Consolidated Financial Statements

KYUDENKO CORPORATION

Years ended March 31, 2017 and 2016

KYUDENKO CORPORATION

Consolidated Balance Sheet

	March 31, 2016	March 31, 2017	March 31, 2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Assets			
Current assets:			
Cash on hand and in banks *(Notes 6, 17 and 19)*	¥ 28,973	¥ 30,314	$ 270,209
Trade notes and accounts receivable *(Note 17)*	90,858	106,204	946,646
Short-term investments *(Notes 17 and 18)*	307	1	16
Costs on uncompleted construction contracts	6,405	6,679	59,535
Merchandise	720	687	6,127
Raw materials and supplies	538	4,108	36,622
Deferred tax assets *(Note 13)*	2,961	3,415	30,446
Other current assets *(Note 6)*	4,981	6,766	60,310
Allowance for doubtful accounts	(4)	(6)	(53)
Total current assets	135,742	158,172	1,409,859
Fixed assets:			
Property, plant and equipment:			
Buildings and structures *(Note 6)*	63,467	64,920	578,665
Machinery, vehicles, tools, furniture and fixtures *(Note 6)*	33,416	35,305	314,690
Leased assets	5,957	5,999	53,473
Land	28,262	28,385	253,014
Construction in progress	2,824	4,604	41,044
Accumulated depreciation	(50,648)	(53,453)	(476,451)
Total property, plant and equipment	83,279	85,762	764,437
Intangible assets:			
Goodwill *(Note 21)*	1,556	1,175	10,478
Other intangible assets	1,012	975	8,691
Total intangible assets	2,568	2,150	19,169
Investments and other assets:			
Investment securities *(Notes 6, 17 and 18)*	31,903	46,847	417,576
Long-term loans receivable *(Note 6)*	483	576	5,141
Asset for retirement benefits *(Note 7)*	188	241	2,155
Deferred tax assets *(Note 13)*	4,540	3,401	30,317
Other *(Note 6)*	4,084	4,218	37,601
Allowance for doubtful accounts	(750)	(892)	(7,956)
Total investments and other assets	40,450	54,393	484,837
Total fixed assets	126,298	142,306	1,268,444
Total assets	¥ 262,040	¥ 300,478	$ 2,678,304

	March 31,		
	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Liabilities and net assets			
Current liabilities:			
Trade notes and accounts payable *(Note 17)*	¥ 68,369	¥ 80,636	$ 718,745
Short-term borrowings *(Notes 5 and 17)*	2,957	21,387	190,637
Income taxes payable *(Note 13)*	6,511	6,083	54,225
Advances received on uncompleted construction contracts	9,874	9,611	85,675
Provision for loss on construction contracts	52	207	1,847
Other current liabilities *(Notes 5 and 13)*	9,280	6,818	60,775
Total current liabilities	97,045	124,745	1,111,908
Long-term liabilities:			
Convertible bond-type bonds with share subscription rights *(Notes 5 and 17)*	9,997	1,860	16,579
Long-term debt *(Notes 5 and 17)*	16,213	9,707	86,528
Lease obligations *(Note 5)*	1,999	2,322	20,703
Provision for directors and corporate auditors' retirement benefits	241	233	2,085
Liability for retirement benefits *(Note 7)*	21,310	17,471	155,730
Other long-term liabilities *(Notes 8 and 13)*	2,034	2,634	23,486
Total long-term liabilities	51,795	34,230	305,113
Total liabilities	148,841	158,975	1,417,022
Commitments and contingencies *(Note 15)*			
Net assets *(Note 9)*:			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 66,039,535 and 70,134,971 shares in 2016 and 2017, respectively	7,901	11,632	103,688
Capital surplus	7,891	11,907	106,134
Retained earnings	101,173	119,700	1,066,948
Treasury stock	(611)	(8)	(72)
Total shareholders' equity	116,355	143,232	1,276,699
Accumulated other comprehensive income			
Unrealized holding gain (loss) on securities	2,117	3,097	27,605
Unrealized gain (loss) on hedging instruments *(Note 20)*	(234)	(185)	(1,654)
Translation adjustments	319	167	1,490
Retirement benefit liability adjustments *(Note 7)*	(7,384)	(6,430)	(57,317)
Total accumulated other comprehensive income	(5,182)	(3,351)	(29,875)
Non-controlling interests	2,026	1,622	14,458
Total net assets	113,199	141,503	1,261,282
Total liabilities and net assets	¥ 262,040	¥ 300,478	$ 2,678,304

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Profit and Loss Statement

	Year ended March 31,		
	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Net sales *(Note 21)*:			
Construction contracts *(Note 10)*	¥ 296,601	¥ 328,915	$ 2,931,773
Other	14,744	12,855	114,589
Total net sales	311,346	341,771	3,046,363
Cost of sales *(Note 12)*:			
Construction contracts	253,460	279,412	2,490,526
Other	12,710	10,407	92,769
Total cost of sales	266,170	289,820	2,583,296
Gross profit:			
Construction contracts	43,141	49,503	441,247
Other	2,033	2,448	21,820
Total gross profit	45,175	51,951	463,067
Selling, general and administrative expenses *(Notes 11 and 12)*	19,977	21,219	189,134
Operating profit *(Note 21)*	25,197	30,732	273,932
Non-operating profit (loss):			
Interest income	78	80	719
Dividend income	514	783	6,983
Interest expenses	(379)	(397)	(3,539)
Equity in earnings of affiliates	358	6	56
Rent income	353	328	2,925
Insurance and dividend income	604	396	3,531
Foreign exchange losses	(83)	(73)	(659)
Provisions of allowance for doubtful accounts	—	(92)	(820)
Extra retirement payments	(34)	(41)	(365)
Provisions of allowance for doubtful accounts of subsidiaries	—	(121)	(1,078)
Other, net	941	585	5,215
Ordinary profit	27,551	32,187	286,901
Special gains (losses):			
Gain on sales of fixed assets	69	50	450
Loss on disposal and sales of fixed assets	(242)	(142)	(1,266)
Gain on sales of investment securities	98	37	336
Impairment loss on investment securities	(84)	(96)	(856)
Loss on sales of subsidiaries' shares	—	(42)	(377)
Other, net	(18)	—	—
Profit before income taxes	27,374	31,995	285,187
Income taxes *(Note 13)*:			
Current	8,775	9,650	86,016
Deferred	634	41	370
Profit	17,963	22,303	198,799
Profit attributable to non-controlling interests	62	5	47
Profit attributable to owners of parent	¥ 17,901	¥ 22,297	$ 198,752

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Statement of Comprehensive Income

	Year ended March 31,					
	2016		2017		2017	
	(Millions of yen)				*(Thousands of U.S. dollars) (Note 4)*	
Profit	¥	17,963	¥	22,303	$	198,799
Other comprehensive income (Note 14):						
Unrealized holding gain (loss) on securities		(1,911)		964		8,600
Unrealized gain (loss) on hedging instruments		(87)		31		278
Translation adjustments		(244)		(190)		(1,696)
Retirement benefit liability adjustments		(4,264)		954		8,507
Share of other comprehensive income of affiliates accounted for by the equity method		(54)		23		206
Total other comprehensive income		(6,562)		1,783		15,895
Comprehensive income	¥	11,401	¥	24,086	$	214,695
Comprehensive income attributable to:						
Owners of parent	¥	11,380	¥	24,128	$	215,069
Non-controlling interests	¥	20	¥	(42)	$	(374)

