Consolidated Financial Statements

Meisei Industrial Co., Ltd.
and Consolidated Subsidiaries

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

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

Year ended March 31, 2017

Contents

Consolidated Financial Statements

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Financial Highlights

(Millions of yen, except for per share amounts)

	2017	2016	2015	2014	2013
For the Year:					
Construction orders awarded	¥ 49,348	¥ 43,852	¥ 53,979	¥ 45,535	¥ 39,841
Net sales	51,715	45,413	46,873	43,813	41,629
Operating income	5,597	5,717	5,712	3,685	2,793
Profit	3,919	3,923	4,177	2,241	2,076
Per Share (yen):					
Net profit – basic	75.45	73.83	77.68	41.17	37.18
Net profit – diluted	75.41	73.73	77.45	41.06	37.17
Cash dividends	14.00	10.00	8.00	8.00	6.00
At the Year End:					
Total assets	58,222	54,463	53,052	49,777	46,375
Common stock	6,889	6,889	6,889	6,889	6,889
Net assets	41,474	38,402	35,614	32,486	30,110
Net assets per share (yen)	795.28	721.08	666.95	593.14	549.86
Interest-bearing debt	1,114	1,330	1,628	1,676	2,215
General:					
Number of subsidiaries	12	12	12	13	13
Number of employees	626	616	629	635	635

(Thousands of U.S. dollars, except for per share amounts)

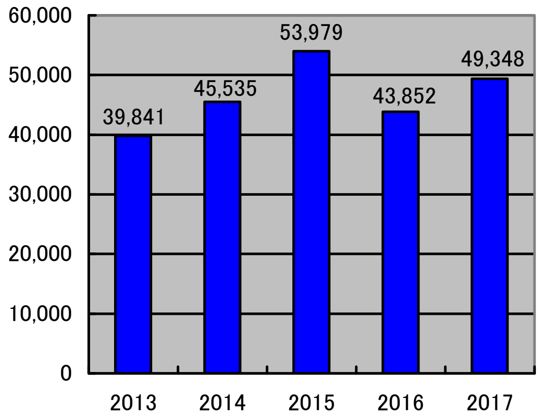
	2017	2016	2015	2014	2013
For the Year:					
Construction orders awarded	$ 439,861	$ 390,873	$ 481,139	$ 405,874	$ 355,121
Net sales	460,959	404,787	417,800	390,525	371,058
Operating income	49,889	50,958	50,914	32,846	24,895
Profit	34,932	34,967	37,231	19,975	18,504
Per Share (dollars):					
Net profit – basic	0.67	0.66	0.69	0.37	0.33
Net profit – diluted	0.67	0.66	0.69	0.37	0.33
Cash dividends	0.12	0.09	0.07	0.07	0.05
At the Year End:					
Total assets	518,959	485,453	472,876	443,685	413,361
Common stock	61,405	61,405	61,405	61,405	61,405
Net assets	369,676	342,294	317,444	289,562	268,384
Net assets per share (dollars)	7.09	6.43	5.94	5.29	4.90
Interest-bearing debt	9,930	11,855	14,511	14,939	19,743

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Financial Highlights

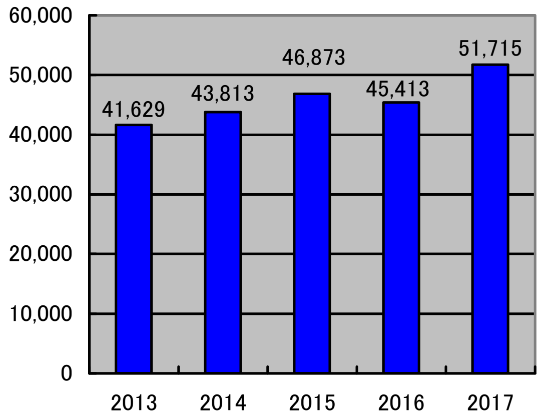
Construction Orders Awarded

Millions of yen



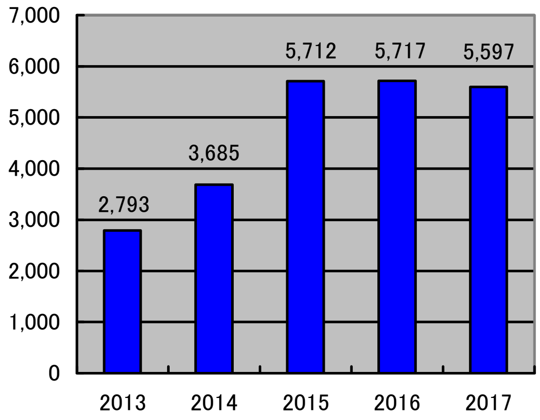
Net Sales

Millions of yen



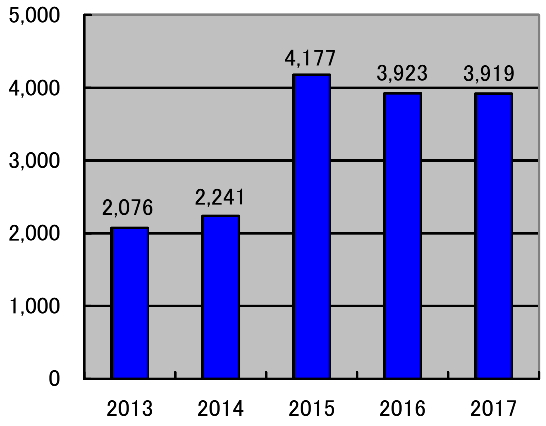
Operating Income

Millions of yen



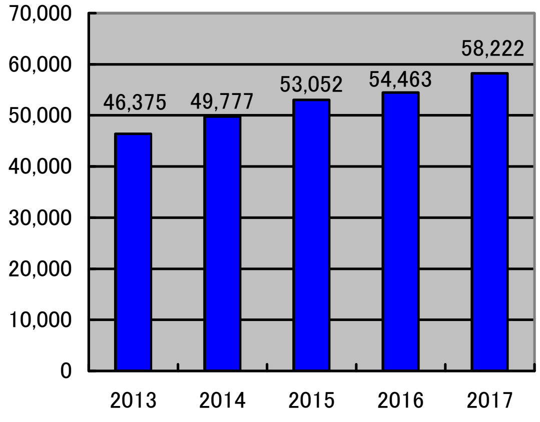
Profit

Millions of yen



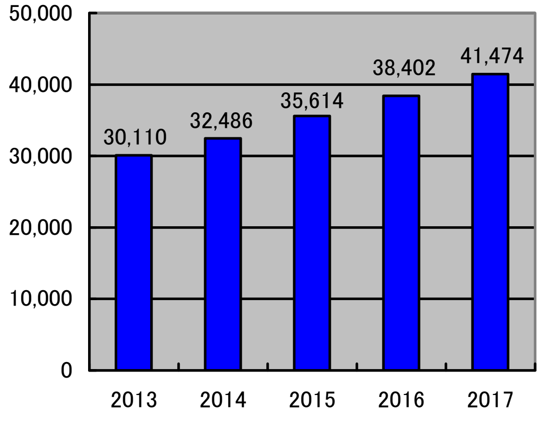
Total Assets

Millions of yen



Net Assets

Millions of yen



Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31, 2017	March 31, 2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and deposits *(Notes 15 and 16)*	¥ 13,708	¥ 16,246	$ 122,186
Trade receivable *(Note 16)*:			
Notes	2,107	2,145	18,781
Electronically recorded monetary claims	3,505	1,742	31,242
Accounts	15,628	13,467	139,299
	21,240	17,354	189,322
Short-term investments *(Notes 3 and 16)*	57	34	508
Inventories *(Note 4)*	2,723	1,777	24,271
Deferred income taxes *(Note 7)*	271	286	2,416
Other current assets	481	398	4,287
Less: Allowance for doubtful receivables	(24)	(44)	(214)
Total current assets	38,456	36,051	342,776
Property, plant and equipment *(Note 5)*:			
Land *(Note 12)*	11,375	11,375	101,390
Buildings and structures	9,435	8,200	84,098
Machinery and vehicles	4,654	4,563	41,483
Tools, furniture and fixtures and construction in progress	1,158	1,400	10,323
	26,622	25,538	237,294
Accumulated depreciation	(10,990)	(10,918)	(97,959)
Property, plant and equipment, net	15,632	14,620	139,335
Investments and other assets:			
Investments in securities *(Notes 3, 9 and 16)*	3,632	3,162	32,374
Deferred income taxes *(Note 7)*	54	117	481
Other assets	485	553	4,323
Less: Allowance for doubtful receivables	(37)	(40)	(330)
Total investments and other assets	4,134	3,792	36,848
Total assets *(Note 21)*	¥ 58,222	¥ 54,463	$ 518,959

