.3%

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

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Balance at the beginning of the fiscal year	¥2,264	¥2,351	\$22,126
Service cost	158	159	1,498
Interest cost	—	—	—
Actuarial loss(gain)	116	8	73
Benefits paid	(188)	(197)	(1,856)
Balance at the end of the fiscal year	¥2,351	¥2,321	\$21,840

(b) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Balance at the beginning of the fiscal year	¥1,231	¥1,310	\$12,329
Expected return on plan assets	19	26	247
Actuarial loss(gain)	105	94	885
Contributions paid by the employer	43	44	418
Benefits paid	(88)	(96)	(904)
Balance at the end of the fiscal year	¥1,310	¥1,379	\$12,975

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

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Funded retirement benefit obligations	¥1,247	¥1,278	\$12,030
Plan assets	(1,310)	(1,379)	(12,975)
	(63)	(100)	(945)
Unfunded retirement benefit obligations	1,103	1,042	9,811
Total Net liability(asset) for retirement benefits at the end of the fiscal year	1,041	942	8,865
Liability for retirement benefits	1,103	1,042	9,811
Asset for retirement benefits	(63)	(100)	(945)
Total Net liability(asset) for retirement benefits at the end of the fiscal year	¥1,041	¥942	\$8,865

(d) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Service cost	¥158	¥159	\$1,498
Interest cost	—	—	—
Expected return on plan assets	(19)	(26)	(247)
Net actuarial loss amortization	(3)	19	174
Total retirement benefit costs for the fiscal years ended March31	¥136	¥151	\$1,425

(e) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars(Note1)
	2017	2018	2018
Actual gains and losses that are yet to be recognized	¥99	¥6	\$56
Total balance at the end of the fiscal year	¥99	¥6	\$56

(f) Plan assets

1. Plan assets comprise

	2017	2018
Equity securities	56.2%	54.4%
Bonds	39.9%	41.1%
Other	3.9%	4.5%
Total	100.0%	100.0%

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 2017 and 2018 were as follows :

	2017	2018
Discount rate	0.0%	0.0%
Long-term expected rate of return	1.54%	2.00%

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, 2018 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
Year ended March 31, 2018			
Assets:			
(a) Cash and time deposits:	¥2,199	¥2,199	¥ —
(b) Notes and accounts receivable from completed construction contracts:	10,630	10,630	—
(c) Deposits to the holding company:	5,141	5,141	—
Total:	17,969	17,969	—
Liabilities:			
(a) Notes and accounts payable for construction contracts:	(4,637)	(4,637)	—
(b) Advances received on uncompleted construction contracts:	(1,567)	(1,567)	—
Total:	(6,203)	(6,203)	—
Derivative transactions	13	13	—
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
Year ended March 31, 2018			
Assets:			
(a) Cash and time deposits:	\$20,694	20,694	\$ —
(b) Notes and accounts receivable from completed construction contracts:	100,047	100,047	—
(c) Deposits to the holding company:	48,382	48,382	—
Total:	169,123	169,123	—
Liabilities:			
(a) Notes and accounts payable for construction contracts:	(43,639)	(43,639)	—
(b) Advances received on uncompleted construction contracts:	(14,744)	(14,744)	—
Total:	(58,383)	(58,383)	—
Derivative transactions	125	125	—
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	¥50	\$470

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 , 2018 to March 31 , 2019	April 1 , 2019 to March 31 , 2023
Year ended March 31, 2018		
(a)Cash and time deposits:	¥2,199	¥ —
(b)Notes and accounts receivable from completed construction contracts:	10,630	—
(c) Deposits to the holding company:	5,141	—
Total:	17,969	—

	Thousands of U.S.dollars (Note 1)	
	April 1 , 2018 to March 31 , 2019	April 1 , 2019 to March 31 , 2023
Year ended March 31, 2018		
(a)Cash and time deposits:	\$20,694	\$ —
(b)Notes and accounts receivable from completed construction contracts:	100,047	—
(c) Deposits to the holding company:	48,382	—
Total:	169,123	—

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.

(a) Derivative transactions for which hedge accounting had not been applied as of March 31, 2018 was as follows:

Commodity-related derivatives

Type		Millions of	Thousands of
		Yen	U.S. dollars (Note 1)
		2018	2018
Forward contracts			
Buying:	Contract amounts	20	\$184
metal:	Due over one year		
	Market value	20	\$191
	Net unrealized gains	1	\$7

Notes: Market values of commodity forward contracts are based on forward rates or prices provided by financial institutions

(b) Derivative transactions for which hedge accounting had been applied as of March 31, 2018 were as follows:

Currency-related derivatives

Type	Hedged items		Millions of	Thousands of
			yen	U.S. dollars (Note 1)
			2018	2018
Forward contracts				
Selling:				
U.S.dollars:	Notes and accounts receivable from completed construction contracts	Contract amounts	¥112	\$1,057
		(Due over one year)	(—)	(—)
		Market value	106	1,001
		Unrealized gain(loss)	6	56
Buying:				
U.S.dollars:	Notes and accounts payable for construction contracts	Contract amounts	¥119	\$1,117
		(Due over one year)	(—)	(—)
		Market value	119	1,115
		Unrealized gain(loss)	(0)	(1)
Euros:	Notes and accounts payable for construction contracts	Contract amounts	¥255	\$2,399
		(Due over one year)	(—)	(—)
		Market value	261	2,459
		Unrealized gain(loss)	6	60
Malaysia Ringgits	Notes and accounts payable for construction contracts	Contract amounts	¥31	\$291
		(Due over one year)	(—)	(—)
		Market value	31	293
		Unrealized gain(loss)	0	3
Total		Contract amounts	¥517	\$4,864
		(Due over one year)	(—)	(—)
		Market value	517	4,869
		Unrealized gain(loss)	12	118

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, 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)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage held by the holding company				
(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)	Description of transaction	Amount	Account	Amount
(d) Equity ownership percentage held by the holding company				
(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 23 workers on loan (22 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 (b) Attribution (c) Capital (Thousands of Baht) (d) Equity ownership percentage of the Company	Transactions during the year ended March 31, 2017		Balance at the end of the year	
	Description of transaction	Amount	Account	Amount
(a) Siam Mesco Co.,Ltd. (b) Unconsolidated subsidiary (c) 3,000 (d) 49.0%	Sales	¥8	Notes and accounts receivable from completed construction contracts	¥5
	Purchases	65	—	—

Thousands of U.S.dollars (Note1)				
2017				
(a) Name (b) Attribution (c) Capital (Thousands of Baht) (d) Equity ownership percentage of the Company	Transactions during the year ended March 31, 2017		Balance at the end of the year	
	Description of transaction	Amount	Account	Amount
(a) Siam Mesco Co.,Ltd. (b) Unconsolidated subsidiary (c) 3,000 (d) 49.0%	Sales	\$68	Notes and accounts receivable from completed construction contracts	\$41
	Purchases	580	—	—

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	Amount	Account	Amount
(d) Equity ownership percentage of the Company	transaction			
(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 receivables	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	Amount	Account	Amount
(d) Equity ownership percentage of the Company	transaction			
(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
3. 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, 2018

(1) Transactions of the Company with its holding company and significant shareholders, for the year ended March 31, 2018 were as follows:

Millions of Yen				
2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2018			
(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	¥3,286	Notes and accounts receivable from completed construction contracts	¥802
			Advances received on uncompleted construction contracts	0
(b) Holding Company	Purchases	760	Notes and accounts payable from completed construction contracts	147
			Other current liabilities	17
(c) 42,129	Deposit of funds	319	Deposits to the holding company	5,141
(d) Direct 63.4%	Interest income	28	—	—
	Interest expense	0	—	—

Thousands of U.S.dollars (Note1)				
2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2018			
(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	\$30,924	Notes and accounts receivable from completed construction contracts	\$7,549
			Advances received on uncompleted construction contracts	1
(b) Holding Company	Purchases	7,154	Notes and accounts payable from completed construction contracts	1,383
			Other current liabilities	161
(c) 42,129	Deposit of funds	3,004	Deposits to the holding company	48,382
(d) Direct 63.4%	Interest income	259	—	—
	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 23 workers on loan (21 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, 2018.
- 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, 2018 were as follows:

Millions of Yen				
2018				
(a) Name (b) Attribution (c) Capital (Thousands of Baht) (d) Equity ownership percentage of the Company	Transactions during the year ended March 31, 2018		Balance at the end of the year	
	Description of transaction	Amount	Account	Amount
(a) Siam Mesco Co.,Ltd. (b) Unconsolidated subsidiary (c) 3,000 (d) 49.0%	Sales	¥15	Notes and accounts receivable from completed construction contracts	—
	Purchases	0	—	—

Thousands of U.S.dollars (Note1)				
2018				
(a) Name (b) Attribution (c) Capital (Thousands of Baht) (d) Equity ownership percentage of the Company	Transactions during the year ended March 31, 2018		Balance at the end of the year	
	Description of transaction	Amount	Account	Amount
(a) Siam Mesco Co.,Ltd. (b) Unconsolidated subsidiary (c) 3,000 (d) 49.0%	Sales	\$141	Notes and accounts receivable from completed construction contracts	—
	Purchases	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, 2018 were as follows:

Millions of Yen				
2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2018			
(c) Capital	Description of	Amount	Account	Amount
(d) Equity ownership percentage of the Company	transaction			
(a) Hikoshima Smelting Co.,Ltd.				
(b) Company with the same parent company	Sales	¥791	Notes and accounts receivable from completed construction contracts	¥388
(c) 460 millions of yen				
(d) —				
(a) Hachinohe Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	¥324
(b) Company with the same parent company	Sales	¥6,305	Advances received on uncompleted construction contracts	—
(c) 4,795 millions of yen	Rent income of facilities	10	Other current receivable	6
(d) —	Purchases	55	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	¥482
(b) Company with the same parent company	Sales	¥9,443	Other current receivables	0
(c) 4,600 millions of yen			Advances received on uncompleted construction contracts	1,270
(d) —	Purchases	2	Other current liabilities	1