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2016 and 2017:

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
						(Millions of yen)						
Balance at April 1, 2015	¥ 7,901	¥ 7,889	¥ 85,537	¥ (48)	¥ 101,279	¥ 4,012	¥ (82)	¥ 528	¥ (3,119)	¥ 1,338	¥ 2,040	¥ 104,658
Cash dividends paid			(2,303)		(2,303)							(2,303)
Profit attributable to owners of parent for the period			17,901		17,901							17,901
Purchase of treasury stock				(565)	(565)							(565)
Disposal of treasury stock		0		2	3							3
Purchase of shares of consolidated subsidiaries		1			1							1
Increase in retained earnings due to change in accounting period of subsidiaries			38		38							38
Net changes in items other than those in shareholders' equity						(1,895)	(151)	(208)	(4,264)	(6,520)	(14)	(6,534)
Total changes during the year	–	1	15,636	(562)	15,075	(1,895)	(151)	(208)	(4,264)	(6,520)	(14)	8,540
Balance at March 31, 2016												
Balance at April 1, 2016	7,901	7,891	101,173	(611)	116,355	2,117	(234)	319	(7,384)	(5,182)	2,026	113,199
Issuance of new shares	3,730	3,726			7,457							7,457
Cash dividends paid			(3,742)		(3,742)							(3,742)
Profit attributable to owners of parent for the period			22,297		22,297							22,297
Purchase of treasury stock				(4)	(4)							(4)
Disposal of treasury stock		71		608	680							680
Increase in retained earnings due to merger			4		4							4
Purchase of shares of consolidated subsidiaries		217			217							217
Decrease in retained earnings due to change in accounting period of subsidiaries			(32)		(32)							(32)
Net changes in items other than those in shareholders' equity						979	49	(152)	954	1,830	(404)	1,426
Total changes during the year	3,730	4,015	18,527	603	26,877	979	49	(152)	954	1,830	(404)	28,303
Balance at March 31, 2017	¥ 11,632	¥ 11,907	¥ 119,700	¥ (8)	¥ 143,232	¥ 3,097	¥ (185)	¥ 167	¥ (6,430)	¥ (3,351)	¥ 1,622	¥ 141,503

For the year ended March 31, 2017:

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain (loss) on securities	Unrealized gain (loss) on hedging instruments	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	(Thousands of U.S. dollars) (Note 4)											
Balance at April 1, 2016	$ 70,433	$ 70,399	$ 901,806	$ (5,453)	$1,037,126	$ 18,871	$ (2,092)	$ 2,851	$ (65,824)	$ (46,193)	$ 18,063	$ 1,008,996
Issuance of new shares	33,255	33,212			66,467							66,467
Cash dividends paid			(33,360)		(33,360)							(33,360)
Profit attributable to owners of parent for the period			198,752		198,752							198,752
Purchase of treasury stock				(38)	(38)							(38)
Disposal of treasury stock		641		5,419	6,061							6,061
Increase in retained earnings due to merger			36		36							36
Purchase of shares of consolidated subsidiaries		1,941			1,941							1,941
Decrease in retained earnings due to change in accounting period of subsidiaries			(286)		(286)							(286)
Net changes in items other than those in shareholders' equity						8,733	437	(1,360)	8,507	16,317	(3,604)	12,712
Total changes during the year	33,255	35,795	165,141	5,380	239,573	8,733	437	(1,360)	8,507	16,317	(3,604)	252,286
Balance at March 31, 2017	$ 103,688	$ 106,134	$1,066,948	$ (72)	$1,276,699	$ 27,605	$ (1,654)	$ 1,490	$ (57,317)	$ (29,875)	$ 14,458	$ 1,261,282

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Cash flows from operating activities			
Profit before income taxes	¥ 27,374	¥ 31,995	$ 285,187
Depreciation and amortization	5,475	5,449	48,569
Increase (decrease) in allowance for doubtful accounts	(30)	142	1,269
Increase (decrease) in liability for retirement benefits and provision for directors and corporate auditors' retirement benefits	(2,805)	(2,448)	(21,821)
Increase (decrease) in provision for loss on construction contracts	(397)	154	1,381
Interest and dividend income	(593)	(864)	(7,703)
Interest expenses	379	397	3,539
Foreign exchange loss (gain)	83	40	357
Equity in earnings of affiliates	(358)	(6)	(56)
Loss (gain) on sales of property, plant and equipment	(69)	(46)	(410)
Loss on retirement of property, plant and equipment	108	88	788
Impairment loss on investment securities	84	96	856
Loss (gain) on sales of investment securities	(89)	(37)	(336)
Loss (gain) on sales of subsidiaries' shares	—	42	377
Decrease (increase) in trade notes and accounts receivable	(10,442)	(15,156)	(135,099)
Decrease (increase) in costs on uncompleted construction contracts	1,753	(304)	(2,713)
Decrease (increase) in inventories	816	(3,539)	(31,550)
Increase (decrease) in trade notes and accounts payable	(693)	12,147	108,279
Increase (decrease) in advances received on uncompleted construction contracts	(6,012)	(254)	(2,272)
Increase (decrease) in long-term accounts payable	28	10	96
Increase (decrease) in consumption taxes payable (receivable)	3,413	(5,281)	(47,076)
Other, net	120	1,488	13,268
Subtotal	18,146	24,112	214,929
Interest and dividend income received	589	864	7,703
Interest expenses paid	(379)	(397)	(3,539)
Income taxes paid	(7,579)	(10,392)	(92,634)
Net cash provided by operating activities	¥ 10,776	¥ 14,187	$ 126,458

	Year ended March 31,		
	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Cash flows from investing activities			
Payments into time deposits	¥ (2,090)	¥ (671)	$ (5,982)
Proceeds from withdrawal of time deposits	2,013	2,680	23,889
Purchase of property, plant and equipment	(6,344)	(6,381)	(56,877)
Proceeds from sales of property, plant and equipment	295	145	1,296
Purchase of investment securities	(5,811)	(14,059)	(125,322)
Proceeds from sales of investment securities	746	503	4,489
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	(698)	—	—
Proceeds from purchase of subsidiaries' shares resulting in changes in scope of consolidation	69	21	192
Payments of long-term loans receivable	(511)	(322)	(2,874)
Collection of long-term loans receivable	201	345	3,079
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation	—	115	1,032
Other, net	(1,468)	(328)	(2,928)
Net cash used in investing activities	(13,597)	(17,951)	(160,006)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(320)	14,450	128,802
Proceeds from long-term debt	740	42	379
Repayments of long-term debt	(2,767)	(2,561)	(22,833)
Purchase of treasury stock	(565)	(4)	(38)
Repayments to non-controlling shareholders	(23)	(22)	(196)
Cash dividends paid	(2,295)	(3,732)	(33,272)
Cash dividends paid to non-controlling shareholders	(20)	(103)	(919)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	(0)	(29)	(262)
Other, net	(953)	(839)	(7,478)
Net cash provided by (used in) financing activities	(6,206)	7,200	64,180
Effect of exchange rate changes on cash and cash equivalents	(133)	(92)	(821)
Net increase (decrease) in cash and cash equivalents	(9,160)	3,344	29,811
Cash and cash equivalents at the beginning of the year	35,931	26,732	238,280
Increase (decrease) in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiaries	(38)	(56)	(507)
Increase in cash and cash equivalents resulting from merger with acquiring non-consolidated subsidiaries	—	7	66
Cash and cash equivalents at the end of the year *(Note 19)*	¥ 26,732	¥ 30,027	$ 267,651