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

	March 31, 2017	March 31, 2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Liabilities			
Current liabilities:			
Short-term bank loans *(Notes 6 and 16)*	¥ –	¥ 400	$ –
Current portion of long-term debt *(Notes 6 and 16)*	72	930	642
Trade payable *(Note 16)*:			
Notes	2,580	2,189	22,997
Electronically recorded obligations	993	190	8,851
Accounts	4,524	4,718	40,324
	8,097	7,097	72,172
Advances received on uncompleted construction contracts	642	800	5,722
Income taxes payable *(Note 7)*	954	1,138	8,504
Provision for compensation for completed construction	123	109	1,096
Accrued bonuses to employees	398	419	3,548
Accrued bonuses to directors	70	70	624
Provision for losses on construction contracts *(Note 13)*	0	0	0
Other current liabilities	1,573	1,244	14,021
Total current liabilities	11,929	12,207	106,329
Long-term liabilities:			
Long-term debt *(Notes 6, 16 and 17)*	1,042	–	9,288
Liability for retirement benefits *(Note 8)*	832	1,058	7,416
Accrued retirement benefits for directors, including directors serving as audit and supervisory committee members	379	345	3,378
Deferred income taxes *(Note 7)*	2,492	2,374	22,212
Asset retirement obligations	16	16	143
Other long-term liabilities	58	61	517
Total long-term liabilities	4,819	3,854	42,954
Contingent liabilities *(Note 10)*			
Net assets			
Shareholders' equity *(Note 11):*			
Common stock:			
Authorized – 190,000,000 shares			
Issued – 59,386,718 shares at March 31, 2017 and 2016	6,889	6,889	61,405
Capital surplus	1,002	1,003	8,931
Retained earnings *(Note 22)*	33,774	30,431	301,043
Less: Treasury stock, at cost	(2,634)	(2,117)	(23,478)
Total shareholders' equity	39,031	36,206	347,901
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	883	629	7,871
Revaluation reserve for land *(Note 12)*	959	959	8,548
Foreign currency translation adjustments	338	490	3,013
Retirement benefits liability adjustments	(6)	(121)	(54)
Total accumulated other comprehensive income	2,174	1,957	19,378
Stock acquisition rights *(Note 18)*	13	19	115
Non-controlling interests	256	220	2,282
Total net assets *(Note 19)*	41,474	38,402	369,676
Total liabilities and net assets	¥ 58,222	¥ 54,463	$ 518,959

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

	Year ended March 31,		
	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales *(Note 21)*	¥ 51,715	¥ 45,413	$ 460,959
Cost of sales *(Notes 13 and 14)*	41,881	35,503	373,304
Gross profit	9,834	9,910	87,655
Selling, general and administrative expenses *(Note 14)*	4,237	4,193	37,766
Operating income *(Note 21)*	5,597	5,717	49,889
Other income (expenses):			
Interest and dividend income	121	110	1,079
Rental income on real estate *(Note 5)*	110	121	980
Foreign exchange loss, net	(9)	(67)	(80)
Interest expense	(9)	(13)	(80)
Cost of real estate rent *(Note 5)*	(74)	(59)	(660)
Loss on devaluation of investments in securities *(Note 3)*	–	(10)	–
Other, net	(30)	(12)	(268)
	109	70	971
Profit before income taxes	5,706	5,787	50,860
Income taxes *(Note 7)*:			
Current	1,717	1,873	15,304
Deferred	34	(51)	303
	1,751	1,822	15,607
Profit	3,955	3,965	35,253
Profit attributable to:			
Non-controlling interests	36	42	321
Owners of parent *(Note 19)*	¥ 3,919	¥ 3,923	$ 34,932

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Profit	¥ 3,955	¥ 3,965	$ 35,253
Other comprehensive income (loss) *(Note 20)*:			
Net unrealized holding gain (loss) on securities	254	(252)	2,264
Foreign currency translation adjustments	(152)	(258)	(1,355)
Retirement benefits liability adjustments	115	(113)	1,025
Revaluation reserve for land	–	26	–
Other comprehensive income (loss), net	217	(597)	1,934
Comprehensive income	¥ 4,172	¥ 3,368	$ 37,187
Comprehensive income attributable to:			
Owners of parent	¥ 4,136	¥ 3,327	$ 36,866
Non-controlling interests	36	42	321

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2017

		Shareholders' equity				Accumulated other comprehensive income						
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefits liability adjustments	Stock acquisition rights	Non-controlling interests	Total net assets
						(Millions of yen)						
Balance at April 1, 2015	59,386,718	¥ 6,889	¥ 1,000	¥ 26,986	¥ (2,016)	¥ 881	¥ 933	¥ 748	¥ (8)	¥ 23	¥178	¥ 35,614
Profit attributable to owners of parent for the year	–	–	–	3,923	–	–	–	–	–	–	–	3,923
Cash dividends	–	–	–	(478)	–	–	–	–	–	–	–	(478)
Purchase of treasury stock	–	–	–	–	(145)	–	–	–	–	–	–	(145)
Disposal of treasury stock	–	–	3	–	44	–	–	–	–	–	–	47
Other changes	–	–	–	–	–	(252)	26	(258)	(113)	(4)	42	(559)
Balance at April 1, 2016	59,386,718	¥ 6,889	¥ 1,003	¥ 30,431	¥ (2,117)	¥ 629	¥ 959	¥ 490	¥ (121)	¥ 19	¥220	¥ 38,402
Profit attributable to owners of parent for the year	–	–	–	3,919	–	–	–	–	–	–	–	3,919
Cash dividends	–	–	–	(576)	–	–	–	–	–	–	–	(576)
Purchase of treasury stock	–	–	–	–	(546)	–	–	–	–	–	–	(546)
Disposal of treasury stock	–	–	(1)	–	29	–	–	–	–	–	–	28
Other changes	–	–	–	–	–	254	–	(152)	115	(6)	36	247
Balance at March 31, 2017	59,386,718	¥ 6,889	¥ 1,002	¥ 33,774	¥ (2,634)	¥ 883	¥ 959	¥ 338	¥ (6)	¥ 13	¥ 256	¥ 41,474

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Revaluation reserve for land	Foreign currency translation adjustments	Retirement benefits liability adjustments	Stock acquisition rights	Non-controlling interests	Total net assets
					(Thousands of U.S. dollars) (Note 2)						
Balance at April 1, 2016	$ 61,405	$ 8,940	$ 271,245	$(18,870)	$ 5,607	$ 8,548	$ 4,368	$ (1,079)	$ 169	$ 1,961	$ 342,294
Profit attributable to owners of parent for the year	–	–	34,932	–	–	–	–	–	–	–	34,932
Cash dividends	–	–	(5,134)	–	–	–	–	–	–	–	(5,134)
Purchase of treasury stock	–	–	–	(4,867)	–	–	–	–	–	–	(4,867)
Disposal of treasury stock	–	(9)	–	259	–	–	–	–	–	–	250
Other changes	–	–	–	–	2,264	–	(1,355)	1,025	(54)	321	2,201
Balance at March 31, 2017	$ 61,405	$ 8,931	$ 301,043	$(23,478)	$ 7,871	$ 8,548	$ 3,013	$ (54)	$ 115	$ 2,282	$ 369,676

