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# FINANCIAL SECTION 2017

EBARA CORPORATION  
For the Year Ended March 31, 2017

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# Financial Review

## Overview

During the fiscal year ended March 31, 2017, the economy in the United States continued to be favorable, and improvement was seen also in the rest of Asia. In Japan, public investment was firm and private capital investment was recovering. Overall, the Japanese economy slowly recovered.

Meanwhile, overall orders received decreased compared to the previous fiscal year. Although orders in the Precision Machinery (“PM”) Company increased along with firm capital investment in the semiconductor market, orders in the Fluid Machinery & Systems (“FMS”) Company decreased against the weak capital investment in the oil & gas market, and orders in the Environmental Engineering (“EE”) Company decreased because of a reactionary decline in orders for long-term

comprehensive projects, which were favorable in the previous fiscal year. Consolidated net sales and operating income also decreased compared to the previous fiscal year due to a decrease in the FMS Company and the EE Company despite an increase in the PM Company. On the other hand, profit attributable to owners of parent increased compared to the previous fiscal year due to provision for loss on litigation in the previous fiscal year.

Consolidated net sales for the fiscal year amounted to ¥476,105 million (a decrease of 2.1% year on year), operating income amounted to ¥29,996 million (a decrease of 21.1% year on year), and profit attributable to owners of parent amounted to ¥20,588 million (an increase of 19.3% year on year).

## Financial Position

### Assets

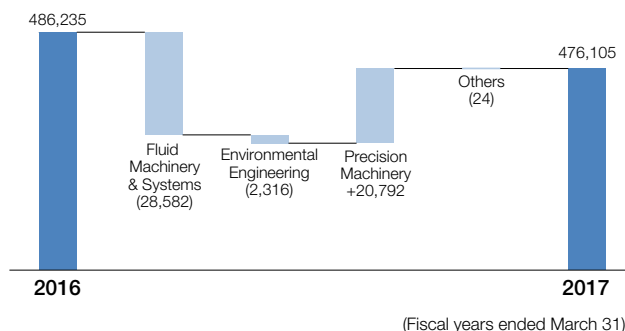
Total assets at the end of the fiscal year ended March 31, 2017 were ¥588,458 million, ¥8,598 million higher than at the end of the previous fiscal year. Principal changes in asset items included a decrease of ¥13,437 million in notes and accounts receivable–trade, an increase of ¥8,604 million in other assets, an increase of ¥8,363 million in inventories, and an increase of ¥4,959 million in property, plant and equipment, net.

### Liabilities

Total liabilities at the end of the fiscal year ended March 31, 2017 were ¥310,949 million, ¥18,466 million lower than at the end of the previous fiscal year. Principal changes in liability items included a decrease of ¥14,926 million in short-term loans payable and current portion of long-term loans payable and a decrease of ¥8,338 million in long-term debt.

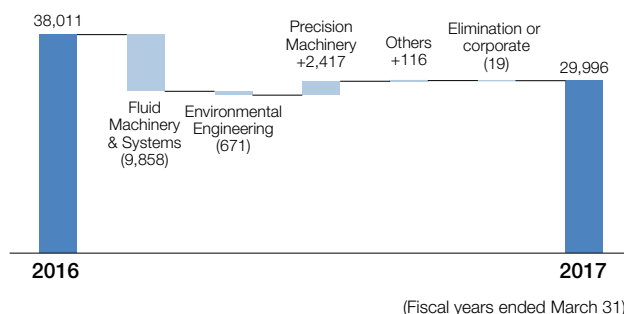
## Net Sales

Millions of yen



## Operating Income

Millions of yen



## Net Assets

Net assets at the end of the fiscal year ended March 31, 2017 amounted to ¥277,509 million, ¥27,064 million higher than at the end of the previous fiscal year. Principal changes affecting net asset items were cash dividends paid of ¥5,582 million, a decrease of ¥5,134 million in translation adjustments, a profit attributable to owners parent of ¥20,588 million, and an increase of ¥10,004 million due to the issuance of new shares

accompanying the exercise of subscription rights to shares, in both common stock and capital surplus respectively. A decrease of ¥1,489 million affected by additional acquisition of capital of subsidiaries and other factors resulted in a net increase of ¥8,515 million in capital surplus. Shareholders' equity (Net assets excluding subscription rights to shares and non-controlling interests) amounted to ¥271,357 million, and equity ratio was 46.1%.

