Consolidated Financial Statements

KYUDENKO CORPORATION

Years ended March 31, 2016 and 2015

KYUDENKO CORPORATION

Consolidated Balance Sheet

	March 31, 2015	March 31, 2016	2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Assets			
Current assets:			
Cash on hand and in banks *(Notes 6, 17 and 19)*	¥ 37,957	¥ 28,973	$ 257,132
Trade notes and accounts receivable *(Note 17)*	79,857	90,858	806,345
Short-term investments *(Notes 17 and 18)*	197	307	2,725
Costs on uncompleted construction contracts	8,282	6,405	56,850
Merchandise	1,533	720	6,393
Raw materials and supplies	541	538	4,776
Deferred tax assets *(Note 13)*	3,041	2,961	26,278
Other current assets *(Note 6)*	4,376	4,981	44,210
Allowance for doubtful accounts	(4)	(4)	(44)
Total current assets	135,784	135,742	1,204,668
Fixed assets:			
Property, plant and equipment:			
Buildings and structures *(Note 6)*	62,131	63,467	563,257
Machinery, vehicles, tools, furniture and fixtures *(Note 6)*	30,879	33,416	296,560
Leased assets	6,073	5,957	52,868
Land	27,863	28,262	250,821
Construction in progress	1,225	2,824	25,063
Accumulated depreciation	(46,601)	(50,648)	(449,493)
Total property, plant and equipment	81,571	83,279	739,077
Intangible assets:			
Goodwill *(Note 21)*	1,408	1,556	13,810
Other intangible assets	1,189	1,012	8,983
Total intangible assets	2,598	2,568	22,793
Investments and other assets:			
Investment securities *(Notes 6, 17 and 18)*	29,768	31,903	283,135
Long-term loans receivable *(Note 6)*	297	483	4,287
Asset for retirement benefits *(Note 7)*	235	188	1,677
Deferred tax assets *(Note 13)*	2,380	4,540	40,291
Other *(Note 6)*	3,080	4,084	36,252
Allowance for doubtful accounts	(773)	(750)	(6,656)
Total investments and other assets	34,987	40,450	358,988
Total fixed assets	119,158	126,298	1,120,859
Total assets	¥ 254,942	¥ 262,040	$ 2,325,528

	March 31,		
	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Liabilities and net assets			
Current liabilities:			
Trade notes and accounts payable *(Note 17)*	¥ 68,445	¥ 68,369	$ 606,754
Short-term borrowings *(Notes 5 and 17)*	3,282	2,957	26,249
Income taxes payable *(Note 13)*	5,140	6,511	57,786
Advances received on uncompleted construction contracts	16,166	9,874	87,629
Provision for loss on construction contracts	449	52	464
Other current liabilities *(Notes 5 and 13)*	6,848	9,280	82,363
Total current liabilities	100,332	97,045	861,247
Long-term liabilities:			
Convertible bond-type bonds with share subscription rights *(Notes 5 and 17)*	10,000	9,997	88,720
Long-term debt *(Notes 5 and 17)*	18,047	16,213	143,888
Lease obligations *(Note 5)*	1,758	1,999	17,744
Provision for directors and corporate auditors' retirement benefits	228	241	2,139
Liability for retirement benefits *(Note 7)*	18,045	21,310	189,122
Other long-term liabilities *(Notes 8 and 13)*	1,871	2,034	18,056
Total long-term liabilities	49,951	51,795	459,672
Total liabilities	150,284	148,841	1,320,919
Commitments and contingencies *(Note 15)*			
Net assets *(Note 9)*:			
Shareholders' equity:			
Common stock:			
Authorized – 250,000,000 shares			
Issued – 66,039,535 shares in 2015 and 2016	7,901	7,901	70,126
Capital surplus	7,889	7,891	70,033
Retained earnings	85,537	101,173	897,885
Treasury stock	(48)	(611)	(5,429)
Total shareholders' equity	101,279	116,355	1,032,616
Accumulated other comprehensive income			
Unrealized holding gain (loss) on securities	4,012	2,117	18,789
Unrealized gain (loss) on hedging instruments *(Note 20)*	(82)	(234)	(2,083)
Translation adjustments	528	319	2,838
Retirement benefit liability adjustments *(Note 7)*	(3,119)	(7,384)	(65,537)
Total accumulated other comprehensive income	1,338	(5,182)	(45,992)
Non-controlling interests	2,040	2,026	17,984
Total net assets	104,658	113,199	1,004,608
Total liabilities and net assets	¥ 254,942	¥ 262,040	$ 2,325,528