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Cash flows from operating activities			
Profit before income taxes	¥ 5,706	¥ 5,787	$ 50,860
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	401	316	3,574
Increase (decrease) in provision for losses on construction contracts	0	(18)	0
Increase in accrued retirement benefits for directors, including directors serving as audit and supervisory committee members	34	25	303
Decrease in liability for retirement benefits, net	(59)	(101)	(526)
Decrease in allowance for doubtful receivables	(22)	(5)	(196)
Interest and dividend income	(121)	(110)	(1,079)
Interest expense	9	13	80
Foreign exchange loss, net	29	97	259
Loss on valuation of investments in securities	2	–	18
Loss on devaluation of investments in securities	–	10	–
Changes in operating assets and liabilities:			
Trade receivable	(3,886)	(921)	(34,638)
Inventories	(947)	(115)	(8,441)
Trade payable	1,182	(352)	10,536
Advances received on uncompleted construction contracts	(158)	(214)	(1,408)
Other, net	69	(511)	615
Subtotal	2,239	3,901	19,957
Interest and dividends received	121	110	1,079
Interest paid	(9)	(13)	(80)
Income taxes paid	(1,952)	(2,365)	(17,399)
Net cash provided by operating activities	399	1,633	3,557
Cash flows from investing activities			
Decrease in time deposits, net	361	636	3,218
Purchases of investments in securities	(508)	(599)	(4,528)
Proceeds from sales or redemptions of investments in securities	339	396	3,022
Purchases of property, plant and equipment	(1,415)	(494)	(12,613)
Other, net	(13)	(20)	(116)
Net cash used in investing activities	(1,236)	(81)	(11,017)
Cash flows from financing activities			
(Decrease) increase in short-term bank loans, net	(400)	150	(3,565)
Proceeds from long-term debt	1,150	100	10,250
Repayment of long-term debt	(966)	(548)	(8,610)
Purchases of treasury stock	(546)	(145)	(4,867)
Cash dividends paid	(575)	(479)	(5,125)
Proceeds from exercise of stock options	20	35	178
Other, net	(2)	17	(18)
Net cash used in financing activities	(1,319)	(870)	(11,757)
Effect of exchange rate changes on cash and cash equivalents	(93)	(238)	(829)
(Decrease) increase in cash and cash equivalents	(2,249)	444	(20,046)
Cash and cash equivalents at beginning of year	15,326	14,882	136,607
Cash and cash equivalents at end of year *(Note 15)*	¥ 13,077	¥ 15,326	$ 116,561

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of Meisei Industrial Co., Ltd. (the “Company”) and its consolidated subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles generally accepted in Japan but are presented as additional information.

(b) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 12 majority-owned subsidiaries for the year ended March 31, 2017. All significant intercompany transactions and accounts have been eliminated in consolidation.

The overseas consolidated subsidiaries are consolidated on the basis of the year ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant transactions which took place during the period between the year end of these overseas subsidiaries and the year end of the Company.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash and subject to little risk of any change in their value and which were purchased with original maturities of three months or less.

(d) Short-term Investments and Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities, or other securities. Trading securities, consisting of debt and marketable equity securities are stated at fair value. Gain or loss, both realized and unrealized, is charged or credited to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

Investments in limited partnerships are stated at the share of net equity based on the financial statements as of and for the most recent fiscal period ended using the respective balance sheet dates specified in the partnership agreements.

(e) Inventories

Uncompleted construction contracts are stated at the lower of cost or net selling value, cost being determined on an individual project basis.

Materials and supplies as well as merchandise and finished goods are mainly stated at the lower of cost or net selling value, cost being determined by the moving average method.

(f) Property, Plant and Equipment (other than leased assets)

Property, plant and equipment are stated at cost. For the Company and its domestic consolidated subsidiaries, depreciation is computed at rates based on the estimated useful lives of the respective assets by the declining-balance method, except for buildings (other than facilities attached to the buildings) acquired on or subsequent to April 1, 1998 as well as facilities attached to the buildings and structures acquired on or after to April 1, 2016 to which the straight-line method is applied.

For the overseas consolidated subsidiaries, property, plant and equipment are depreciated at rates based on their respective estimated useful lives by the straight-line method.

(g) Leased Assets

Leased assets are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

1. Summary of Significant Accounting Policies (continued)

(h) Allowance for Doubtful Receivables

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful receivables at the estimated aggregate amount of probable specific bad debts plus an amount calculated based on their historical experience with bad debts. The overseas consolidated subsidiaries provide an allowance for doubtful receivables at the estimated aggregate amount of probable specific bad debts.

(i) Provision for Compensation for Completed Construction

Provision for compensation for completed construction is provided for anticipated future costs arising from warranties on completed construction.

(j) Accrued Bonuses to Employees

The Company and its domestic consolidated subsidiaries provide for accrued bonuses to employees at an estimate of the amounts to be paid.

(k) Accrued Bonuses to Directors

The Company and certain domestic consolidated subsidiaries provide for accrued bonuses to directors at an estimate of the amounts to be paid.

(l) Provision for Losses on Construction Contracts

Provision for losses on construction contracts is provided based on an estimate of the losses expected to be incurred subsequent to the balance sheet date, for which amounts can be estimated rationally.

(m) Retirement Benefits

Liability for retirement benefits for employees have been provided mainly at the amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets as of the balance sheet date. The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the years following the year in which the gain or loss is recognized by the straight-line method over a period (mainly 10 years), which is within the estimated the average remaining years of service of the employees. Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 10 years), which is within the estimated the average remaining years of service of the employees.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities based on the benefits payable, which are calculated as if all eligible employees voluntarily terminated their employment at year-end.

In addition, accrued retirement benefits for directors, including directors serving as audit and supervisory committee members are provided at the amount payable at year-end in accordance with the Company’s internal regulations or certain domestic consolidated subsidiaries’ internal regulations.

(n) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rates of exchange in effect at the balance sheet date and the resulting gain or loss is credited or charged to income. Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates in effect at the respective transaction dates.

The financial statements of the overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date of the respective overseas consolidated subsidiaries except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of profit but are reported as foreign currency translation adjustments and non-controlling interests in separate components of accumulated other comprehensive income.

(o) Revenue Recognition and Construction Contracts

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

1. Summary of Significant Accounting Policies (continued)

(p) Derivatives and Hedge Accounting

Derivatives are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for hedge accounting.

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (special accounting treatment).

Foreign exchange contracts and currency option agreements are used to hedge foreign currency trade payable resulting from the importing of raw materials. In addition, interest rate swap contracts are used to hedge short-term and long-term bank loans.

The Company and certain consolidated subsidiaries utilize derivative transactions to hedge the risk arising from future fluctuations in exchange rates and interest rates in relation to receivables and payables denominated in foreign currencies and borrowings, respectively. The Company and certain consolidated subsidiaries enter into derivative transactions to the extent of their risk exposure on the outstanding receivables, payables and borrowings, and the amounts of forecasted transactions. Furthermore, the Company and certain consolidated subsidiaries do not enter into derivative transactions for speculative or short-term trading purposes.

In entering into derivative transactions, the Company sets up risk management policies and establishes risk management structures and management process. The Company follows predetermined internal procedures when conducting derivative transactions.
In addition, all derivative transactions carried out by consolidated subsidiaries are reported to the Company in advance and in accordance with the Company's instructions.

The Company and certain consolidated subsidiaries evaluate the effectiveness of their hedges by comparing the accumulated fluctuations in cash flows or changes in market value of the hedging instruments and those of the corresponding underlying hedged items under the internal management rules. However, the evaluation of the effectiveness of interest-rate swaps accounted for by the special accounting treatment is omitted.

(Accounting Change)

The Company and its domestic consolidated subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Accounting Standards Board of Japan ("ASBJ") PITF No. 32, issued on June 17, 2016) in accordance with the revisions to the Corporate Tax Act of Japan. Accordingly, the depreciation method for both facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.
The impacts on consolidated operating income and profit before income taxes for the fiscal year ended March 31, 2017 were immaterial.