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Notes to Consolidated Financial Statements

1. Basis of Presentation

KYUDENKO CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.
The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.
Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.
As permitted by the Financial Instruments and Exchange Act of Japan, amounts less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company.
Investments in companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method.
As of March 31, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 43 and 6 (43 and 5 in 2016), respectively.
During the year ended March 31, 2017, the following events and/or transactions have occurred, which resulted in changes in the scope of consolidation. The Company's subsidiary sold the stock of Dynamic Golf Co., which was accordingly excluded from the scope of consolidation. Bentana Supply Co., which had been a non-consolidated subsidiary, merged into Kyushu-denko Home Co., a consolidated subsidiary. The Company acquired Kyusetsu Kogyo Co., which was newly included in the scope of consolidation. Kushima Windhill Co. was newly accounted for by the equity method because of its increased materiality. In addition, Higo Youhoku Sougou Setsubi Co., a consolidated subsidiary, changed its name to Higo Setsubi Co.
The financial statements of Kyusetsu Kogyo Co. are consolidated by using the financial statements as of February 28 which are prepared solely for consolidation purposes. Kyulien Environment Improving Co., Ltd, Asia Projects Engineering Pte. Ltd. and Kyudenko South East Asia Pte. Ltd. are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31. Necessary adjustments are made to their financial statements to reflect any significant

transactions from January 1 to March 31.

All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Differences between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies which are accounted for by the equity method (goodwill) have been amortized by the straight-line method over periods not exceeding 20 years. However, immaterial amounts of goodwill and negative goodwill are charged or credited to profit (loss) in the year of acquisition.

(b) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statement of income.

The balance sheet accounts and income statement accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments and non-controlling interests in the consolidated financial statements.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Costs on uncompleted construction contracts are stated at cost by the specific identification method.

Merchandise and raw materials and supplies are stated principally at the lower of cost or market, cost being determined principally by the periodic average method.

(e) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. In cases where an embedded derivative in a compound financial instrument cannot be separately measured, the entire compound financial instrument is measured at fair value with changes in value charged or credited to profit (loss). Non-marketable securities classified as other securities are carried at cost except for investments in limited partnerships that are accounted for by the equity method. Cost of securities sold is determined by the moving average method.

(f) Property, plant and equipment and depreciation (excluding leased assets)

Depreciation of property, plant and equipment (excluding leased assets) of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value in accordance with the Corporation Tax Law of Japan, except for certain buildings of the Company and domestic consolidated subsidiaries, which are depreciated by the straight-line method. Facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 are also depreciated by the straight-line method. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to profit (loss).

(g) Intangible assets (excluding leased assets)

Intangible assets (excluding leased assets) are amortized by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life of five years.

(h) Leases

Non-cancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and related payments are charged to profit (loss) as incurred.

(i) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of collectability of receivables from companies in financial difficulty.

(j) Allowance for investment loss

Allowance for investment loss is provided at an amount considered to be appropriate based on an evaluation of the financial condition of the individual investees. The allowance is directly deducted from each investment account.

(k) Provision for loss on construction contracts

Provision for loss on construction contracts is provided with respect to construction projects for which anticipated future losses can be reasonably estimated.

(l) Retirement benefits

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date. The expected retirement benefit payment for employees is attributed to each period by the benefit formula method to estimate the retirement benefit obligation.

Actuarial gain or loss is amortized in the years following the year in which the gain or loss is recognized primarily by the straight-line method over periods within the average remaining years of service of the employees. Prior service cost is being amortized as incurred by the straight-line method over periods within the average remaining years of service of the employees.

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

In addition, accrued retirement benefits for directors and corporate auditors of certain consolidated subsidiaries are provided at the amount payable at year-end in accordance with each company's internal regulations. Retirement benefit expenses for directors and corporate auditors are charged to profit (loss) when the general shareholders' meeting approves the resolutions for the payments of those benefits.

(m) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(n) Research and development costs

Research and development costs are charged to profit (loss) as incurred.

(o) Recognizing revenues and costs of construction contracts

Revenues and costs of construction contracts for which contract revenues, contract costs and the percentage of completion can be reliably estimated are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for construction contracts for which the percentage-of-completion cannot be reliably estimated.

(p) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(q) Derivative financial instruments

The Company and certain affiliates enter into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. Derivatives financial institutions are carried at fair value with changes in unrealized gain or loss charged or credited to profit (loss), except for those which meet criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Deferral hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions and hedged items are primarily interest payments on long-term debt (including foreign currency interest payments) and forecasted transactions and long-term debt denominated in foreign currencies. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same. With regard to interest rate swaps and currency swaps which meet certain conditions, the Company applies the special treatment (short-cut method) assuming no ineffectiveness in the hedging relationship between hedged items and hedging instruments. No evaluation is performed for hedge effectiveness of forward foreign exchange contracts since the derivative contracts are based on forecasted transactions which are certain to be executed.

The Company also has compound financial instruments with embedded derivatives as part of its surplus fund management.

(r) Impairment of fixed assets

The Company and its consolidated subsidiaries base their asset grouping for assessing impairment losses on fixed assets on their management accounting categories (each branch of the Company and each consolidated subsidiary). Leased assets and idle assets are separately evaluated for impairment.

(t) Additional information

Implementation Guidance on Recoverability of Deferred Tax Assets

The Company and its 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.

3. Accounting Changes

The Company and its domestic consolidated subsidiaries adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) as a result of revisions to the Corporate Tax Act of Japan. Accordingly, the depreciation method for both facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on operating profit, ordinary profit and profit before income taxes was immaterial.

4. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥112.19= US$1.00, the approximate rate of exchange prevailing as of March 31, 2017. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

5. Short-Term Borrowings, Long-Term Debt, Convertible Bond-type Bonds with Share Subscription Rights and Lease Obligations

The annual weighted-average interest rates applicable to short-term borrowings (excluding the current portion of long-term debt) were 2.042% and 0.270% for the years ended March 31, 2016 and 2017, respectively.