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Profit and Loss Statement

	Year ended March 31,		
	2015	**2016**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Net sales *(Note 21)*:			
Construction contracts *(Note 10)*	¥ 301,916	¥ 296,601	$ 2,632,249
Other	14,033	14,744	130,851
Total net sales	315,949	311,346	2,763,100
Cost of sales *(Note 12)*:			
Construction contracts	266,738	253,460	2,249,382
Other	12,100	12,710	112,801
Total cost of sales	278,838	266,170	2,362,184
Gross profit:			
Construction contracts	35,178	43,141	382,866
Other	1,932	2,033	18,049
Total gross profit	37,111	45,175	400,916
Selling, general and administrative expenses *(Notes 11 and 12)*	20,353	19,977	177,292
Operating profit *(Note 21)*	16,757	25,197	223,623
Non-operating profit (loss):			
Interest income	76	78	700
Dividend income	283	514	4,565
Interest expenses	(386)	(379)	(3,368)
Equity in earnings of affiliates	234	358	3,182
Rent income	349	353	3,134
Insurance and dividend income	364	604	5,367
Compensation income	119	331	2,938
Foreign exchange losses	—	(83)	(745)
Extra retirement payments	(62)	(34)	(302)
Other, net	425	610	5,416
Ordinary profit	18,163	27,551	244,513
Special gains (losses):			
Gain on sales of fixed assets	186	69	615
Loss on disposal and sales of fixed assets	(90)	(242)	(2,149)
Gain on sales of investment securities	328	98	870
Gain on bargain purchase	232	—	—
Loss on sales of investment securities	—	(8)	(79)
Impairment loss on investment securities	(9)	(84)	(749)
Other, net	—	(9)	(84)
Profit before income taxes	18,811	27,374	242,936
Income taxes *(Note 13)*:			
Current	5,453	8,775	77,877
Deferred	1,710	634	5,634
Profit	11,646	17,963	159,424
Profit attributable to non-controlling interests	128	62	554
Profit attributable to owners of parent	¥ 11,517	¥ 17,901	$ 158,869

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Statement of Comprehensive Income

	Year ended March 31,		
	2015	**2016**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Profit	¥ 11,646	¥ 17,963	$ 159,424
Other comprehensive income (Note 14):			
Unrealized holding gain (loss) on securities	2,439	(1,911)	(16,966)
Unrealized gain (loss) on hedging instruments	—	(87)	(774)
Translation adjustments	424	(244)	(2,166)
Retirement benefit liability adjustments	(1,684)	(4,264)	(37,850)
Share of other comprehensive income of affiliates accounted for by the equity method	(84)	(54)	(483)
Total other comprehensive income	1,095	(6,562)	(58,241)
Comprehensive income	¥ 12,741	¥ 11,401	$ 101,182
Comprehensive income attributable to:			
Owners of parent	¥ 12,559	¥ 11,380	$ 101,000
Non-controlling interests	¥ 182	¥ 20	$ 182

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2015 and 2016:

	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, 2014	¥ 7,901	¥ 7,889	¥ 76,691	¥ (19)	¥ 92,462	¥ 1,578	¥ –	¥ 153	¥ (1,435)	¥ 296	¥ 1,679	¥ 94,438
Cumulative effects of accounting changes			(1,483)		(1,483)							(1,483)
Restated balance	7,901	7,889	75,207	(19)	90,978	1,578	–	153	(1,435)	296	1,679	92,954
Cash dividends paid			(1,188)		(1,188)							(1,188)
Profit attributable to owners of parent for the period			11,517		11,517							11,517
Purchase of treasury stock				(28)	(28)							(28)
Net changes in items other than those in shareholders' equity						2,433	(82)	375	(1,684)	1,041	361	1,402
Total changes during the year	–	–	10,329	(28)	10,300	2,433	(82)	375	(1,684)	1,041	361	11,703
Balance at March 31, 2015												
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 shares		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	¥ 7,901	¥ 7,891	¥ 101,173	¥ (611)	¥ 116,355	¥ 2,117	¥ (234)	¥ 319	¥ (7,384)	¥ (5,182)	¥ 2,026	¥ 113,199

For the year ended March 31, 2016:

	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, 2015	$ 70,126	$ 70,017	$ 759,114	$ (434)	$ 898,824	$ 35,608	$ (736)	$ 4,692	$ (27,687)	$ 11,876	$ 18,109	$ 928,810
Cash dividends paid			(20,441)		(20,441)							(20,441)
Profit attributable to owners of parent for the period			158,869		158,869							158,869
Purchase of treasury stock				(5,018)	(5,018)							(5,018)
Disposal of treasury shares		3		23	26							26
Purchase of shares of consolidated subsidiaries		13			13							13
Increase in retained earnings due to change in accounting period of subsidiaries			342		342							342
Net changes in items other than those in shareholders' equity						(16,818)	(1,347)	(1,853)	(37,850)	(57,869)	(124)	(57,993)
Total changes during the year	–	16	138,770	(4,995)	133,792	(16,818)	(1,347)	(1,853)	(37,850)	(57,869)	(124)	75,798
Balance at March 31, 2016	$ 70,126	$ 70,033	$ 897,885	$ (5,429)	$1,032,616	$ 18,789	$ (2,083)	$ 2,838	$ (65,537)	$ (45,992)	$ 17,984	$ 1,004,608