(Additional Information)

The Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the fiscal year ended March 31, 2017.

2. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥112.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2017. This translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Short-term Investments and Investments in Securities

Securities classified as held-to-maturity debt securities and other securities at March 31, 2017 and 2016 were summarized as follows:

Held-to-maturity debt securities

	2017		
	Carrying value	Estimated fair value	Unrealized gain
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
National and municipal government bonds	¥ 10	¥ 10	¥ 0
Total	¥ 10	¥ 10	¥ 0

	2016		
	Carrying value	Estimated fair value	Unrealized gain
		(Millions of yen)	
Securities whose estimated fair value exceeds their carrying value:			
National and municipal government bonds	¥ 9	¥ 10	¥ 1
Total	¥ 9	¥ 10	¥ 1

	2017		
	Carrying value	Estimated fair value	Unrealized gain
		(Thousands of U.S. dollars)	
Securities whose estimated fair value exceeds their carrying value:			
National and municipal government bonds	$ 89	$ 89	$ 0
Total	$ 89	$ 89	$ 0

Other securities

	2017		
	Acquisition cost	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 1,062	¥ 2,269	¥ 1,207
Corporate bonds	200	201	1
Other bonds	33	35	2
Other	54	90	36
Subtotal	1,349	2,595	1,246
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	16	15	(1)
Corporate bonds	231	228	(3)
Other	38	37	(1)
Subtotal	285	280	(5)
Total	¥ 1,634	¥ 2,875	¥ 1,241

	2016		
	Acquisition cost	Carrying value	Unrealized gain (loss)
		(Millions of yen)	
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 935	¥ 1,798	¥ 863
Corporate bonds	200	201	1
Other bonds	65	67	2
Other	54	81	27
Subtotal	1,254	2,147	893
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	134	123	(11)
Corporate bonds	203	201	(2)
Other bonds	25	23	(2)
Other	39	37	(2)
Subtotal	401	384	(17)
Total	¥ 1,655	¥ 2,531	¥ 876

3. Short-term Investments and Investments in Securities (continued)

	2017		
	Acquisition cost	Carrying value	Unrealized gain (loss)
		(Thousands of U.S. dollars)	
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$ 9,466	$ 20,224	$ 10,758
Corporate bonds	1,783	1,792	9
Other bonds	294	312	18
Other	481	802	321
Subtotal	12,024	23,130	11,106
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	143	134	(9)
Corporate bonds	2,059	2,032	(27)
Other	339	330	(9)
Subtotal	2,541	2,496	(45)
Total	$ 14,565	$ 25,626	$ 11,061

Because no quoted market price was available and it was extremely difficult to determine the fair value, the unlisted securities were not included in investments in securities in the preceding tables. The carrying values of such unlisted equity securities amounted to ¥280 million ($2,496 thousand) and ¥281 million at March 31, 2017 and 2016, respectively. Investments in limited partnerships amounted to ¥524 million ($4,671 thousand) and ¥375 million at March 31, 2017 and 2016, respectively.

The proceeds from sales of, and gross realized gain (loss) on, other securities for the year ended March 31, 2017 and 2016 were summarized as follows:

	2017		
		Millions of yen	
	Proceeds	Gain on sale	Loss on sale
Equity securities	¥ 0	¥ 0	¥ –
Corporate bonds	200	–	2
Total	¥ 200	¥ 0	¥ 2

	2016		
		Millions of yen	
	Proceeds	Gain on sale	Loss on sale
Other	¥ 15	¥ 3	¥ –
Total	¥ 15	¥ 3	¥ –

	2017		
		Thousands of U.S. dollars	
	Proceeds	Gain on sale	Loss on sale
Equity securities	$ 0	$ 0	$ –
Corporate bonds	1,783	–	18
Total	$ 1,783	$ 0	$ 18

Redemption of corporate bonds is included in the amount of proceeds from sale and loss on sale.

The redemption schedules for held-to-maturity debt securities and debt securities classified as other securities with maturities at March 31, 2017 were summarized as follows:

	2017		
		Millions of yen	
	National government bonds	Corporate bonds	Other
Due in one year or less	¥ –	¥ –	¥ 34
Due after one year but within five years	10	122	–
Due after five years but within ten years	–	300	–
Due after ten years	–	–	–

3. Short-term Investments and Investments in Securities (continued)

	2017		
	Thousands of U.S. dollars		
	National government bonds	Corporate bonds	Other
Due in one year or less	$ –	$ –	$ 303
Due after one year but within five years	89	1,087	–
Due after five years but within ten years	–	2,674	–
Due after ten years	–	–	–

Loss on impairment is recorded at the amount deemed necessary on securities whose fair value has declined by 50% on more, or whose fair value has declined by 30% on more, but less than 50%, if the decline is deemed to be irrecoverable considering the movements of individual stock prices and recoverability. No impairment loss was recognized for the year ended March 31, 2017. The Company recorded loss on impairment of investments in securities with determinable market value of ¥10 million for the year ended March 31, 2016.

4. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Uncompleted construction contracts	¥ 2,277	¥ 1,376	$ 20,296
Materials and supplies	232	148	2,068
Merchandise and finished goods	214	253	1,907
	¥ 2,723	¥ 1,777	$ 24,271

5. Investment and Rental Properties

The Company owns office buildings (including land) in Osaka and Tokyo. The properties, excluding space occupied by group entities, are treated as office buildings for lease. In addition, the Company owns houses for lease in Osaka.

Rental income, net of related expenses corresponding to these real estate properties, amounted to ¥36 million ($321 thousand) and ¥62 million for the years ended March 31, 2017 and 2016, respectively.

The movements of carrying value for the investment and rental properties and corresponding fair value of those properties at the balance sheet date were as follows:

Carrying value			Fair value
April 1, 2016	Net change	March 31, 2017	March 31, 2017
	(Millions of yen)		
¥ 1,558	¥ (20)	¥ 1,538	¥ 1,461

Carrying value			Fair value
April 1, 2015	Net change	March 31, 2016	March 31, 2016
	(Millions of yen)		
¥ 1,570	¥ (12)	¥ 1,558	¥ 1,474

Carrying value			Fair value
April 1, 2016	Net change	March 31, 2017	March 31, 2017
	(Thousands of U.S. dollars)		
$ 13,887	$ (178)	$ 13,709	$ 13,023

(a) The carrying value represented the acquisition cost less accumulated depreciation.

(b) The fair value was mainly estimated in accordance with appraisal standards for valuing real-estate.

(c) Of changes during the year ended March 31, 2017, the increase was mainly due to the renewal construction of office buildings and houses for lease of ¥57 million ($508 thousand), while the decrease was mainly due to reclassification of office buildings from rental properties to properties for internal use of ¥60 million ($535 thousand). Net change mainly comprises of depreciation on investment and rental properties amounting to ¥20 million for the year ended March 31, 2016.

6. Short-Term Bank Loans and Long-Term Debt

There were no outstanding short-term bank loans at March 31, 2017.

The average interest rate on short-term bank loans outstanding at March 31, 2016 was 0.54%.

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

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans from banks payable in yen, at weighted-average interest rates at 0.48% and 0.86% at March 31, 2017 and 2016 respectively	¥ 1,114	¥ 930	$ 9,930
Less current portion	(72)	(930)	(642)
	¥ 1,042	¥ –	$ 9,288

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 were summarized as follows:

Year ending March 31,	Millions of yen	*Thousands of U.S. dollars*
2017	¥ 72	$ 642
2018	792	7,060
2019	250	2,228
	¥ 1,114	$ 9,930

At March 31, 2017, the Company had a line-of-credit commitment for short-term financing arrangements of ¥4,000 million ($35,654 thousand), which was unutilized.

7. Income Taxes

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

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2017 is not disclosed because such difference is less than 5% of the statutory tax rate.