## Cash Flows

Net cash provided by operating activities amounted to a net inflow of ¥33,816 million, for the fiscal year ended March 31, 2017, compared to a net inflow of ¥21,528 million for the previous fiscal year. This primarily reflected the collection of notes and accounts receivable-trade.

Net cash used in investing activities amounted to a net outflow of ¥18,564 million for the fiscal year ended March 31, 2017, compared to a net outflow ¥14,343 million for the previous fiscal year. This primarily reflected purchase of fixed assets of ¥21,591 million.

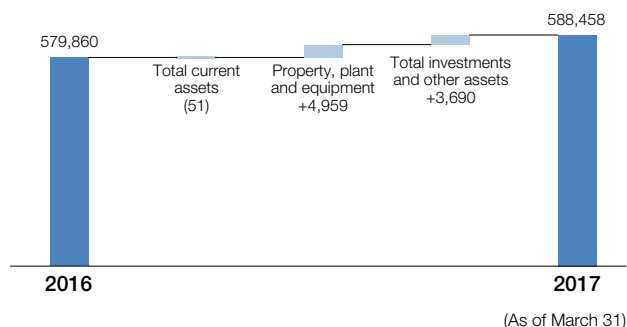
Free cash flow, the sum of cash flows from operating and investing activities, amounted to a net inflow of ¥15,252 million for the fiscal year ended March 31, 2017, compared to a net inflow of ¥7,185 million for the previous fiscal year.

Net cash used in financing activities amounted to a net outflow of ¥15,102 million for the fiscal year ended March 31, 2017, compared to a net outflow ¥9,655 million for the previous fiscal year. This primarily reflected cash dividends paid of ¥5,582 million and a payments from changes in ownership interests in subsidiaries and from purchase of investment in capital that do not result in change in scope of consolidation of ¥5,169 million.

As a consequence, cash and cash equivalents at the end of the fiscal year ended March 31, 2017 amounted to ¥90,683 million, ¥502 million lower than at the end of the previous fiscal year.

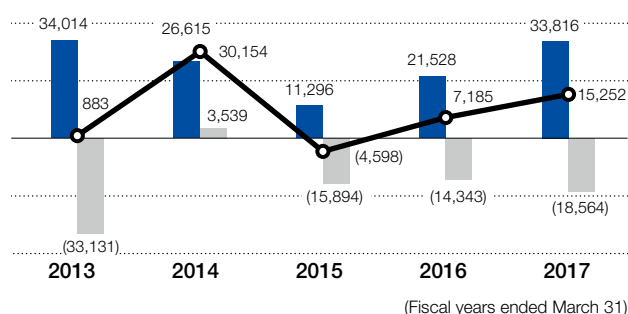
## Total Assets

Millions of yen



## Cash Flows

Millions of yen



■ Net cash provided by operating activities  
 ■ Net cash provided by (used in) investing activities  
 ● Free Cash Flow

## Capital Expenditures

Regarding investments, during the fiscal year, the Group implemented capital expenditures amounting to ¥22,675 million. These were primarily for the expansion of production capacity and the introduction of equipment to enhance productivity. In addition to property, plant and equipment, investment amounts include investments in intangible fixed assets.

Principal capital expenditures by business segment were as follows. Please note that these investment figures include intersegment transactions.

### Fluid Machinery & Systems Company

Investments were made primarily for the enhancement of production capability and productivity, and the amount of capital investment during the fiscal year was ¥11,832 million.

### Environmental Engineering Company

Investments were made principally for information equipment and the development of technology aimed at improving functionality. Investments by this segment totaled ¥1,107 million.

### Precision Machinery Company

Investments were made principally for equipment for enhancing production capacity. Investments by this segment totaled ¥7,433 million.

## Liquidity and Capital Resources

### (1) Capital Resources

At the end of the fiscal year under review, on a consolidated basis, the Group had total interest-bearing debt of ¥96,531 million, comprising ¥63,538 million in short-term interest-bearing liabilities and ¥32,993 million in long-term interest-bearing liabilities. This balance decreased ¥23,596 million from the total balance at the end of the previous fiscal year of ¥120,127 million.