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2015	**2016**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Cash flows from operating activities			
Profit before income taxes	¥ 18,811	¥ 27,374	$ 242,936
Depreciation and amortization	5,262	5,475	48,593
Increase (decrease) in allowance for doubtful accounts	(125)	(30)	(269)
Increase (decrease) in liability for retirement benefits and provision for directors and corporate auditors' retirement benefits	(2,996)	(2,805)	(24,898)
Increase (decrease) in provision for loss on construction contracts	(966)	(397)	(3,525)
Interest and dividend income	(360)	(593)	(5,265)
Interest expenses	386	379	3,368
Foreign exchange loss (gain)	(105)	83	745
Equity in earnings of affiliates	(234)	(358)	(3,182)
Loss (gain) on sales of property, plant and equipment	(190)	(69)	(614)
Loss on retirement of property, plant and equipment	55	108	960
Impairment loss on investment securities	9	84	749
Loss (gain) on sales of investment securities	(328)	(89)	(790)
Decrease (increase) in trade notes and accounts receivable	(5,512)	(10,442)	(92,672)
Decrease (increase) in costs on uncompleted construction contracts	1,735	1,753	15,561
Decrease (increase) in inventories	(801)	816	7,245
Increase (decrease) in trade notes and accounts payable	1,147	(693)	(6,151)
Increase (decrease) in advances received on uncompleted construction contracts	1,676	(6,012)	(53,360)
Increase (decrease) in long-term accounts payable	16	28	252
Increase (decrease) in consumption taxes payable (receivable)	456	3,413	30,291
Other, net	2,406	120	1,069
Subtotal	20,342	18,146	161,041
Interest and dividend income received	365	589	5,232
Interest expenses paid	(386)	(379)	(3,368)
Income taxes paid	(1,203)	(7,579)	(67,264)
Net cash provided by operating activities	¥ 19,117	¥ 10,776	$ 95,641

	Year ended March 31,		
	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 4)*
Cash flows from investing activities			
Payments into time deposits	¥ (2,022)	¥ (2,090)	$ (18,548)
Proceeds from withdrawal of time deposits	10	2,013	17,864
Purchase of property, plant and equipment	(6,817)	(6,344)	(56,307)
Proceeds from sales of property, plant and equipment	351	295	2,624
Purchase of investment securities	(3,995)	(5,811)	(51,572)
Proceeds from sales of investment securities	2,180	746	6,627
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	(526)	(698)	(6,195)
Proceeds from purchase of subsidiaries' shares resulting in changes in scope of consolidation	—	69	618
Payments of long-term loans receivable	(30)	(511)	(4,536)
Collection of long-term loans receivable	101	201	1,786
Other, net	(1,067)	(1,468)	(13,035)
Net cash used in investing activities	(11,816)	(13,597)	(120,674)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(274)	(320)	(2,844)
Proceeds from long-term debt	1,760	740	6,567
Repayments of long-term debt	(2,556)	(2,767)	(24,561)
Proceeds from issuance of convertible bond-type bonds with share subscription rights	10,000	—	—
Purchase of treasury stock	(28)	(565)	(5,018)
Proceeds from stock issuance to non-controlling shareholders	9	—	—
Repayments to non-controlling shareholders	(23)	(23)	(204)
Cash dividends paid	(1,190)	(2,295)	(20,368)
Cash dividends paid to non-controlling shareholders	(2)	(20)	(186)
Purchase of subsidiaries' shares not resulting in changes in scope of consolidation	—	(0)	(0)
Other, net	(1,011)	(953)	(8,460)
Net cash provided by (used in) financing activities	6,680	(6,206)	(55,077)
Effect of exchange rate changes on cash and cash equivalents	282	(133)	(1,185)
Net increase (decrease) in cash and cash equivalents	14,263	(9,160)	(81,295)
Cash and cash equivalents at the beginning of the year	21,668	35,931	318,881
Increase (decrease) in cash and cash equivalents resulting from changes in accounting period of consolidated subsidiaries	—	(38)	(342)
Cash and cash equivalents at the end of the year *(Note 19)*	¥ 35,931	¥ 26,732	$ 237,243

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, 2016, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 43 and 5 (40 and 4 in 2015), respectively.
During the year ended March 31, 2016, the Company acquired Kawachi Kogyo Co. and Shoei Densetu Co. and established Fukusetu Co., which were newly included in the scope of consolidation. The Company also invested in Saga Ouchi Solar Co., which was newly accounted for by the equity method.
The financial statements of Kakusokukeisou Co. and Shoei Densetu Co. are consolidated by using the financial statements as of December 31 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.
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) Accounting standards issued but not yet effective

<u>Implementation Guidance on Recoverability of Deferred Tax Assets</u>

On March 28, 2016, the Accounting Standards Board of Japan (ASBJ) issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of Japanese Institution of Certified Public Accountants Audit Committee Report No. 66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- Category requirements for (Category 2) and (Category 3)
- Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2017.

3) Impact of adopting revised implementation guidance

The Company is currently evaluating the effect of adopting the revised implementation guidance on its consolidated financial statements.