Reconciliations of the statutory tax rate to the effective tax rate for the year ended March 31, 2016 were presented as follows:

	2016
Statutory tax rate	33.0 %
Effect of:	
Expenses not deductible from taxable income	0.5
Per capita portion of inhabitants' taxes	1.0
Change in valuation allowance	(3.2)
Decrease of deferred tax assets, net of liabilities at year-end due to change of tax rate	(1.2)
Other	1.4
Effective tax rate	31.5 %

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. Significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2017 and 2016 were summarized as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Tax loss carry forwards	¥ 109	¥ 168	$ 972
Allowance for doubtful receivables	19	25	169
Accrued bonuses	123	129	1,096
Liability for retirement benefits	254	324	2,264
Accrued retirement benefits for directors, including directors serving as audit and supervisory committee members	116	106	1,034
Loss on impairment	116	124	1,034
Other	467	455	4,163
Gross deferred tax assets	1,204	1,331	10,732
Less valuation allowance	(686)	(723)	(6,115)
Total deferred tax assets	518	608	4,617
Deferred tax liabilities:			
Difference on revaluation of land	(1,778)	(1,780)	(15,848)
Revaluation reserve for land	(484)	(484)	(4,314)
Net unrealized holding gain on securities	(389)	(277)	(3,467)
Other	(34)	(38)	(303)
Total deferred tax liabilities	(2,685)	(2,579)	(23,932)
Net deferred tax liabilities	¥ (2,167)	¥ (1,971)	$ (19,315)

8. Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined-benefit corporate pension plans, retirement benefit plans and a small-and medium-sized enterprise mutual aid plan. The retirement benefit plans included lump-sum payment plans which provide for a lump-sum payment to employees upon retirement. In addition, the Company participates in a welfare pension plan as a member of a multi-employer pension plan. The contributions to the welfare pension plan are charged to expense since the proportional portion of plan assets attributable to the Company cannot be reasonably determined. One overseas consolidated subsidiary also has retirement lump-sum payment plan. Additional employee retirement benefits, which are not included in the calculation of the projected benefit obligations, may be paid in certain circumstances.

One consolidated subsidiary adopts the simplified method in the calculation of its retirement benefit obligation.

(a) Information on the multi-employer pension plans

The required contributions to the welfare pension plan by the Company as a member of a multi-employer pension plan for the year ended March 31, 2016 amounted to ¥98 million.

(1) Funded status of pension plans as of March 31, 2016 and 2015, the most recent dates on which such data was available:

	2016	2015	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets	¥ –	¥ 13,318	$ –
Total amount of actuarial obligations under pension financing and the minimum reserve	–	(13,864)	–
Net balance	¥ –	¥ (546)	$ –

(2) The contribution ratio of the Company to the multi-employer plans was 13.78% for the year ended March 31, 2015. This percentage was not the same as the Company's percentage of obligation.

(3) Supplementary information

The main factor of net balance as of March 31, 2015 in Note (1) was prior service costs of ¥1,543 million under pension financing. Prior service costs of the multi-employer pension plans were amortized by straight-line method over periods of 18 years for the year ended March 31, 2016. In addition, the Company charged special pension fund contributions of ¥16 million for such amortization to income for the year ended March 31, 2016.

The board of representatives of the Japan Hoon Horei Industrial Welfare Pension Fund in which the Company was participating decided to dissolve the Fund at the meeting held on September 18, 2014 and the Fund was dissolved under approval of the Japanese Health, Labour and Welfare Minister on March 30, 2016.

(b) Defined benefit pension plans (except plans for which the simplified method is applied.)

(1) The changes in retirement benefit obligation for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 1,610	¥ 1,448	$ 14,351
Service cost	110	96	980
Interest cost	5	13	45
Actuarial (gain) loss	(105)	116	(936)
Benefit paid	(74)	(63)	(660)
Balance at the end of the year	¥ 1,546	¥ 1,610	$ 13,780

(2) The changes in plan assets at fair value for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 761	¥ 688	$ 6,783
Expected return on plan assets	15	14	134
Actuarial gain (loss)	14	(64)	125
Contributions to the pension plan	176	170	1,569
Benefit paid	(74)	(47)	(660)
Balance at the end of the year	¥ 892	¥ 761	$ 7,951

(3) Reconciliations of the ending balance of the retirement benefit obligation and plan assets to liability for retirement benefits recognized in the consolidated balance sheets as of March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 1,546	¥ 1,610	$ 13,780
Plan assets at fair value	(892)	(761)	(7,951)
Liability recognized in the consolidated balance sheet	¥ 654	¥ 849	$ 5,829
Liability for retirement benefits	654	849	5,829
Net liability recognized in the consolidated balance sheet	¥ 654	¥ 849	$ 5,829

8. Retirement Benefits (continued)

(4) The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 110	¥ 96	$ 980
Interest cost	5	13	45
Expected return on plan assets	(15)	(14)	(134)
Amortization of actuarial loss	43	12	383
Amortization of prior service cost	5	6	45
Retirement benefit expenses	¥ 148	¥ 113	$ 1,319

(5) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Prior service cost	¥ 4	¥ 5	$ 45
Actuarial loss (gain)	162	(167)	1,435
Total	¥ 166	¥ (162)	$ 1,480

(6) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized prior service cost	¥ –	¥ 4	$ –
Unrecognized actuarial loss	8	170	71
Total	¥ 8	¥ 174	$ 71

(7) The components of plan assets at March 31, 2017 and 2016 were summarized as follows:

	2017	2016
Debt securities	41%	39%
Equity securities	46	52
Others	13	9
Total	100%	100%

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

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

	2017	2016
Discount rates	0.5%	0.3%
Expected rate of return on plan assets	2.0	2.0
Expected rate of salary increase	3.8	3.8

(c) Defined benefit pension plans for retirement benefits calculated by the simplified method

(1) The changes in liability for retirement benefits for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Balance at the beginning of the year	¥ 209	¥ 235	$ 1,863
Retirement benefit expenses	29	32	258
Benefit paid	(9)	(5)	(80)
Contributions	(51)	(53)	(454)
Balance at the end of the year	¥ 178	¥ 209	$ 1,587

(2) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2016 for consolidated subsidiaries' defined benefit pension plans:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Funded retirement benefit obligation	¥ 355	¥ 366	$ 3,164
Plan assets at fair value	(269)	(252)	(2,397)
	86	114	767
Unfunded retirement benefit obligation	92	95	820
Liability recognized in the consolidated balance sheet	178	209	1,587
Liability for retirement benefits	178	209	1,587
Net liability recognized in the consolidated balance sheet	¥ 178	¥ 209	$ 1,587

8. Retirement Benefits (continued)

(3) The retirement benefit expenses for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit expenses for retirement benefits calculated by the simplified method	¥ 29	¥ 33	$ 258

(d) Contributions required to be paid to defined contribution plans of consolidated subsidiaries for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Contributions required to be paid to defined contribution plans	¥ 20	¥ 19	$ 178

9. Pledged Assets

Investments in securities in the amount of ¥0 million ($0 thousand) are pledged as collateral for loans of a third-party as of March 31, 2017.

10. Contingent Liabilities

(1) PT. TERAS TEKNIK PERDANA and a consolidated subsidiary, PT. Meisei Indonesia Jo, undertook a joint operation for construction contracts. Both companies have provided a certain customer a guarantee for the execution of their obligations under the contract. A bank issued the customer the letter of guarantee for the execution of the contract. The Company was contingently liable for the letter of guarantee issued by the bank in the amount of ¥48 million ($428 thousand) as of March 31, 2017.

(2) The board of representatives of the Japan Hoon Horei Industrial Welfare Pension Fund, which the Company joined, decided to dissolve the Fund at the meeting held on September 18, 2014 and the Fund was dissolved under approval of the Japanese Health, Labour and Welfare Minister on March 30, 2016. As a result of the dissolution, additional costs are expected to be incurred. However, the costs cannot be reliably estimated because many related factors remain uncertain.