Thousands of U.S.dollars (Note1)				
2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2018			
(c) Capital	Description of	Amount	Account	Amount
(d) Equity ownership percentage of the Company	transaction			
(a) Hikoshima Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$3,650
(b) Company with the same parent company	Sales	\$7,445	Advances received on uncompleted construction	—
(c) 460 millions of yen			Other current receivables	55
(d) —	Purchases	522	Notes and accounts payable from completed construction contracts	18
			Other current liabilities	21
(a) Kamioka Mining and Smelting Co.,Ltd.			Notes and accounts receivable from completed construction contracts	\$4,538
(b) Company with the same parent company	Sales	\$88,873	Other current receivables	5
(c) 4,600 millions of yen			Advances received on uncompleted construction contracts	11,951
(d) —	Purchases	16	Other current receivables	8

Millions of Yen

2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2018			
(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	¥549	Notes and accounts receivable from completed construction contracts	¥320
(c) 100 millions of yen				
(d) —				

Thousands of U.S.dollars (Note1)

2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	March 31, 2018			
(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	¥5,170	Notes and accounts receivable from completed construction contracts	¥3,010
(c) 100 millions of yen				
(d) —				

(4) Transactions of the consolidated subsidiaries of Company with companies with the same parent company and subsidiaries of other affiliates of the Company for the year ended March 31, 2018 were as follows:

Millions of Yen				
2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	31-Mar-18			
(c) Capital	Description of	Amount	Account	Amount
(d) Equity ownership percentage of the Company	transaction			
(a) Mitsui Copper Foil (Malaysia) SDN.BHD.				
(b) Company with the same parent company	Sales	¥1,816	Notes and accounts receivable from completed construction contracts	¥1,763
(c) 330 millions of Malaysia Ringgits				
(d) —				
(a) TAIWAN COPPER FOIL CO., LTD.				
(b) Company with the same parent company	Sales	¥549	Notes and accounts receivable from completed construction contracts	¥474
(c) 800 millions of NT\$				
(d) —				
Thousands of U.S.dollars				
2018				
(a) Name	Transactions during the year ended		Balance at the end of the year	
(b) Attribution	31-Mar-18			
(c) Capital	Description of	Amount	Account	Amount
(d) Equity ownership percentage of the Company	transaction			
(a) Mitsui Copper Foil (Malaysia) SDN.BHD.				
(b) Company with the same parent company	Sales	\$17,092	Notes and accounts receivable from completed construction contracts	\$16,594
(c) 330 millions of Malaysia Ringgits				
(d) —				
(a) TAIWAN COPPER FOIL CO., LTD.				
(b) Company with the same parent company	Sales	\$5,165	Notes and accounts receivable from completed construction contracts	\$4,459
(c) 800 millions of NT\$				
(d) —				

Notes :

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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
3. 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, 2017 and 2018 were as follows:

	Net income (Millions of yen)	Weighted- average shares (Thousands)	Net income per share (Yen)	
Year ended March 31, 2017				
Net income available to common shareholders	¥1,559	12,774	¥122.08	
	Net income (Millions of yen)	Weighted- average shares (Thousands)	Net income per share (Yen)	Net income per share (U.S. dollars (Note 1))
Year ended March 31, 2018				
Net income available to common shareholders	¥1,557	12,772	¥121.87	\$1.15

16. Consolidated Statement of Comprehensive Income

Year ended March 31, 2017 and 2018

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)
	2017	2018	2018
Unrealized gains (losses) on hedging derivatives:			
Increase(decrease) during the year	(¥25)	¥13	\$125
Reclassification adjustments	37	25	239
Sub-total, before tax	12	39	364
Tax (expense) or benefit	(4)	(12)	(112)
Sub-total, net of tax	8	27	253
Foreign currency translation adjustments:			
Increase(decrease) during the year	(101)	103	965
Sub-total, net of tax	(101)	103	965
Share of other comprehensive income of associates accounted for using equity			
Increase(decrease) during the year	(2)	4	37
Sub-total, net of tax	(2)	4	37
Retirement Benefits adjustments			
Increase(decrease) during the year	(¥12)	¥86	812
Reclassification adjustments	(3)	19	174
Sub-total, before tax	(15)	105	987
Tax (expense) or benefit	5	(32)	(301)
Sub-total, net of tax	(10)	73	685
Total other comprehensive income	(105)	206	1,940

Directors and Auditors

(As of June 22, 2018)

President and Representative Director

Kazuhiko Aoki

Managing Directors

Tetsuro Mizuki

Yoshihiko Koura

Directors

Motohiro Kihara

Yoichi Tanaka

Shoji Kawano

Naoyuki Ito

Yoshiya Matsuo

Katsunori Kobayashi

Toshihiro Kamada

Kenji Miyamoto

Auditors

Shunji Kuwano

Jun-ichi Yamamoto

Yasuhiro Osawa

Corporate Data

(As of March 31, 2018)

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: 2,566

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.	¥22	100
TAIWAN MESCO Co.,Ltd.	¥18	100

Non-consolidated subsidiaries:

	Paid-in Capital (Millions)	Share (%)
SIAM MESCO Co.,Ltd.	¥6	49

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