3. Accounting Changes

Application of revised accounting standards

The Company and its domestic consolidated subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Standard No. 22), “Revised Accounting Standard for Business Divestitures” (ASBJ Standard No. 7) and so on, effective from April 1, 2015. As a result, under these revised accounting standards, the accounting treatment for any changes in a parent’s ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of profit attributable to owners of parent was amended, the reference to “minority interests” was changed to “non-controlling interests,” and accounting treatment for adjustments to provisional amounts during measurement period was also changed.
In accordance with the transitional treatments, these revised accounting standards for business combinations and others were adopted prospectively from April 1, 2015.
As a result, operating profit and ordinary profit decreased by ¥20 million ($177 thousand) respectively, and profit before income taxes decreased by ¥21 million ($190 thousand), for the year ended March 31, 2016. Additionally, as of March 31, 2016, capital surplus increased by ¥1 million ($13 thousand).
In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows from purchase or sales of subsidiaries’ shares not resulting in changes in scope of consolidation were classified as cash flows from financing activities, while acquisition-related costs for purchase of subsidiaries’ shares resulting in changes in scope of consolidation as well as expenses on purchase or sales of subsidiaries’ shares not resulting in changes in scope of consolidation were classified as cash flows from operating activities.
The effect of this change on net assets per share and basic and diluted profit attributable to owners of parent per share 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 ¥112.68= US$1.00, the approximate rate of exchange prevailing as of March 31, 2016. 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 1.242% and 2.042% for the years ended March 31, 2015 and 2016, respectively.

Long-term debt, convertible bond-type bonds with share subscription rights and lease obligations at March 31, 2015 and 2016 consisted of the following:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans from banks due through 2030 with interest rates ranging from 0.095% to 1.412%	¥ 20,603	¥ 18,775	$ 166,622
Convertible bond-type bonds with share subscription rights (non-interest bearing)	10,000	9,997	88,720
Lease obligations due through 2025	2,609	2,818	25,008
	33,213	31,590	280,351
Less current portion	(3,407)	(3,380)	(29,998)
	¥ 29,806	¥ 28,209	$ 250,352

The aggregate annual maturities of long-term debt, convertible bond-type bonds with share subscription rights and lease obligations as of March 31, 2016 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2017	¥ 3,380	$ 29,998
2018	7,250	64,349
2019	16,336	144,980
2020	959	8,519
2021	864	7,672
2022 and thereafter	2,797	24,830
	¥ 31,590	$ 280,351

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, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	¥ 197	¥ 233	$ 2,069
Other current assets – short-term loans receivable	9	9	84
Buildings and structures	—	10	96
Machinery, vehicles, tools, furniture and fixtures	1,399	1,634	14,505
Investment securities	403	2,429	21,557
Long-term loans receivable	111	102	907
Investments and other assets – other	15	15	133
Total	¥ 2,136	¥ 4,434	$ 39,353

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, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 37,825	¥ 42,211	$ 374,612
Cumulative effect of accounting changes	2,296	—	—
Restated balance at the beginning of the year	40,121	42,211	374,612
Service cost	1,362	1,496	13,279
Interest cost	530	464	4,120
Actuarial gain and loss	893	2,565	22,771
Retirement benefit paid	(4,552)	(4,850)	(43,043)
Prior service cost	3,855	3,749	33,271
Balance at the end of the year	¥ 42,211	¥ 45,636	$ 405,012

2) The changes in the plan assets for the years ended March 31, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 23,171	¥ 25,602	$ 227,215
Expected return on plan assets	463	512	4,544
Actuarial gain and loss	1,758	(464)	(4,122)
Contributions by the Company	4,474	4,466	39,635
Retirement benefit paid	(4,314)	(4,365)	(38,741)
Other	49	49	438
Balance at the end of the year	¥ 25,602	¥ 25,800	$ 228,970

3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet at March 31, 2015 and 2016 for the Company's and its consolidated subsidiaries' defined benefit plans:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 38,513	¥ 38,138	$ 338,468
Plan assets at fair value	(25,602)	(25,800)	(228,970)
	12,910	12,338	109,498
Unfunded retirement benefit obligation	3,697	7,498	66,543
Net liability for retirement benefits in the consolidated balance sheet	16,608	19,836	176,042
Liability for retirement benefits	16,608	19,836	176,042
Asset for retirement benefits	—	—	—
Net liability for retirement benefits in the consolidated balance sheet	¥ 16,608	¥ 19,836	$ 176,042

4) The components of retirement benefit expenses for the years ended March 31, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 1,313	¥ 1,446	$ 12,840
Interest cost	530	464	4,120
Expected return on plan assets	(463)	(512)	(4,544)
Amortization of actuarial gain and loss	1,590	1,542	13,691
Amortization of prior service cost	(978)	(817)	(7,256)
Other	377	34	302
Retirement benefit expenses	¥ 2,370	¥ 2,158	$ 19,154

5) The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Prior service cost	¥ (4,834)	¥ (4,566)	$ (40,528)
Actuarial gain and loss	2,455	(1,487)	(13,202)
Total	¥ (2,378)	¥ (6,054)	$ (53,731)

6) The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized prior service cost	¥ 171	¥ 4,738	$ 42,049
Unrecognized actuarial gain and loss	4,428	5,916	52,507
Total	¥ 4,600	¥ 10,654	$ 94,556

7) The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2015 and 2016 were as follows:

	2015	2016
Bonds	46%	46%
Stocks	30%	26%
General accounts of life insurance	9%	9%
Other	15%	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:

	2015	2016
Discount rates	1.1%	0.6%
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, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 1,424	¥ 1,200	$ 10,652
Retirement benefit expenses	135	539	4,788
Retirement benefit paid	(111)	(141)	(1,253)
Contributions	(336)	(342)	(3,041)
Other	88	28	257
Balance at the end of the year	¥ 1,200	¥ 1,284	$ 11,403

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, 2015and 2016 for the defined benefit plans:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Funded retirement benefit obligation	¥ 4,024	¥ 4,238	$ 37,617
Plan assets at fair value	(3,135)	(3,178)	(28,204)
	889	1,060	9,412
Unfunded retirement benefit obligation	311	224	1,991
Net liability for retirement benefits in the consolidated balance sheet	1,200	1,284	11,403
Liability for retirement benefits	1,436	1,473	13,080
Asset for retirement benefits	(235)	(188)	(1,677)
Net liability for retirement benefits in the consolidated balance sheet	¥ 1,200	¥ 1,284	$ 11,403

3) Retirement benefit expenses calculated using the simplified method amounted to ¥135 million and ¥539 million ($4,788 thousand) for the years ended March 31, 2015 and

2016, respectively

(c) Defined contribution plans

Contributions made to defined contribution plans by the Company and its consolidated subsidiaries for the years ended March 31, 2015 and 2016 were ¥342 million and ¥344 million ($3,059 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 1.106% 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, 2015 and 2016:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Balance at the beginning of the year	¥ 699	¥ 835	$ 7,411
Increase due to acquisition of fixed assets	121	74	663
Adjustment due to passage of time	14	15	138
Balance at the end of the year	¥ 835	¥ 925	$ 8,212

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, 2015:

Types of shares	*Number of shares at April 1, 2014*	*Increase*	*Decrease*	*Number of shares at March 31, 2015*
		(Number of Shares)		
Shares issued:				
Common stock	66,039,535	—	—	66,039,535
Treasury stock:				
Common stock	36,358	25,072	—	61,430

Details of the increase in treasury stock are as follows:

Increase due to purchase of shares of less than one standard unit	25,072

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	

(b) Share subscription rights

For the year ended March 31, 2015

			Number of shares subject to share subscription rights			
Company	*Description*	*Type of shares*	*At April 1, 2014*	*Increase*	*Decrease*	*At March 31, 2015*
				(Number of Shares)		
Parent company	2nd unsecured convertible bond-type bonds with share subscription rights	Common stock	—	5,452,562	—	5,452,562

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 the issuance of the 2nd unsecured convertible bond-type bonds with share subscription rights. The share subscription rights are included in the convertible bond-type bonds with share subscription rights in the consolidated balance sheet.
3. The exercise period for the 2nd unsecured convertible bond-type bonds with share subscription

rights has not commenced as of March 31, 2015.

For the year ended March 31, 2016

Company	Description	Type of shares	Number of shares subject to share subscription rights: 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.

(c) Dividends

1) Dividends paid

For the year ended March 31, 2015:

	Total dividends	Cut-off Date	Effective date
	(Millions of yen)		
Resolution: Meeting of the Board of Directors on April 28, 2014 Cash dividends (¥8 per share)	¥ 528	March 31, 2014	June 6, 2014
Resolution: Meeting of the Board of Directors on October 30, 2014 Cash dividends (¥10 per share)	¥ 660	September 30, 2014	December 1, 2014

For the year ended March 31, 2016:

	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, 2015 Cash dividends (¥15 ($0.13) per share)	¥ 989	$ 8,785	March 31, 2015	June 5, 2015
Resolution: Meeting of the Board of Directors on October 29, 2015 Cash dividends (¥20 ($0.18) per share)	¥ 1,313	$ 11,656	September 30, 2015	December 1, 2015

2) Dividends with the cut-off date in the year ended March 31, 2015 and the effective date in the year ended March 31, 2016:

Cut-off *Effective*

	Total dividends	date	date
	(Millions of yen)		
Resolution: Meeting of the Board of Directors on April 28, 2015 Cash dividends (¥15 per share) Source of dividends: Retained earnings	¥ 989	March 31, 2015	June 5, 2015

Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ending 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)				
Source of dividends: Retained earnings	¥ 1,641	$ 14,569	March 31, 2016	June 7, 2016

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, 2015 and 2016 amounted to ¥140,766 million and ¥138,742 million ($1,231,294 thousand), respectively.

11. Selling, General and Administrative Expenses

Major items included in selling, general and administrative expenses for the years ended March 31, 2015 and 2016 were as follows:

	2015	**2016**	**2016**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	¥ 8,283	¥ 8,450	$ 74,993
Retirement benefit expenses	510	463	4,115
Provision for directors and corporate auditors' retirement benefits	55	47	422
Depreciation and amortization	875	901	8,002

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, 2015 and 2016 amounted to ¥288 million and ¥255 million ($2,271 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 35.38% and 32.83% for the years ended March 31, 2015 and 2016, 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 for the years ended March 31, 2015 and 2016 was as follows:

	2015
Effective statutory tax rate	35.38%
Effect of:	
Non-deductible expenses	1.97
Non-taxable dividend income and others	(0.37)
Capita levy on inhabitant tax	0.89
Valuation allowance	(1.49)
Effect of changes in the statutory tax rate	2.17
Other, net	(0.46)
Effective tax rate	38.09%

Note: The note for the year ended March 31, 2016 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.