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.
Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

Movements in common stock and treasury stock during the years ended March 31, 2017 and 2016 were summarized as follows:

	Number of shares			
	2017			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	59,386,718	–	–	59,386,718
Treasury stock	6,461,985	1,192,182	80,000	7,574,167

The increase in treasury stock (1,192,182 common shares) for the year ended March 31, 2017 was due to the purchase of 1,191,500 shares of common stock by resolution of the Board of Directors, and the purchase of 682 shares of less than one voting unit.
The decrease in treasury stock (80,000 common shares) for the year ended March 31, 2017 was due to the exercise of stock options.

	Number of shares			
	2016			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	59,386,718	–	–	59,386,718
Treasury stock	6,290,935	309,101	138,051	6,461,985

The increase in treasury stock (309,101 common shares) for the year ended March 31, 2016 was due to the purchase of 308,500 shares of common stock by resolution of the Board of Directors, and the purchase of 601 shares of less than one voting unit.
The decrease in treasury stock (138,051 common shares) for the year ended March 31, 2016 was due to the exercise of stock options of 138,000 shares and the sale of 51 shares of less than one voting unit.

12. Land Revaluation

Effective March 31, 2002, the Company revalued its land held for business use in accordance with the “Land Revaluation Law” and the “Amended Land Revaluation Law.” As a result, the Company recognized a gain on land revaluation and recorded deferred income tax liabilities related to this gain. The resulting gain, net of the relevant tax effect, has been accounted for under accumulated other comprehensive income as revaluation reserve for land. The method followed for this land revaluation was determined in accordance with the “Land Valuation Tax Law” as stipulated in the “Enforcement Act Concerning Land Revaluation” and other regulations. The fair values of the revalued land at March 31, 2017 and 2016 were less than its corresponding carrying value by ¥1,105 million ($9,849 thousand) and ¥1,096 million, respectively.

13. Provision for Losses on Construction Contracts

Provision for losses on construction contracts included in cost of sales for the years ended March 31, 2017 and 2016 amounted to ¥0 million ($0 thousand) and ¥0 million, respectively.

14. Research and Development Expenses

Research and development expenses, which were included in cost of sales and selling, general and administrative expenses, for the years ended March 31, 2017 and 2016 amounted to ¥166 million ($1,480 thousand) and ¥146 million, respectively.

15. Supplemental Information on Statements of Cash Flows

Reconciliations between cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of March 31, 2017 and 2016 were presented as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	¥ 13,708	¥ 16,246	$ 122,186
Time deposits with original maturities in excess of three months	(631)	(920)	(5,625)
Cash and cash equivalents	¥ 13,077	¥ 15,326	$ 116,561

16. Financial Instruments

Description of financial instruments

(a) Policy for financial instruments

The Company and its consolidated subsidiaries raise necessary capital mainly by bank borrowings, which were used in capital expenditures and operating funds. The Company and its consolidated subsidiaries manage surplus capital by investing only in short-term deposits and similarities, or by low-risk financial assets in accordance with cash management plans. The Company utilizes derivatives transactions related to foreign currencies and interest rates primarily as a way of hedging the risk of future fluctuation in exchange rates and interest rates. The Company does not enter into derivative transactions for speculative or short-term trading purposes.

(b) Types of financial instruments and related risk

Trade receivables, which are notes receivable, electronically recorded monetary claims and accounts receivable, are exposed to credit risk of customers. Certain trade receivables denominated in foreign currencies resulting from the operation of construction works and other activities overseas are exposed to market risk of fluctuation in foreign currencies. In principle, the foreign currency exchange rate fluctuation risks deriving from the trade receivables denominated in foreign currencies are hedged by forward foreign exchange contracts and currency option agreements.

Investments in securities are mainly composed of held-to-maturity debt securities and stocks of the companies with which the Company and its consolidated subsidiaries have business relationships and they are exposed to fluctuation risk of market prices.

Trade payables, which are notes payable, electronically recorded obligations and accounts payable, are due within one year. Certain trade payables denominated in foreign currencies resulting from the operation of construction works overseas and the purchase of raw materials are exposed to fluctuation risk of foreign currencies. In principle, the foreign currency exchange rate fluctuation risks deriving from the trade payables denominated in foreign currencies are mitigated by using foreign currency deposits on hand or hedging by forward foreign exchange contracts and others.

Short-term bank loans are utilized for the purpose of operating funds. Long-term debt is mainly utilized for capital investments and due dates are, in principle, within principally 3 years.

16. Financial Instruments (continued)

Regarding derivative transactions, the Company enters into forward foreign exchange contracts and currency option agreements to mitigate the foreign currency exchange risk arising from the trade receivables and payables denominated in foreign currencies. The Company also enters into interest swap agreements to mitigate the interest rate risk for loans payable at variable rates. In addition, further information regarding the hedge accounting was disclosed to "(p) Derivatives and Hedge Accounting" in Note 1 "Summary of Significant Accounting Policies" in the notes to consolidated financial statements.

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)
Pursuant to the credit control policy, the Company and its consolidated subsidiaries timely monitor the financial conditions of major customers, manage credit balances of each customer on a monthly basis and try to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk.

Pursuant to the securities control policy, the credit risk of held-to-maturity debt securities is controlled and is quite low because the Company and its consolidated subsidiaries only acquire held-to-maturity debt securities with high credit ratings and limit the trading amounts. To minimize the credit risk of non-performance by the counterparties to derivative transactions, creditors are limited to financial institutions with high credit ratings.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates, interest rates and others)
The Company mainly utilizes forward foreign currency exchange contracts and currency option agreements based on settlement plans of trade receivables and payables for hedging of the foreign currency exchange risk. In addition, the Company enters into interest swap transactions in order to mitigate the interest rate risk for loans payable at variable rates.

For investments in securities, the Company and certain consolidated subsidiaries continuously review their securities holdings by monitoring periodically the market value or financial conditions of the securities' issuers (companies with business relationships with the Company and certain consolidated subsidiaries).

Derivative transactions are carried out after acceptance based on the derivative control policy and the transaction conditions, balances and others all monitored periodically.

(iii) Monitoring of liquidity risk (the risk that the Company and its consolidated subsidiaries may not be able to meet their obligations on due dates)
The Company manages liquidity risk of the Company and its consolidated subsidiaries with the finance department of the Company timely preparing and updating cash flow plans, and keeping necessary funds as well as controlling the level of liquidity in hand based on reports from each department or each consolidated subsidiary.

(d) Supplementary explanation of the fair value of financial instruments
The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated based on certain assumptions. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 17 "Derivative Financial Instruments" are not necessarily indicative of the actual market risk involved in the derivative transactions.

Fair Value of Financial Instruments

The carrying value, fair value and their differences of financial instruments as of March 31, 2017 and 2016 were shown in the following tables. The tables did not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to below).

	2017		
	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets:			
(1) Cash and deposits	¥ 13,708	¥ 13,708	¥ –
(2) Trade receivable	21,240	21,240	–
(3) Short-term investments and investments in securities	2,885	2,885	0
Total	¥ 37,833	¥ 37,833	¥ 0
Liabilities:			
(1) Short-term bank loans	¥ –	¥ –	¥ –
(2) Trade payable	8,097	8,097	–
(3) Long-term debt, including current portion of long-term debt	1,114	1,110	(4)
Total	¥ 9,211	¥ 9,207	¥ (4)
Derivatives	¥ –	¥ –	¥ –

16. Financial Instruments (continued)

	2016		
	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets:			
(1) Cash and deposits	¥ 16,246	¥ 16,246	¥ –
(2) Trade receivable	17,354	17,354	–
(3) Short-term investments and investments in securities	2,540	2,540	0
Total	¥ 36,140	¥ 36,140	¥ 0
Liabilities:			
(1) Short-term bank loans	¥ 400	¥ 400	¥ –
(2) Trade payable	7,097	7,097	–
(3) Long-term debt, including current portion of long-term debt	930	930	–
Total	¥ 8,427	¥ 8,427	¥ –
Derivatives	¥ –	¥ –	¥ –

	2017		
	Carrying value	Fair value	Difference
		(Thousands of U.S. dollars)	
Assets:			
(1) Cash and deposits	$ 122,186	$ 122,186	$ –
(2) Trade receivable	189,322	189,322	–
(3) Short-term investments and investments in securities	25,715	25,715	0
Total	$ 337,223	$ 337,223	$ 0
Liabilities:			
(1) Short-term bank loans	$ –	$ –	$ –
(2) Trade payable	72,172	72,172	–
(3) Long-term debt, including current portion of long-term debt	9,930	9,894	(36)
Total	$ 82,102	$ 82,066	$ (36)
Derivatives	$ –	$ –	$ –

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

Assets

(1) Cash and deposits and (2) Trade receivable

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

(3) Short-term investments and investments in securities

The fair value of equity securities was based on quoted market prices and the fair value of debt securities was based on quoted market prices or prices provided by financial institutions.