Long-term debt, convertible bond-type bonds with share subscription rights and lease obligations at March 31, 2016 and 2017 consisted of the following:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans from banks due through 2030 with interest rates ranging from 0.124% to 1.530%	¥ 18,775	¥ 16,255	$ 144,896
Convertible bond-type bonds with share subscription rights (non-interest bearing)	9,997	1,860	16,579
Lease obligations due through 2025	2,818	3,172	28,280
	31,590	21,288	189,755
Less current portion	(3,380)	(7,398)	(65,944)
	¥ 28,209	¥ 13,890	$ 123,811

The aggregate annual maturities of long-term debt, convertible bond-type bonds with share subscription rights and lease obligations as of March 31, 2017 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2018	¥ 7,398	$ 65,944
2019	8,437	75,203
2020	1,171	10,440
2021	1,092	9,741
2022	932	8,308
2023 and thereafter	2,256	20,117
	¥ 21,288	$ 189,755

6. Pledged Assets

The assets pledged as collateral for long-term debt of the Company’s investees involved in the renewable energy generation business and/or PFI business at March 31, 2016 and 2017 were as follows:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	¥ 233	¥ 281	$ 2,507
Other current assets – short-term loans receivable	9	1,309	11,672
Buildings and structures	10	8	77
Machinery, vehicles, tools, furniture and fixtures	1,634	1,441	12,847
Investment securities	2,429	7,212	64,289
Long-term loans receivable	102	92	825
Investments and other assets – other	15	15	133
Total	¥ 4,434	¥ 10,361	$ 92,354

7. Retirement Benefit Plans

The Company has defined contribution plans, and the Company and its consolidated subsidiaries also have defined benefit plans (corporate pension plans and lump-sum payment plans) covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.
The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances.
For most of the defined benefit plans of consolidated subsidiaries, liabilities and expenses for retirement benefits are calculated using the simplified method.
Some consolidated subsidiaries have joined the employees' pension fund system, a multiple-employers pension plan. If the amount of plan assets corresponding to the contributions of each subsidiary cannot be reasonably calculated, such plans are accounted for by the same method as that for defined contribution plans.

(a) Defined benefit plans

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

	2016	**2017**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 42,211	¥ 45,636	$ 406,781
Service cost	1,496	1,845	16,448
Interest cost	464	273	2,440
Actuarial gain and loss	2,565	84	756
Retirement benefit paid	(4,850)	(3,607)	(32,155)
Prior service cost	3,749	—	—
Balance at the end of the year	¥ 45,636	¥ 44,233	$ 394,272

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

	2016	**2017**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 25,602	¥ 25,800	$ 229,970
Expected return on plan assets	512	516	4,599
Actuarial gain and loss	(464)	241	2,152
Contributions by the Company	4,466	4,454	39,707
Retirement benefit paid	(4,365)	(3,033)	(27,039)
Other	49	49	440
Balance at the end of the year	¥ 25,800	¥ 28,028	$ 249,831

3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet at March 31, 2016 and 2017 for the Company's and its consolidated subsidiaries' defined benefit plans:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 38,138	¥ 36,846	$ 328,426
Plan assets at fair value	(25,800)	(28,028)	(249,831)
	12,338	8,817	78,594
Unfunded retirement benefit obligation	7,498	7,387	65,846
Net liability for retirement benefits in the consolidated balance sheet	19,836	16,204	144,440
Liability for retirement benefits	19,836	16,204	144,440
Asset for retirement benefits	—	—	—
Net liability for retirement benefits in the consolidated balance sheet	¥ 19,836	¥ 16,204	$ 144,440

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

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 1,446	¥ 1,795	$ 16,008
Interest cost	464	273	2,440
Expected return on plan assets	(512)	(516)	(4,599)
Amortization of actuarial gain and loss	1,542	1,702	15,173
Amortization of prior service cost	(817)	(454)	(4,048)
Other	34	41	365
Retirement benefit expenses	¥ 2,158	¥ 2,842	$ 25,340

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

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service cost	¥ (4,566)	¥ (454)	$ (4,048)
Actuarial gain and loss	(1,487)	1,858	16,569
Total	¥ (6,054)	¥ 1,404	$ 12,520

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

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service cost	¥ 4,738	¥ 5,192	$ 46,281
Unrecognized actuarial gain and loss	5,916	4,057	36,167
Total	¥ 10,654	¥ 9,249	$ 82,449

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2016 and 2017 were as follows:

	2016	**2017**
Bonds	46%	43%
Stocks	26%	29%
General accounts of life insurance	9%	9%
Other	19%	19%
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

8) Weighted average assumptions used in accounting for the above plans were as follows:

	2016	**2017**
Discount rates	0.6%	0.7%
Expected rates of return on plan assets	2.0%	2.0%

(b) Defined benefit plans accounted for using the simplified method

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

	2016	**2017**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 1,200	¥ 1,284	$ 11,444
Retirement benefit expenses	539	361	3,218
Retirement benefit paid	(141)	(117)	(1,043)
Contributions	(342)	(352)	(3,143)
Transfer to accounts payable	—	(149)	(1,331)
Other	28	(1)	(9)
Balance at the end of the year	¥ 1,284	¥ 1,024	$ 9,135

2) The following table sets forth the funded status of the plans accounted for using the simplified method and the amounts recognized in the consolidated balance sheet at March 31, 2016 and 2017 for the defined benefit plans:

	2016	**2017**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 4,238	¥ 3,957	$ 35,277
Plan assets at fair value	(3,178)	(3,143)	(28,021)
	1,060	814	7,255
Unfunded retirement benefit obligation	224	210	1,879
Net liability for retirement benefits in the consolidated balance sheet	1,284	1,024	9,135
Liability for retirement benefits	1,473	1,266	11,290
Asset for retirement benefits	(188)	(241)	(2,155)
Net liability for retirement benefits in the consolidated balance sheet	¥ 1,284	¥ 1,024	$ 9,135

3）Retirement benefit expenses calculated using the simplified method amounted to ¥539 million and ¥361 million ($3,218 thousand) for the years ended March 31, 2016 and 2017, respectively

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company and its consolidated subsidiaries for the years ended March 31, 2016 and 2017 were ¥344 million and ¥344 million ($3,070 thousand), respectively.

(d) Multiple-employers pension plans

With regard to the employees' pension fund system to which some consolidated subsidiaries have joined, note on multiple-employers pension plans where contributions are recognized as retirement benefit expenses is not presented because such contribution amounts were immaterial.

8. Asset Retirement Obligations

Asset retirement obligations mainly represent future obligations to restore leased property to its original condition associated with the removal of the consolidated subsidiaries' renewable energy generation facilities.
The asset retirement obligations are measured at the present value of the future liabilities applying discount rates of 0.612% to 1.994% corresponding with 17 years which is the estimated useful life of those facilities from the acquisition date.