The significant components of deferred tax assets and liabilities as of March 31, 2015 and 2016 were as follows:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Liability for retirement benefits	¥ 5,895	¥ 6,457	$ 57,305
Accrued bonuses	1,986	1,962	17,415
Tax loss carryforwards	931	1,058	9,389
Unrealized profits on fixed assets	378	749	6,655
Other	3,119	2,512	22,300
Total gross deferred tax assets	12,310	12,740	113,066
Valuation allowance	(1,977)	(1,641)	(14,568)
Total deferred tax assets	10,333	11,098	98,497
Deferred tax liabilities:			
Unrealized holding gain on other securities	(1,840)	(890)	(7,903)
Reserve for advanced depreciation of fixed assets	(1,343)	(1,286)	(11,416)
Reserve for special depreciation	(1,244)	(1,022)	(9,071)
Other	(815)	(630)	(5,597)
Total deferred tax liabilities	(5,244)	(3,829)	(33,989)
Net deferred tax assets	¥ 5,088	¥ 7,268	$ 64,507

Note: Net deferred tax assets as of March 31, 2015 and 2016 were reflected in the following accounts in the consolidated balance sheet:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current assets - deferred tax assets	¥ 3,041	¥ 2,961	$ 26,278
Investments and other assets - deferred tax assets	2,380	4,540	40,291
Current liabilities - other current liabilities	(0)	(15)	(139)
Long-term liabilities - other long-term liabilities	(332)	(216)	(1,922)

Disclosure for the year ended March 31, 2016

With the enactment of the “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act for Partial Amendment of the Local Tax Act, etc.” on March 29, 2016, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been changed from 32.06% to 30.69% for the temporary differences expected to be realized or settled in the fiscal years beginning April 1, 2016 and 2017 and to 30.46% for the temporary differences expected to be realized or settled on or after April 1, 2018.
As a result, deferred tax assets, after offsetting deferred tax liabilities, decreased by ¥268 million ($2,386 thousand), deferred income tax expenses increased by ¥144 million ($1,279 thousand), unrealized holding gain on securities increased by ¥45 million ($401 thousand), retirement benefit liability adjustments decreased by ¥167 million ($1,490 thousand), and unrealized loss on hedging instruments decreased by ¥2 million ($18 thousand) as of and

for the fiscal year ended March 31, 2016.

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, 2015 and 2016:

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 3,640	¥ (2,790)	$ (24,762)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	(198)	(84)	(747)
Amount before tax effect	3,441	(2,874)	(25,510)
Tax effect	(1,001)	962	8,543
Unrealized holding gain (loss) on securities	2,439	(1,911)	(16,966)
Unrealized gain (loss) on hedging instruments:			
Amount arising during the year	—	(125)	(1,112)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	—	—	—
Amount before tax effect	—	(125)	(1,112)
Tax effect	—	38	338
Unrealized gain (loss) on hedging instruments:	—	(87)	(774)
Translation adjustments:			
Amount arising during the year	424	(244)	(2,166)
Retirement benefit liability adjustments:			
Amount arising during the year	(2,940)	(6,779)	(60,166)
Reclassification adjustments for gains and losses included in profit (loss) attributable to owners of parent	561	725	6,434
Amount before tax effect	(2,378)	(6,054)	(53,731)
Tax effect	694	1,789	15,881
Retirement benefits liability adjustments	(1,684)	(4,264)	(37,850)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	(84)	(54)	(483)
Total other comprehensive income	¥ 1,095	¥ (6,562)	$ (58,241)

15. Commitments and Contingencies

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2015 and 2016:

Debt guarantees for non-consolidated companies

	2015	2016	2016
	(Millions of yen)		*(Thousands of U.S. dollars)*
Mizuho Bank, Ltd. (Atsumi Greenpower Co.)	¥ 639	¥ 552	$ 4,900
Development Bank of Japan Inc. (Nagashima Windhill Co.)	322	283	2,519
Total	¥ 961	¥ 836	$ 7,420

Endorsement for transfer of notes receivable

2015	2016	2016
(Millions of yen)		*(Thousands of U.S. dollars)*
¥ 0	¥ 5	$ 47

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, 2015 and 2016, the Company had loan commitment agreements with 9 companies. The unused balances under the loan commitment contracts at March 31, 2015 and 2016 were as follows:

	2015	2016	2015
	(Millions of yen)		*(Thousands of U.S. dollars)*
Total loan commitments	¥ 146	¥ 146	$ 1,298
Aggregated borrowings	—	—	—
Unused balances	¥ 146	¥ 146	$ 1,298

16. Amounts Per Share

Per share information as of March 31, 2015 and 2016 and for the years then ended is as follows:

	2015	2016	2016
	(Yen)		*(U.S. dollars)*
Profit attributable to owners of parent:			
Basic	¥ 174.54	¥ 272.45	$ 2.42
Diluted	173.44	251.56	2.23
Net assets	¥ 1,555.33	¥ 1,693.45	$ 15.03

Basic income 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 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 common stock outstanding during each year after giving effect to the dilutive potential 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 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

	2015	2016
	(Thousands of shares)	
Weighted average number of shares for basic profit attributable to owners of parent	65,990	65,704
Increase in common stock:		
Exercise of share subscription rights	419	5,457
Number of shares used for diluted profit attributable to owners of parent per share	66,409	71,161

The entire amount of profit attributable to owners of parent for the years ended March 31, 2015 and 2016 was attributed to common shareholders.