Liabilities

(1) Short-term bank loans and (2) Trade payable

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

(3) Long-term debt

Since current portion of long term debt is settled in a short time period, their carrying value approximates fair value.

The fair value of long-term debt, exclusive of the current portion, was based on the present value of the total of principals and interests, discounted by the interest rates to be applied assuming new loans under similar conditions were made.

Derivatives Transactions

Please refer to Note 17 “Derivative Financial Instruments” in the notes to consolidated financial statements.

16. Financial Instruments (continued)

Financial instruments for which it is extremely difficult to determine the fair value were as follows:

	2017	2016	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted equity securities	¥ 280	¥ 281	$ 2,496
Investments in limited partnerships	524	375	4,671
Total	¥ 804	¥ 656	$ 7,167

Because no quoted market price was available and it was extremely difficult to determine the fair value, the above financial instruments were not included in investments in securities of the preceding tables.

The redemption schedules for held-to-maturity debt securities, debt securities classified as other securities and long-term debt were disclosed in Note 3 “Short-term investments and Investments in Securities” and Note 6 “Short-Term Bank Loans and Long-Term Debt” in the notes to consolidated financial statements.

17. Derivative Financial Instruments

At March 31, 2017 and 2016, the outstanding derivatives positions were as follows:

(a) Outstanding derivatives positions to which hedge accounting has not been applied

Currency-related derivatives

There were no outstanding derivative positions to which hedge accounting has not been applied as of March 31, 2017 and 2016.

(b) Outstanding derivatives positions to which hedge accounting has been applied

Interest-rate-related derivatives

Outstanding derivative positions to which hedge accounting has been applied as of March 31, 2017 and 2016 were as follows:

			2017		
			Millions of yen		
Method of hedge accounting	Transactions	Hedged items	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Special treatment for interest rate swap	Interest-rate swaps: Receive floating / pay fixed	Long-term debt	¥ 250	¥ 250	(*1)

			2016		
			Millions of yen		
Method of hedge accounting	Transactions	Hedged items	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Special treatment for interest rate swap	Interest-rate swaps: Receive floating / pay fixed	Long-term debt	¥ 400	¥ –	(*1)

			2017		
			Thousands of U.S. dollars		
Method of hedge accounting	Transactions	Hedged items	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Special treatment for interest rate swap	Interest-rate swaps: Receive floating / pay fixed	Long-term debt	$ 2,228	$ 2,228	(*1)

(*1) Because interest-rate swap agreements were accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term debt, their fair values were included in the fair values of the long-term debt. Refer to Note 1(p) about special accounting treatment applied for interest-rate swaps.

18. Stock Options

Stock option expenses were not recognized for the years ended March 31, 2017 and 2016.

Stock options plans

A stock option plan (the 2015 plan) for certain directors, certain officers and employees of the Company and certain directors of subsidiaries was approved at the annual general meeting of the shareholders of the Company on June 25, 2015. The exercise price was ¥583 ($5.20) per share at March 31, 2017. The options become exercisable on July 1, 2016 and are scheduled to expire on June 30, 2019.

Exercise conditions for the 2015 plan are as follows:

1. 30% of the total number of the stock options may be exercised in the event that net sales equals ¥44,000 million or more, and operating income equals ¥4,100 million or more for the year ended March 31, 2016.
2. 30% of the total number of the stock options may be exercised in the event that the total amount of net sales for the year ended March 31, 2016 and for the year ended 2017 equals ¥92,000 million or more, and operating income for the year ended March 31, 2017 equals ¥4,300 million or more.
3. 40% of the total number of the stock options may be exercised in the event that the total amount of net sales for the years ended March 31, 2016 and 2017 for the year ending March 31, 2018 equals ¥142,000 million or more, and operating income for the year ending March 31, 2018 equals ¥4,700 million or more.

A stock option plan (the 2010 plan) for certain employees of the Company was approved at the annual general meeting of the shareholders of the Company on June 29, 2010. The exercise price was ¥247 ($2.20) per share at March 31, 2017. The options became exercisable on August 11, 2012 and are scheduled to expire on August 10, 2018.

A stock option plan (the 2009 plan) for certain directors, a corporate auditor and certain officers and employees of the Company was approved at the annual general meeting of the shareholders of the Company on June 26, 2009. The exercise price was ¥255 ($2.27) per share at March 31, 2017. The options became exercisable on August 11, 2011 and are scheduled to expire on August 10, 2017.

Information regarding the Company's stock option plans was summarized as follows:

	The 2015 plan	The 2010 plan	The 2009 plan
Number of stock options			
Not vested:			
Outstanding at March 31, 2016	442,000	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	132,600	–	–
Outstanding at March 31, 2017	309,400	–	–
Vested			
Outstanding at March 31, 2016	–	70,000	60,000
Granted	132,600	–	–
Exercised	–	30,000	50,000
Forfeited	–	–	–
Outstanding at March 31, 2017	132,600	40,000	10,000

	The 2015 plan	The 2010 plan	The 2009 plan
		(Yen)	
Unit price of stock options:			
Average market price per shares at exercise during the year ended March 31, 2017	¥ –	¥ 469	¥ 537
Estimated fair value of unit price at the grant date	18	87	86

	The 2015 plan	The 2010 plan	The 2009 plan
		(U.S. dollars)	
Unit price of stock options:			
Average market price per shares at exercise during the year ended March 31, 2017	$ –	$ 4.18	$ 4.79
Estimated fair value of unit price at the grant date	0.16	0.78	0.77

19. Amounts per Share

	2017	2016	2017
	(Yen)		(U.S. dollars)
Basic profit attributable to owners of parent	¥ 75.45	¥ 73.83	$ 0.67
Diluted profit attributable to owners of parent	75.41	73.73	0.67
Net assets	795.28	721.08	7.09

Basic profit attributable to owners of parent per share has been computed based on profit attributable to owners of parent and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share has been computed based on profit available for distribution to the shareholders of the Company and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock issuable upon the exercise of stock options issued by the Company. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at year-end.

The financial data utilized in the computation of profit attributable to owners of parent per share for the years ended March 31, 2017 and 2016 were summarized as follows:

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Information on profit attributable to owners of parent – basic:			
Profit attributable to owners of parent	¥ 3,919	¥ 3,923	$ 34,932
Deductions from profit attributable to owners of parent	–	–	–
Adjusted profit attributable to owners of parent	¥ 3,919	¥ 3,923	$ 34,932
Weighted-average number of shares of common stock outstanding during the year	51,945 thousand shares	53,141 thousand shares	51,945 thousand shares

There were 26 thousand shares and 70 thousand shares of common stock with dilutive potential effect for the years ended March 31, 2017 and 2016, respectively.

	2017	2016	2017
	(Yen)		(U.S. dollars)
Cash dividends applicable to the year	¥ 14.00	¥ 10.00	$ 0.12

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

20. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016.