During the fiscal year under review, the Group's free cash flow, defined as net cash flow from operating activities plus net cash flow from investing activities, amounted to a net inflow of ¥15,252 million, and the amount of net inflow increased ¥8,067 million from the previous fiscal year. This was the result of a ¥12,288 million increase in net cash provided by operating activities and ¥4,221 million decrease of net cash used in investing activities.

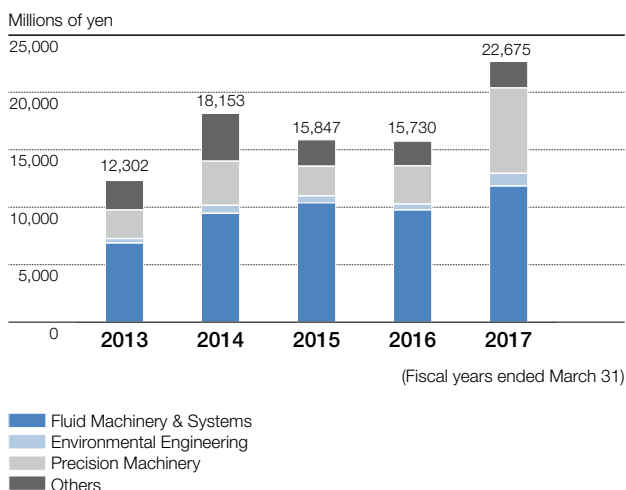
### (2) Management of Liquidity

Regarding asset liquidity, the Group maintains a level of cash and cash equivalents appropriate for the scale of its business activities. To manage liquidity risk, the Company has entered into commitment line contracts with its principal banks that provide an adequate amount of financial liquidity for its operations.

In addition, to increase the efficiency of cash management within the Group, the Company has instituted a system whereby idle cash is concentrated in the parent company and then allocated to Group companies with cash needs.

The consolidated balance of cash and cash equivalents at the end of the fiscal year was ¥90,683 million. In addition, the available balance of commitment lines was ¥45,000 million, and available overdrafts amounted to ¥5,000 million. While the total funding limit from overdrafts and commitment lines was ¥50,000 million, the Company had no borrowings from these sources at the end of the fiscal year.

## Capital Expenditures



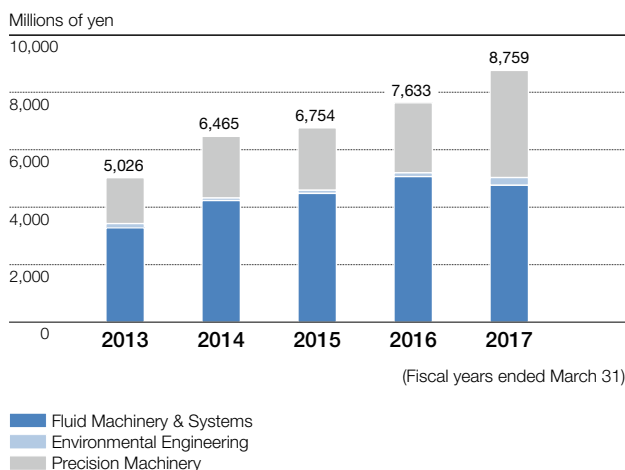
## R&D Expenses

The Group's R&D expenditures are focused on four major categories of R&D activities for creating high levels of value:

1. R&D for developing common fundamental technology to establish the competitiveness that underpins operations and for combining this technology to create core product technology
2. R&D for discovery and practical application of seed technology based on a medium-to-long-term perspective
3. R&D for expanding current technology, seeking practical applications for new technology, and applying such technologies to new products
4. R&D for improving existing products

In regard to the first two categories, the R&D organization that commenced activities in the corporate headquarters in April 2014 played a central role in advancing R&D in these categories, working closely with companies and pursuing joint research with universities and other outside research bodies. In addition, during the fiscal year ended March 31, 2016, the Group kicked off new initiatives for collaborating with small to medium-sized companies possessing unique technologies. As for the third and fourth categories, individual business divisions and Group companies led the initiatives. Furthermore, through the implementation of Ebara Innovation for "X" (EIX), a research system which launched to promote development in new fields that do not fall under the above categories, we moved ahead with process innovations and began utilizing the outcomes created by this system. R&D expenses amounted to ¥8,759 million during the fiscal year under review.