(b) Net assets per share

	2015	2016
	(Thousands of shares)	
Number of common stock used for the calculation of net assets per share	65,978	65,648

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Total net assets	¥ 104,658	¥ 113,199	$ 1,004,608
Amounts deducted from total net assets:			
Non-controlling interests	(2,040)	(2,026)	(17,984)
Net assets attributable to common stock	¥ 102,617	¥ 111,172	$ 986,623

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, 2015 and 2016 and estimated fair value were as follows:

	March 31, 2015		
	Carrying value	Estimated fair value	Difference
	(Millions of yen)		
Cash on hand and in banks	¥ 37,957	¥ 37,957	¥ —
Trade notes and accounts receivable (*1)	79,852	79,852	—
Investment securities	16,993	16,993	—
Total assets	134,804	134,804	—
Trade notes and accounts payable	68,445	68,445	—
Convertible bond-type bonds with share subscription rights	10,000	10,180	180
Long-term debt (*2)	20,603	20,671	68
Total liabilities	99,049	99,297	248
Derivatives	¥ –	¥ –	¥ –

	March 31, 2016					
	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	¥ 28,973	¥ 28,973	¥ —	$ 257,132	$ 257,132	$ —
Trade notes and accounts receivable (*1)	90,853	90,853	—	806,300	806,300	—
Investment securities	15,726	15,726	—	139,563	139,563	—
Total assets	135,553	135,553	—	1,202,996	1,202,996	—
Trade notes and accounts payable	68,369	68,369	—	606,754	606,754	—
Convertible bond-type bonds with share subscription rights	9,997	14,895	4,898	88,720	132,193	43,472
Long-term debt (*2)	18,775	18,900	125	166,622	167,740	1,117
Total liabilities	97,141	102,165	5,024	862,097	906,688	44,590
Derivatives (*3)	¥ (125)	¥ (125)	¥ –	$ (1,112)	$ (1,112)	$ –

(*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.
In cases where the fair value of an embedded derivative in a compound financial instrument cannot be separately measured, the entire compound financial instrument is measured at fair value.
For information on securities classified by holding purpose, please refer to Note 18, “Securities.”

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 ¥12,774 million and ¥16,177 million ($143,571 thousand) as of March 31, 2015 and 2016, 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, 2015 and March 31, 2016 were as follows:

	March 31, 2015			
	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	¥ 37,870	¥ —	¥ —	¥ —
Trade notes and accounts receivable	79,857	—	—	—
Short-term investments and investment securities				
Other securities with maturities (debt securities)	30	269	—	592
Other securities with maturities (Other)	146	141	—	3,781
Total	¥ 117,904	¥ 411	¥ —	¥ 4,373

	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, 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
	(Thousands of U.S. dollars)			
Cash in banks	$ 256,518	$ —	$ —	$ —
Trade notes and accounts receivable	806,345	—	—	—
Short-term investments and investment securities				
Other securities with maturities (debt securities)	2,218	9,016	9,771	3,478
Other securities with maturities (Other)	194	539	—	58,112
Total	$ 1,065,276	$ 9,556	$ 9,771	$ 61,591

(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, 2015 and 2016 is as follows:

	March 31, 2015		
	Carrying value	Acquisition cost	Gross unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost			
Equity securities	¥ 14,845	¥ 9,073	¥ 5,772
Debt securities	633	531	102
Others	588	453	135
Subtotal	16,068	10,058	6,009
Securities whose carrying value does not exceed their acquisition cost			
Equity securities	841	956	(114)
Debt securities	211	241	(29)
Others	48	50	(1)
Subtotal	1,101	1,247	(146)
Total	¥ 17,169	¥ 11,305	¥ 5,863

	March 31, 2016					
	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	¥ 9,805	¥ 6,477	¥ 3,328	$ 87,023	$ 57,481	$ 29,542
Debt securities	481	438	42	4,274	3,894	380
Others	180	116	64	1,603	1,029	574
Subtotal	10,468	7,031	3,436	92,902	62,405	30,496
Securities whose carrying value does not exceed their acquisition cost						
Equity securities	3,256	3,592	(335)	28,904	31,884	(2,979)
Debt securities	2,180	2,242	(61)	19,352	19,898	(546)
Others	116	148	(31)	1,034	1,315	(281)
Subtotal	5,554	5,983	(428)	49,290	53,097	(3,806)
Total	¥ 16,022	¥ 13,014	¥ 3,007	$ 142,193	$ 115,503	$ 26,689

(b) Information regarding sales of securities classified as other securities for the years ended March 31, 2015 and 2016 is as follows:

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds from sales	¥ 2,127	¥ 623	$ 5,532
Gains on sales	328	98	870
Losses on sales	—	8	79

(c) Impairment losses on securities classified as other securities of ¥9 million and ¥84 million ($749 thousand) were recognized for the years ended March 31, 2015 and 2016, respectively.