The following table indicates the changes in asset retirement obligations for the years ended March 31, 2016 and 2017:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 835	¥ 925	$ 8,248
Increase due to acquisition of fixed assets	74	86	769
Adjustment due to passage of time	15	16	148
Balance at the end of the year	¥ 925	¥ 1,028	$ 9,167

9. Net Assets

Under the Corporate Law of Japan (the "Corporate Law"), the entire amount paid for new shares is required to be designated as common stock, in principle. However, a company may designate an amount not exceeding 50% of the proceeds of the issuance of new shares as additional paid-in-capital, which is included in capital surplus.
The Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than capital reserve) and retained earnings (other than legal reserve) be transferred to capital reserve and legal reserve, respectively, until the sum of capital reserve and legal reserve equals 25% of the stated common stock. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors, if certain conditions are met, but neither capital reserve nor legal reserve is available for distributions.

(a) Shares issued and outstanding / Treasury shares

For the year ended March 31, 2016:

Types of shares	*Number of shares at April 1, 2015*	*Increase*	*Decrease*	*Number of shares at March 31, 2016*
		(Number of Shares)		
Shares issued:				
Common stock	66,039,535	—	—	66,039,535
Treasury stock:				
Common stock	61,430	331,251	1,636	391,045

Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares	309,000
Resolution of the Board of Directors on February 26, 2015	
Increase due to purchase of shares of less than one standard unit	22,251
Decrease due to exercise of share subscription rights	1,636
2nd unsecured convertible bond-type bonds with share subscription rights	

For the year ended March 31, 2017:

Types of shares	*Number of shares at April 1, 2016*	*Increase*	*Decrease*	*Number of shares at March 31, 2017*
		(Number of Shares)		
Shares issued:				
Common stock	66,039,535	4,095,436	—	70,134,971
Treasury stock:				
Common stock	391,045	1,342	373,446	18,941

Detail of the increase in shares issued is as follows:

Issuance of new shares due to exercise of share subscription rights	4,095,436
2nd unsecured convertible bond-type bonds with share subscription rights	

Details of the increase and decrease in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	1,342
Decrease due to exercise of share subscription rights	373,446
2nd unsecured convertible bond-type bonds with share subscription rights	

(b) Share subscription rights

For the year ended March 31, 2016

			Number of shares subject to share subscription rights			
Company	*Description*	*Type of shares*	*At April 1, 2015*	*Increase*	*Decrease*	*At March 31, 2016*
				(Number of Shares)		
Parent company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	5,452,562	5,951	1,636	5,456,877

1. Number of shares subject to share subscription rights represents the number of shares to be issued upon exercise of the share subscription rights.
2. The increase during the year was due to adjustments to the conversion value, and the decrease was due to exercise of the share subscription rights. The share subscription rights are included in the convertible bond-type bonds with share subscription rights in the consolidated balance sheet

For the year ended March 31, 2017

			Number of shares subject to share subscription rights			
Company	*Description*	*Type of shares*	*At April 1, 2016*	*Increase*	*Decrease*	*At March 31, 2017*
				(Number of Shares)		
Parent company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	5,456,877	33,533	4,468,882	1,021,528

1. Number of shares subject to share subscription rights represents the number of shares to be issued upon exercise of the share subscription rights.
2. The increase during the year was due to adjustments to the conversion value, and the decrease was due to exercise of the share subscription rights. The share subscription rights are included in the convertible bond-type bonds with share subscription rights in the consolidated balance sheet.

(c) Dividends

1) Dividends paid

For the year ended March 31, 2016:

	Total dividends	*Cut-off Date*	*Effective date*
	(Millions of yen)		
Resolution: Meeting of the Board of Directors on April 28, 2015			
Cash dividends (¥15 per share)	¥ 989	March 31, 2015	June 5, 2015
Resolution: Meeting of the Board of Directors on October 29, 2015			
Cash dividends (¥20 per share)	¥ 1,313	September 30, 2015	December 1, 2015

For the year ended March 31, 2017:

	Total dividends		*Cut-off date*	*Effective date*
	(Millions of yen)	*(Thousands of U.S. dollars)*		
Resolution: Meeting of the Board of Directors on April 28, 2016				
Cash dividends (¥25 ($0.22) per share)	¥ 1,641	$ 14,633	March 31, 2016	June 7, 2016
Resolution: Meeting of the Board of Directors on October 28, 2016				
Cash dividends (¥30 ($0.27) per share)	¥ 2,101	$ 18,727	September 30, 2016	December 1, 2016

2) Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ended March 31, 2017:

	Total dividends	*Cut-off date*	*Effective date*
	(Millions of yen)		
Resolution: Meeting of the Board of Directors on April 28, 2016			
Cash dividends (¥25 per share)			
Source of dividends: Retained earnings	¥ 1,641	March 31, 2016	June 7, 2016

Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018:

	Total dividends		Cut-off date	Effective date
	(Millions of yen)	*(Thousands of U.S. dollars)*		
Resolution: Meeting of the Board of Directors on April 28, 2017				
Cash dividends (¥40 ($0.36) per share)				
Source of dividends: Retained earnings	¥ 2,805	$ 25,005	March 31, 2017	June 6, 2017

10. Net Sales from Construction Contracts Recognized by Percentage-of-Completion Method

Net sales from construction contracts recognized by the percentage-of-completion method for the years ended March 31, 2016 and 2017 amounted to ¥138,742 million and ¥166,115 million ($1,480,664 thousand), respectively.

11. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2016 and 2017 were as follows:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 8,450	¥ 8,735	$ 77,867
Retirement benefit expenses	463	614	5,476
Provision for directors and corporate auditors' retirement benefits	47	59	530
Depreciation and amortization	901	859	7,658

12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2016 and 2017 amounted to ¥255 million and ¥235 million ($2,102 thousand), respectively.

13. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 32.83% and 30.69% for the years ended March 31, 2016 and 2017, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rates was not presented because the difference between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income was not greater than 5% of the statutory tax rate for the years ended March 31, 2016 and 2017.

The significant components of deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Liability for retirement benefits	¥ 6,457	¥ 5,341	$ 47,612
Accrued bonuses	1,962	2,125	18,943
Tax loss carryforwards	1,058	932	8,315
Unrealized profits on fixed assets	749	703	6,271
Other	2,512	2,748	24,500
Total gross deferred tax assets	12,740	11,852	105,642
Valuation allowance	(1,641)	(1,272)	(11,342)
Total deferred tax assets	11,098	10,579	94,299
Deferred tax liabilities:			
Unrealized holding gain on other securities	(890)	(1,290)	(11,505)
Reserve for advanced depreciation of fixed assets	(1,286)	(1,269)	(11,314)
Reserve for special depreciation	(1,022)	(824)	(7,352)
Other	(630)	(818)	(7,293)
Total deferred tax liabilities	(3,829)	(4,203)	(37,466)
Net deferred tax assets	¥ 7,268	¥ 6,376	$ 56,833

Note: Net deferred tax assets as of March 31, 2016 and 2017 were reflected in the following accounts in the consolidated balance sheet:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current assets - deferred tax assets	¥ 2,961	¥ 3,415	$ 30,446
Investments and other assets - deferred tax assets	4,540	3,401	30,317
Current liabilities - other current liabilities	(15)	(59)	(530)
Long-term liabilities - other long-term liabilities	(216)	(381)	(3,400)

14. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2016 and 2017:

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ (2,790)	¥ 1,403	$ 12,514
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(84)	(27)	(241)
Amount before tax effect	(2,874)	1,376	12,272
Tax effect	962	(412)	(3,672)
Unrealized holding gain (loss) on securities	(1,911)	964	8,600
Unrealized gain (loss) on hedging instruments:			
Amount arising during the year	(125)	44	399
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	—	—	—
Amount before tax effect	(125)	44	399
Tax effect	38	(13)	(121)
Unrealized gain (loss) on hedging instruments:	(87)	31	278
Translation adjustments:			
Amount arising during the year	(244)	(190)	(1,696)
Retirement benefit liability adjustments:			
Amount arising during the year	(6,779)	156	1,395
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	725	1,248	11,125
Amount before tax effect	(6,054)	1,404	12,520
Tax effect	1,789	(450)	(4,013)
Retirement benefits liability adjustments	(4,264)	954	8,507
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	(54)	23	206
Total other comprehensive income	¥ (6,562)	¥ 1,783	$ 15,895

15. Commitments and Contingencies

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2016 and 2017:

Debt guarantees for non-consolidated companies

	2016	2017	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 552	¥ 465	$ 4,148
Development Bank of Japan Inc. (Nagashima Windhill Co.)	283	245	2,191
Total	¥ 836	¥ 711	$ 6,339

Discounted notes receivable

2016	2017	2017
(Millions of yen)		(Thousands of U.S. dollars)
¥ —	¥ 30	$ 270

Endorsement for transfer of notes receivable

2016	2017	2017
(Millions of yen)		(Thousands of U.S. dollars)
¥ 5	¥ 6	$ 61

The Company has entered into subordinated loan commitment contracts as a subordinated creditor in joint financing for companies involved in the PFI business. At March 31, 2016 and 2017, the Company had loan commitment agreements with 9 companies. The unused balances under the loan commitment contracts at March 31, 2016 and 2017 were as follows:

	2016	2017	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Total loan commitments	¥ 146	¥ 146	$ 1,304
Aggregated borrowings	—	—	—
Unused balances	¥ 146	¥ 146	$ 1,304

16. Amounts Per Share

Per share information as of March 31, 2016 and 2017 and for the years then ended is as follows:

	2016	2017	2017
	(Yen)		(U.S. dollars)
Profit attributable to owners of parent:			
Basic	¥ 272.45	¥ 327.22	$ 2.92
Diluted	251.56	313.47	2.79

Net assets	¥ 1,693.45	¥ 1,995.00	$ 17.78

Basic profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of share subscription rights.
Net assets per share are computed based on the net assets excluding non-controlling interests and the number of shares of common stock outstanding at the year end.

The bases for calculation are as follows:
(a) Basic and diluted profit attributable to owners of parent per share

	2016	**2017**
	(Thousands of shares)	
Weighted average number of shares for basic profit attributable to owners of parent	65,704	68,143
Increase in shares of common stock:		
Exercise of share subscription rights	5,457	2,989
Number of shares used for diluted profit attributable to owners of parent per share	71,161	71,133

The entire amount of profit attributable to owners of parent for the years ended March 31, 2016 and 2017 was attributed to common shareholders.

(b) Net assets per share

	2016	**2017**
	(Thousands of shares)	
Number of shares of common stock used for the calculation of net assets per share	65,648	70,116

	2016	**2017**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total net assets	¥ 113,199	¥ 141,503	$ 1,261,282
Amounts deducted from total net assets:			
Non-controlling interests	(2,026)	(1,622)	(14,458)
Net assets attributable to shares of common stock	¥ 111,172	¥ 139,881	$ 1,246,823

17. Financial Instruments

(a) Policy for financial instruments

The Company and its consolidated subsidiaries utilize short-term deposits for surplus funds.

In addition, they raise funds through borrowings from financial institutions. Derivative transactions are only used to reduce risks arising from fluctuations in foreign currency exchange rates and interest rates, except for certain highly secure embedded derivatives in compound financial instruments used for surplus funds. The Company and its consolidated subsidiaries do not enter into derivatives for speculative or trading purposes.

The Company and its consolidated subsidiaries execute and manage derivative transactions within the limits of established internal rules and regulations.

(b) Details of financial instruments, related risk and risk management system

Trade receivables, such as trade notes and accounts receivable, are exposed to credit risk in relation to customers. The Company and its consolidated subsidiaries monitor the due dates and manage credit risk under the credit management rules to mitigate the risk.

Investment securities mainly consist of equity securities and are exposed to market risk. The Company and its consolidated subsidiaries review the fair values of listed equity securities quarterly and the financial condition of the issuing entities.

Trade payables, such as trade notes and accounts payable, have payment due dates mainly within one year.

Short-term borrowings are taken out mainly to obtain funds for operating activities.

Long-term debt and convertible bond-type bonds with share subscription rights are used mainly for the purposes of making investments and repurchasing treasury stock.

Trade payables, short-term borrowings and long-term debt are exposed to liquidity risk. The Company and its consolidated subsidiaries manage the risk by preparing and updating its cash flow plans monthly. In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk, the Company uses interest rate swaps for certain loans borrowed from financial institutions, interest rate and currency swaps are used for all loans denominated in foreign currencies, and forward foreign exchange contracts are used for certain forecasted transactions denominated in foreign currencies. The Company executes and manages hedge transactions within the limits of established internal rules and regulations.

The Company and its consolidated subsidiaries reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

(c) Supplemental explanation on estimated 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, the fair value is reasonably estimated. As the estimation of the fair value relies on various assumptions and factors, different assumptions and factors could result in different fair value.

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2016 and 2017 and estimated fair value were as follows:

	March 31, 2016		
	Carrying value	Estimated fair value	Difference
	(Millions of yen)		
Cash on hand and in banks	¥ 28,973	¥ 28,973	¥ —
Trade notes and accounts receivable (*1)	90,853	90,853	—
Investment securities	15,726	15,726	—
Total assets	135,553	135,553	—
Trade notes and accounts payable	68,369	68,369	—
Convertible bond-type bonds with share subscription rights	9,997	14,895	4,898
Long-term debt (*2)	18,775	18,900	125
Total liabilities	97,141	102,165	5,024
Derivatives	¥ (125)	¥ (125)	¥ –

	March 31, 2017					
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Cash on hand and in banks	¥ 30,314	¥ 30,314	¥ —	$ 270,209	$ 270,209	$ —
Trade notes and accounts receivable (*1)	106,198	106,198	—	946,592	946,592	—
Investment securities	20,897	20,897	—	186,266	186,266	—
Total assets	157,410	157,410	—	1,403,068	1,403,068	—
Trade notes and accounts payable	80,636	80,636	—	718,745	718,745	—
Convertible bond-type bonds with share subscription rights	1,860	2,978	1,118	16,579	26,551	9,972
Long-term debt (*2)	16,255	16,291	35	144,896	145,213	317
Total liabilities	98,752	99,906	1,154	880,221	890,510	10,289
Derivatives (*3)	¥ (80)	¥ (80)	¥ –	$ (717)	$ (717)	$ –

(*1) The allowance for doubtful accounts was deducted from the trade notes and accounts receivable.