## R&D Expenses



Activities by business segment are as follows:

### Fluid Machinery & Systems Company

In the fluid machinery and systems field, EBARA bolstered product lineups and strengthened product appeal, sometimes through coordination with overseas Group companies, subsequently launching new products for the global market. Specific areas targeted in this undertaking included those that promise continuing medium-to-long-term growth, such as water infrastructure, energy (electricity, oil, and gas), and the environment (energy saving). In standard pumps, we continued to develop and promote the market penetration of product lineups designed to conserve energy and resources and contribute to reduced environmental footprints. With regard to the turbo chillers that are available in these Japanese, Chinese, and now global markets, we moved forward with the applied development of high-capacity compressors to expand the series. In relation to basic technology, the Group continued to strengthen numerical simulation technology aimed at further increasing developmental throughput and optimization technologies for pump and compressor shapes. We also standardized analytical processes, enhanced testing foundation technologies, and developed and applied technology for providing service and support throughout product life cycles.

The FMS Company made expenditures on R&D amounting to ¥4,762 million during the fiscal year under review.

### Environmental Engineering Company

In the environmental engineering field, we are engaged in design, build, and operate (DBO) services for waste processing facilities, which entail providing engineering, procurement, and construction (EPC) and operation and maintenance (O&M) services on a comprehensive, long-term basis. We are also developing facility lifetime-lengthening operations in which we make proposals for extending the lifespan of existing facilities as well as long-term comprehensive management contract

operations in which we receive contracts for long-term O&M services at existing facilities. In these businesses, current conditions require ever greater abilities to propose solutions, higher quality, and stronger cost competitiveness. In addition, the introduction of the feed-in tariff (FIT) scheme for renewable energy has been stimulating an increase in demand for biomass power generation. In light of these conditions, the Group is developing new products and technologies that contribute to the strengthening of facilities' functionality through upgrades and to reducing life cycle costs. At the same time, the Group's development activities include improving upon repair, maintenance, and operating technology; creating biomass generation element technologies; and utilizing the artificial intelligence and Internet of Things (IoT) that support these endeavors.

The EE Company made expenditures on R&D amounting to ¥269 million during the fiscal year under review.

### **Precision Machinery Company**

In the precision machinery field, the Group is developing new processing equipment and improving existing equipment to manufacture semiconductor devices that are compatible with development requirements not only for the miniaturization of chips and three-dimensional integration, but also for new packaging technology, an area recently garnering attention. We are also tailoring these efforts to the technology development requirements projected for the IoT market. As for component products, the Group is developing products that can further contribute to energy savings and reduced environmental footprints. Also, the Group is continuing research on next-generation semiconductor processing technologies through joint development and consortia with customers and joint research with prominent universities.

The PM Company made expenditures on R&D amounting to ¥3,728 million during the fiscal year under review.

## **Business Risks**

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The Group faces a number of business risks that may have an influence on the judgment of investors. These are described as follows. In addition to being aware of the possibility of the emergence of these risks, the Group implements measures to prevent their occurrence and deal with them when they emerge.

This section includes forward-looking statements that are based on judgments made at the time of the preparation of this report on the Group's performance.

### **1. Market Risk**

The markets where the Group conducts its business activities are highly competitive, and downward pressures on the prices of most of the products and services it offers may have a negative impact on the Group's performance. In addition, the public sector accounts for a large portion of the EE Company's business, and its performance is influenced by trends in expenditures on public works projects. Moreover, the business of the PM Company are strongly affected by market fluctuations accompanying the silicon cycle.

### **2. Large-Scale Projects and Overseas Business Activities**

The Group designs, manufactures, installs, and constructs machinery and plants through large-scale projects both in Japan and foreign countries. Certain of these projects involve highly challenging technical issues. There is a possibility that additional costs may be incurred due to failure to function properly, prolongation of the time required to achieve the specified capabilities, and other factors. Moreover, large-scale projects in foreign countries involve risks related to business environments that differ from those of Japan. Group companies overseas and their employees may face difficulties related to compliance. The Group takes a full range of measures to

manage this risk, but, in cases where appropriate steps cannot be taken, this may have an adverse effect on the Group's performance as well as on the trust placed in the Group by society.