19. Supplemental Information on Consolidated Statement of Cash Flows

Cash and cash equivalents in the consolidated statement of cash flows for the years ended March 31, 2015 and 2016 are reconciled to cash on hand and in banks in the consolidated balance sheet as follows:

	2015	2016	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥ 37,957	¥ 28,973	$ 257,132
Time deposits with maturities of more than three months	(2,026)	(2,241)	(19,888)
Cash and cash equivalents	¥ 35,931	¥ 26,732	$ 237,243

Leased assets and lease obligations related to new finance lease transactions recorded for the years ended March 31, 2015 and 2016 amounted to ¥632 million and ¥1,058 million ($9,393 thousand), respectively. Asset retirement obligations recorded for the years ended March 31, 2015 and 2016 amounted to ¥121 million and ¥74 million ($663 thousand), respectively.

20. Derivative Transactions

Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2015 and 2016, 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)

				March 31, 2016		
Method of hedge accounting	*Hedging instruments*		*Hedged items*	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	$ 72,924	$ 65,631	$ (1,112)

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, 2015 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	284	284	(82)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	2,510	2,008	-

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	2,911	(147)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	2,510	1,757	-

Method of hedge accounting	*Hedging instruments*		*Hedged items*	March 31, 2016 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	$ 44,373	$ 44,373	$ -
Principle method	Interest rate swap	Receive: floating Pay: fixed	Long-term debt	25,834	25,834	(1,309)
Short-cut method	Interest rate and currency swap	Receive: floating Pay: fixed Receive: USD Pay: JPY	Long-term debt	22,275	15,592	-

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 “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.

(c) Net sales, profit or loss and other items by reportable segment for the years ended March 31, 2015 and 2016 are summarized as follows:

	Year ended March 31, 2015				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Millions of yen)		
Net sales					
Sales to third parties	¥ 301,916	¥ 14,033	¥ 315,949	¥ –	¥ 315,949
Intersegment sales and transfers	2,529	23,236	25,766	(25,766)	–
Total	¥ 304,446	¥ 37,270	¥ 341,716	¥ (25,766)	¥ 315,949
Segment profit or loss	¥ 16,032	¥ 665	¥ 16,698	¥ 58	¥ 16,757
Other items					
Depreciation and amortization	¥ 3,038	¥ 2,390	¥ 5,429	¥ (167)	¥ 5,262
Amortization of goodwill	¥ 1,207	¥ 2	¥ 1,210	¥ —	¥ 1,210

	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, 2016				
	Utilities engineering service	Others	Total	Adjustments and eliminations	Consolidated
			(Thousands of U.S. dollars)		
Net sales					
Sales to third parties	$ 2,632,249	$ 130,851	$2,763,100	$ –	$2,763,100
Intersegment sales and transfers	33,932	170,078	204,011	(204,011)	–
Total	$ 2,666,181	$ 300,930	$ 2,967,111	$ (204,011)	$2,763,100
Segment profit or loss	$ 215,379	$ 9,013	$ 224,392	$ (768)	$ 223,623
Other items					
Depreciation and amortization	$ 26,669	$ 23,340	$ 50,009	$ (1,415)	$ 48,593
Amortization of goodwill	$ 2,145	$ 24	$ 2,169	$ ―	$ 2,169

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, 2015 and 2016.

There was no impairment loss on fixed assets recognized for the years ended March 31, 2015 and 2016.

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

	Year ended March 31, 2015			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Millions of yen)			
Goodwill:				
Amortization	¥ 1,207	¥ 2	¥ —	¥ 1,210
Balance as of March 31	¥ 1,403	¥ 5	¥ —	¥ 1,408
Negative goodwill:				
Amortization	¥ 0	¥ 0	¥ —	¥ 0
Balance as of March 31	¥ —	¥ —	¥ —	¥ —

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

	Year ended March 31, 2016			
	Utilities engineering service	Others	Adjustments and eliminations	Consolidated
	(Thousands of U.S. dollars)			
Goodwill				
Amortization	$ 2,145	$ 24	$ —	$ 2,169
Balance as of March 31	$ 13,786	$ 24	$ —	$ 13,810
Negative goodwill				
Amortization	$ —	$ —	$ —	$ —
Balance as of March 31	$ —	$ —	$ —	$ —

The following table presents major customer information for the years ended March 31, 2015 and 2016:

	2015	2016	2016
	(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	¥ 48,639	¥ 50,900	$ 451,722

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 ¥45,809 million and ¥47,625 million ($422,658 thousand) for the years ended March 31, 2015 and 2016, respectively. The related receivables at March 31, 2015 and 2016 amounted to ¥7,409 million and ¥7,728 million ($68,591 thousand), respectively. The related advances received at March 31, 2015 and 2016 amounted to ¥19 million and ¥132 million ($1,180 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.

Ernst & Young ShinNihon LLC

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, 2016, 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, 2016, 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, 2016
Fukuoka, Japan