(*2) The balances include the current portion of long-term debt.

(*3) The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

Note 1:

Short-term investments (current assets) and short-term borrowings, excluding the current portion of long-term debt (current liabilities), were not included in the above table because the amounts were immaterial.

Note 2:
Valuation methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions are as follows:

Assets

Cash on hand and in banks
Since all these items are settled in a short period of time, the carrying value approximates fair value.

Trade notes and accounts receivable
Since these items are settled in a short period of time, the carrying value approximates fair value.

Investment securities
The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. The fair value of investment trusts is based on publicly available information.

Liabilities

Trade notes and accounts payable
Since all these items are settled in a short period of time, the carrying value approximates fair value.

Convertible bond-type bonds with share subscription rights
The fair value of convertible bond-type bonds with share subscription rights is based on quoted market prices.

Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative transactions

The fair value of derivative transactions is based on prices provided by the counterparty financial institutions. The fair value of the interest rate swaps and the interest rate and currency swaps was included in that of the hedged long-term debt as they are accounted for together with underlying hedged items under the short-cut method.

Note 3:
Unlisted equity securities of ¥16,177 million and ¥25,950 million ($231,310 thousand) as of March 31, 2016 and 2017, respectively, were not included in the above table because it was extremely difficult to determine the fair value.

(d) Redemption schedule for receivables and marketable securities with maturities at March 31, 2016 and March 31, 2017 were as follows:

	March 31, 2016			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash in banks	¥ 28,904	¥ —	¥ —	¥ —
Trade notes and accounts receivable	90,858	—	—	—
Short-term investments and investment securities				
Other securities with maturities (debt securities)	250	1,015	1,101	392
Other securities with maturities (Other)	21	60	—	6,548
Total	¥ 120,035	¥ 1,076	¥ 1,101	¥ 6,940

	March 31, 2017			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash in banks	¥ 30,237	¥ —	¥ —	¥ —
Trade notes and accounts receivable	106,204	—	—	—
Short-term investments and investment securities				
Other securities with maturities (debt securities)	3	1,000	1,832	392
Other securities with maturities (Other)	—	207	—	12,490
Total	¥ 136,445	¥ 1,207	¥ 1,832	¥ 12,882

	March 31, 2017			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Thousands of U.S. dollars)			
Cash in banks	$ 269,522	$ —	$ —	$ —
Trade notes and accounts receivable	946,646	—	—	—
Short-term investments and investment securities				
Other securities with maturities (debt securities)	33	8,913	16,334	3,494
Other securities with maturities (Other)	—	1,852	—	111,329
Total	$ 1,216,202	$ 10,765	$ 16,334	$ 114,823

(e) The redemption schedule for long-term debt is disclosed in Note 5.

18. Securities

(a) Information regarding marketable securities classified as other securities as of March 31, 2016 and 2017 is as follows:

	March 31, 2016		
	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 9,805	¥ 6,477	¥ 3,328
Debt securities	481	438	42
Others	180	116	64
Subtotal	10,468	7,031	3,436
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	3,256	3,592	(335)
Debt securities	2,180	2,242	(61)
Others	116	148	(31)
Subtotal	5,554	5,983	(428)
Total	¥ 16,022	¥ 13,014	¥ 3,007

	March 31, 2017					
	Carrying value	Acquisition cost	Gross unrealized gain (loss)	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost						
Equity securities	¥ 16,509	¥ 11,917	¥ 4,592	$ 147,161	$ 106,222	$ 40,938
Debt securities	1,121	1,088	33	9,999	9,705	294
Others	214	122	91	1,908	1,094	814
Subtotal	17,845	13,128	4,717	159,069	117,021	42,047
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	863	1,152	(288)	7,695	10,271	(2,575)
Debt securities	2,020	2,059	(38)	18,010	18,355	(344)
Others	169	169	(0)	1,507	1,507	(0)
Subtotal	3,053	3,380	(327)	27,213	30,134	(2,921)
Total	¥ 20,899	¥ 16,509	¥ 4,389	$ 186,282	$ 147,155	$ 39,126

(b) Information regarding sales of securities classified as other securities for the years ended March 31, 2016 and 2017 is as follows:

	2016	2017	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds from sales	¥ 623	¥ 504	$ 4,499
Gains on sales	98	37	336
Losses on sales	8	—	—

(c) Impairment losses on securities classified as other securities of ¥84 million and ¥96 million ($856 thousand) were recognized for the years ended March 31, 2016 and 2017, respectively.

19. Supplemental Information on Consolidated Statement of Cash Flows

(a) Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2016 and 2017 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	2016	2017	2017
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥ 28,973	¥ 30,314	$ 270,209
Time deposits with maturities of more than three months	(2,241)	(287)	(2,558)
Cash and cash equivalents	¥ 26,732	¥ 30,027	$ 267,651

(b) Information regarding details of significant non-monetary transactions for the years ended March 31, 2016 and 2017 is as follows:

Exercise of share subscription rights on convertible bond-type bonds with share subscription rights

	2016	2017	2017
	(Millions of yen)		*(Thousands of U.S. dollars)*
Gain on disposal of treasury stock due to exercise of share subscription rights	¥ 0	¥ 71	$ 641
Increase in common stock due to exercise of share subscription rights	—	3,730	33,255
Increase in capital surplus due to exercise of share subscription rights	—	3,726	33,212
Decrease in treasury stock due to exercise of share subscription rights	2	608	5,419
Decrease in convertible bond-type bonds with share subscription rights	¥ 3	¥ 8,137	$ 72,528

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2016 and 2017 amounted to ¥1,058 million and ¥1,162 million ($10,363 thousand), respectively. Asset retirement obligations recorded for the years ended March 31, 2016 and 2017 amounted to ¥74 million and ¥86 million ($769 thousand), respectively.

20. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2016 and 2017, for which hedge accounting has been applied.

a. Currency-related transactions

				March 31, 2016		
Method of hedge accounting	*Hedging instruments*		*Hedged items*	Notional amounts	Due after one year	Fair value
					(Millions of yen)	
Deferred hedge accounting	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	¥ 8,217	¥ 7,395	¥ (125)

Method of hedge accounting	*Hedging instruments*		*Hedged items*	March 31, 2017 Notional amounts	 Due after one year	 Fair value
					(Millions of yen)	
Deferred hedge accounting	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	¥ 6,984	¥ 6,573	¥ (80)

Method of hedge accounting	*Hedging instruments*		*Hedged items*	March 31, 2017 Notional amounts	 Due after one year	 Fair value
					(Thousands of U.S. dollars)	
Deferred hedge accounting	Forward foreign exchange contracts	Buy: USD	Forecasted transactions denominated in foreign currencies	$ 62,255	$ 58,592	$ (717)

The fair value was calculated based on prices provided by the counterparty financial institutions.

b. Interest-related transactions

Method of hedge accounting	Hedging instruments		Hedged items	March 31, 2016		
				Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Short-cut method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	¥ 5,000	¥ 5,000	¥ -
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	2,911	2,759	(147)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	2,008	1,757	-

Method of hedge accounting	Hedging instruments		Hedged items	March 31, 2017		
				Notional amounts	Due after one year	Fair value
				(Millions of yen)		
Short-cut method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	¥ 5,000	¥ 5,000	¥ -
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	2,759	2,593	(129)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	1,757	1,506	-

Method of hedge accounting	Hedging instruments		Hedged items	March 31, 2017		
				Notional amounts	Due after one year	Fair value
				(Thousands of U.S. dollars)		
Short-cut method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	$ 44,567	$ 44,567	$ -
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	24,601	23,119	(1,155)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	15,660	13,423	-

The fair value of the interest swaps and the interest rate and currency swaps was included in that of the hedged long-term debt as they are accounted for together with underlying hedged items under the short-cut method.
The principle method was applied to the interest rate swaps used to hedge long-term debt of affiliates accounted for by the equity method, and the notional amount and the fair value were based on the Company’s proportionate share. The fair value was calculated based on prices provided by the counterparty financial institutions.