	2017	2016	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 364	¥ (392)	$ 3,244
Reclassification adjustments for gain realized in the statement of income	2	–	18
Before tax effect	366	(392)	3,262
Tax effect	(112)	140	(998)
Net unrealized holding gain (loss) on securities	254	(252)	2,264
Foreign currency translation adjustments:			
Amount arising during the year	(152)	(258)	(1,355)
Foreign currency translation adjustments	(152)	(258)	(1,355)
Retirement benefits liability adjustments:			
Amount arising during the year	119	(180)	1,061
Reclassification adjustments for loss realized in the statement of income	47	17	419
Before tax effect	166	(163)	1,480
Tax effect	(51)	50	(455)
Retirement benefits liability adjustments	115	(113)	1,025
Revaluation reserve for land:			
Tax effect	–	26	–
Revaluation reserve for land	–	26	–
Total other comprehensive income (loss)	¥ 217	¥ (597)	$ 1,934

21. Segment Information

1. Outline of the reportable segments

   The reportable segments of the Company and its consolidated subsidiaries are determined on the basis that separate financial information of such segments is available and examined periodically by the Board of Directors of the Company to make decisions regarding the allocation of management resources and assess the business performances of such segments.

   The Company and its consolidated subsidiaries have divided business operations into two segments: the construction segment and the boiler segment.

   The construction segment comprises construction, manufacturing, sales, other operations related to insulation work, interior decorating work and other activities. The boiler segment comprises installation operation of boiler facilities and industrial machinery.

2. Calculation methods used for sales, income, assets and the other items on each reportable segment

   The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Inter-segment sales and transfer are recorded based on market prices.

   The amount of segment income is based on operating income.

3. Information on sales, income, assets and other items on each reportable segment

	2017				
	Reportable segments			Adjustments (*1, 2 and 3)	Consolidated (*4)
	Construction	Boiler	Total		
			(Millions of yen)		
Sales:					
Sales to third parties	¥ 46,302	¥ 5,413	¥ 51,715	¥ –	¥ 51,715
Inter-segment sales or transfers	45	218	263	(263)	–
Net sales	¥ 46,347	¥ 5,631	¥ 51,978	¥ (263)	¥ 51,715
Segment income	¥ 5,118	¥ 381	¥ 5,499	¥ 98	¥ 5,597
Segment assets	38,787	6,409	45,196	13,026	58,222
Other items:					
Depreciation and amortization	349	33	382	19	401
Increase in property, plant and equipment and intangible assets	1,313	67	1,380	57	1,437

	2016				
	Reportable segments			Adjustments (*1, 2 and 3)	Consolidated (*4)
	Construction	Boiler	Total		
			(Millions of yen)		
Sales:					
Sales to third parties	¥ 39,077	¥ 6,336	¥ 45,413	¥ –	¥ 45,413
Inter-segment sales or transfers	74	142	216	(216)	–
Net sales	¥ 39,151	¥ 6,478	¥ 45,629	¥ (216)	¥ 45,413
Segment income	¥ 4,779	¥ 843	¥ 5,622	¥ 95	¥ 5,717
Segment assets	33,415	6,564	39,979	14,484	54,463
Other items:					
Depreciation and amortization	264	32	296	20	316
Increase in property, plant and equipment and intangible assets	820	25	845	3	848

	2017				
	Reportable segments			Adjustments (*1, 2 and 3)	Consolidated (*4)
	Construction	Boiler	Total		
			(Thousands of U.S. dollars)		
Sales:					
Sales to third parties	$ 412,711	$ 48,248	$ 460,959	$ –	$ 460,959
Inter-segment sales or transfers	401	1,943	2,344	(2,344)	–
Net sales	$ 413,112	$ 50,191	$ 463,303	$ (2,344)	$ 460,959
Segment income	$ 45,619	$ 3,396	$ 49,015	$ 874	$ 49,889
Segment assets	345,726	57,126	402,852	116,107	518,959
Other items:					
Depreciation and amortization	3,111	294	3,405	169	3,574
Increase in property, plant and equipment and intangible assets	11,704	597	12,301	508	12,809

21. Segment Information (continued)

*1: Adjustment for segment income represents eliminations of inter-segment sales or transfers.

*2: Adjustment for segment assets represents eliminations of inter-segment transfers amounted to ¥250 million ($2,228 thousand) and ¥205 million and corporate assets such as cash and deposit, investments in securities, corporate buildings and so on, amounted to ¥13,276 million ($118,335 thousand) and ¥14,689 million, which are not associated with any reportable segments as of March 31, 2017 and 2016, respectively.

*3: Adjustments for other items represents the amounts of adjustments related to corporate assets such as corporate buildings and so on, which are not associated with any reportable segments.

*4: Segment income is adjusted to be consistent with operating income in the consolidated statement of income.

4. Related information

(1) Sales information by products and service

	2017		
	Construction	Boiler	Total
		(Millions of yen)	
Net sales	¥ 46,302	¥ 5,413	¥ 51,715

	2016		
	Construction	Boiler	Total
		(Millions of yen)	
Net sales	¥ 39,077	¥ 6,336	¥ 45,413

	2017		
	Construction	Boiler	Total
		(Thousands of U.S. dollars)	
Net sales	$ 412,711	$ 48,248	$ 460,959

(2) Sales information by geographical segment

	2017				
	Japan	Asia	Oceania	Other	Total
			(Millions of yen)		
Net sales	¥ 45,337	¥ 1,887	¥ 3,842	¥ 649	¥ 51,715

	2016				
	Japan	Asia	Oceania	Other	Total
			(Millions of yen)		
Net sales	¥ 41,922	¥ 1,435	¥ 1,995	¥ 61	¥ 45,413

	2017				
	Japan	Asia	Oceania	Other	Total
			(Thousands of U.S. dollars)		
Net sales	$ 404,109	$ 16,820	$ 34,245	$ 5,785	$ 460,959

Note: Net sales are categorized by country or region based on where the sale originated.

Disclosure of property, plant and equipment by geographical area as of March 31, 2017 and 2016 has been omitted as the amount of property, plant and equipment located in Japan was in excess of 90% of property, plant and equipment in the consolidated balance sheets.

(3) Information by major customers

Disclosure of information by major customers for the years ended March 31, 2017 and 2016 has been omitted as sales to individual customers were less than 10% of net sales in the consolidated statements of income.

22. Subsequent Event

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

	Millions of yen	*Thousands of U.S. dollars*
Year-end cash dividends (¥8.0 (U.S.$0.07) per share)	¥ 415	$ 3,699

Independent Auditor's Report

The Board of Directors
Meisei Industrial Co., Ltd.

We have audited the accompanying consolidated financial statements of Meisei Industrial Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meisei Industrial Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 29, 2017
Osaka, Japan

Outline of Meisei Industrial Co., Ltd.

(As of March 31, 2017)

Established	*July 2, 1947*
Capital	*¥6,889,326,595*
Number of Employees	*316*
Head Office	*1-8-5 Kyomachibori, Nishi-ku, Osaka, 550-0003 Japan* *Tel : 81-6-6447-0271* *Fax : 81-6-6448-5321*
Stock Listing	*Tokyo Securities Exchange*

Main Consolidated Subsidiaries

(Domestic)

Yoshimine Co., Ltd.

1-8-5 Kyomachibori, Nishi-ku, Osaka, 550-0003 Japan

Meisei Kenko Co., Ltd.

2-13-22 Nagata, Joutou-ku, Osaka, 536-0022 Japan

Nippon Keikal Limited

2020 Nakagawa, Hosoe-cho, Kita-ku, Hamamatsu, Shizuoka, 431-1304 Japan

(Overseas)

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SMI Global Sdn. Bhd.

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P.T. Meisei Indonesia

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No.2 Jasmine Building 12th floor, Soi Sukhumvit 23 (Prasarnmitr), Sukhumvit Road, Klongtoey-Nua, Wattana, Bangkok 10110 Thailand

Meisei Nigeria Ltd.

House #10, Bridgeway Estate, Behind Police Station, Abacha Road, GRA Phase 3, Port Harcourt, Rivers State, Nigeria