21. Segment Information

(a) Outline of reportable segments

The reportable segments of the Company and its consolidated subsidiaries (the “Group”) are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions on resource allocation and to assess performance.

The Group is primarily engaged in the integrated utilities engineering service business, based on mid- to long-term business plans developed in the head office of the Company. The Company's regional offices mainly offer services in cooperation with each company of the Group.
Also, some consolidated subsidiaries operate as independent management units and are involved in other industries such as the sales business of construction-related materials and equipment, the real-estate sales business and the renewable energy generation business.
Thus, the Group consists of the segments based on business activities, with several businesses that have essentially identical financial characteristics and contents of services combined into "Utilities engineering service" as a reportable segment for the purpose of disclosing appropriate information.
The "Utilities engineering service" segment primarily offers services for the design and construction of electrical works, such as power distribution line, indoor wiring, and communication, and of heating ventilation and air conditioning mechanical installation works, such as ventilation, heating and cooling, plumbing, water treatment and sanitation equipment installation.

(b) Method used to calculate net sales, profit or loss, assets, liabilities and other items by reportable segment

The accounting policies of the reportable segments are substantially the same as those described in "2. Summary of Significant Accounting Policies." Segment performance is evaluated based on operating profit or loss. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

As described in "3. Accounting Changes," as a result of revisions to the Corporate Tax Act of Japan, the Company and its domestic consolidated subsidiaries changed the depreciation method for both facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. Accordingly, the depreciation method in the reportable segments was changed in the same manner.
The effect of this change on segment profits of "Utilities engineering service" and "Others" was immaterial.

(c) Net sales, profit or loss and other items by reportable segment for the years ended March 31, 2016 and 2017 are summarized as follows:

	Year ended March 31, 2016				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)		
Net sales					
Sales to third parties	¥ 296,601	¥ 14,744	¥ 311,346	¥ –	¥ 311,346
Intersegment sales and transfers	3,823	19,164	22,987	(22,987)	–
Total	¥ 300,425	¥ 33,908	¥ 334,334	¥ (22,987)	¥ 311,346
Segment profit or loss	¥ 24,268	¥ 1,015	¥ 25,284	¥ (86)	¥ 25,197

Other items										
Depreciation and amortization	¥	3,005	¥	2,629	¥	5,635	¥	(159)	¥	5,475
Amortization of goodwill	¥	241	¥	2	¥	244	¥	—	¥	244

	Year ended March 31, 2017				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)		
Net sales					
Sales to third parties	¥ 328,915	¥ 12,855	¥ 341,771	¥ –	¥ 341,771
Intersegment sales and transfers	3,582	20,103	23,686	(23,686)	–
Total	¥ 332,498	¥ 32,959	¥ 365,458	¥ (23,686)	¥ 341,771
Segment profit or loss	¥ 29,071	¥ 1,500	¥ 30,572	¥ 160	¥ 30,732
Other items					
Depreciation and amortization	¥ 3,043	¥ 2,563	¥ 5,607	¥ (158)	¥ 5,449
Amortization of goodwill	¥ 314	¥ 2	¥ 317	¥ —	¥ 317

	Year ended March 31, 2017				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Thousands of U.S. dollars)		
Net sales					
Sales to third parties	$ 2,931,773	$ 114,589	$3,046,363	$ –	$3,046,363
Intersegment sales and transfers	31,936	179,192	211,129	(211,129)	–
Total	$ 2,963,710	$ 293,782	$ 3,257,493	$ (211,129)	$3,046,363
Segment profit or loss	$ 259,131	$ 13,373	$ 272,504	$ 1,427	$ 273,932
Other items					
Depreciation and amortization	$ 27,131	$ 22,851	$ 49,983	$ (1,413)	$ 48,569
Amortization of goodwill	$ 2,806	$ 24	$ 2,830	$ —	$ 2,830

The disclosure of geographical segment information has been omitted as net sales and total assets of the foreign operations constituted less than 10% of the consolidated totals for the years ended March 31, 2016 and 2017.

There was no impairment loss on fixed assets recognized for the years ended March 31, 2016 and 2017.

The following table presents the amortization and balance of goodwill as of and for the years ended March 31, 2015 and 2016 by reportable segment:

	Year ended March 31, 2016			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Millions of yen)			
Amortization	¥ 241	¥ 2	¥ —	¥ 244
Balance as of March 31	¥ 1,553	¥ 2	¥ —	¥ 1,556

	Year ended March 31, 2017			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Millions of yen)			
Amortization	¥ 314	¥ 2	¥ —	¥ 317
Balance as of March 31	¥ 1,175	¥ —	¥ —	¥ 1,175

	Year ended March 31, 2017			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Thousands of U.S. dollars)			
Amortization	$ 2,806	$ 24	$ —	$ 2,830
Balance as of March 31	$ 10,478	$ —	$ —	$ 10,478

The following table presents major customer information for the years ended March 31, 2016 and 2017:

	2016	**2017**	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Name of customers:			
Kyushu Electric Power Co., Inc.			
Reportable segment:			
Utilities engineering service and Others			
Net sales	¥ 50,900	¥ 52,505	$ 468,004

22. Related Party Transactions

Consolidated net sales from construction contracts included those involving Kyushu Electric Power Co., Inc., which has an approximately 25% ownership interest in the Company, in the amounts of ¥47,625 million and ¥48,652 million ($433,659 thousand) for the years ended March 31, 2016 and 2017, respectively. The related receivables at March 31, 2016 and 2017 amounted to ¥7,728 million and ¥9,317 million ($83,051 thousand), respectively. The related advances received at March 31, 2016 and 2017 amounted to ¥132 million and ¥62 million ($557 thousand), respectively.

The terms of the transactions referred to above were negotiated and determined on an arm's-length basis similar to third party transactions.

Independent Auditor's Report

The Board of Directors
KYUDENKO CORPORATION

We have audited the accompanying consolidated financial statements of KYUDENKO CORPORATION 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 KYUDENKO CORPORATION 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 4.

Ernst & Young Shinnihon LLC

June 27, 2017
Fukuoka, Japan