### **3. Business Realignments, Etc.**

The Group takes continuing initiatives to strengthen its management base and may withdraw from certain unprofitable businesses and liquidate or take other appropriate action with regard to affiliates. Such realignments may have an effect on the Group's performance.

### **4. Exchange Risk**

Transactions denominated in foreign currencies that are conducted as part of business activities overseas are converted to yen in the course of preparing the consolidated financial statements. As a result of changes in foreign exchange conversion rates at the time of conversion, there is a possibility that this may have an effect on the Group's performance and financial position.

### **5. Risks Related to the Interest Rate and Funding**

The Group has both fixed-rate and floating-rate interest-bearing debt, and there is a possibility that fluctuations in interest rates may have an effect on the Group's performance. Moreover, if the Group violates the covenants contained in its borrowing agreements, it may be required to increase the interest rates it pays and/or lose favorable repayment conditions. In the case of a downgrade of the Group's debt rating or market turmoil, there is a possibility that the Group's borrowing costs and its ability to raise funds may be affected.

## **6. Risks Related to the Impact of Natural Disasters and Impairment of the Social Infrastructure**

If a Group place of business is struck by a major typhoon, earthquake, or other natural disaster that adversely affects its ability to conduct business activities, this may have an adverse impact on the Group's performance. In addition, in the event of a major accident affecting the labor force or an accident involving equipment that leads to a stoppage or impairment of business activities, this may have an adverse impact on the Group's performance.

## **7. Deferred Tax Assets**

The Group's deferred tax assets are calculated as a result of judgement for the recoverability based on the estimate of future taxable income and valuation reserve is provided for the portion for which recoverability is uncertain (concern about recoverability). Since the estimation of future taxable income fluctuates depending on corporate performance and other factors, if certain factors influence the estimate of taxable income, the Company revises the uncertain amount of recoverability, and revises the value of its deferred tax assets. Such revisions may cause fluctuations in net income for the fiscal year.

## **8. Material Procurement**

The Group procures parts and materials as well as construction services for its manufacturing and construction activities and is influenced by fluctuations in market conditions for these materials. Increases in prices of materials and construction costs result in higher procurement costs for the Group and may have an adverse effect on the Group's performance.

## **9. Legal Restrictions**

The Group conducts operations in Japan and foreign countries and is subject to the legal regulations of the countries where its operations take place related to approvals, product liability, trade, taxation, competition, corruption, intellectual property, environment, labor, and other matters. Therefore, if the Group should violate such legal regulations, this may have an impact on the Group's performance as well as on the trust placed in the Group by society. In some instances, the passage of laws and changes in existing legislation may result in an alteration of assumptions for operating and business plans. Such changes in assumptions may have an impact on the Group's performance.

## **10. Risk of Litigation and Other Conflicts**

In conducting its business operations, the Group may be the object of lawsuits or bring lawsuits against other parties with regard to such matters as product liability, intellectual property, environmental protection, labor issues, and other matters. In addition, there may be cases where lawsuits may be brought against the Group by product suppliers on the grounds that the Group's products violate intellectual property regulations. Depending on the outcome of such lawsuits, litigation of this kind may have an impact on the Group's performance as well as on the trust placed in the Group by society.

## **11. Litigation about Sales of the Company's Former Headquarters and its Haneda Plant**

As provided for in the sales contract for the land where the Company's former headquarters and its Haneda Plant were located, the area was handed over to Yamato Transport Co., Ltd. Subsequently, during the course of the construction of a logistics terminal by this company, slate fragments containing asbestos were discovered. Yamato Transport Co., Ltd. has brought a lawsuit against the Company for the payment of damages in the amount of ¥8,505 million (including indemnities due to delay in payment) in connection with the Company's failure to perform its obligations as stated in the transfer contract and owing to its responsibility for the provision of defective collateral. The Company's view is that the fragments of slate do not constitute grounds for the charges of "failure to perform its obligations as stated in the transfer contract and owing to responsibility for the provision of defective collateral." The Company has obtained a written legal opinion from a law office substantiating this view, and the Company expressed its position in testimony and provided evidence. However, the Tokyo District Court ruled on April 28, 2016, that the Company pay ¥5,618 million (including indemnities due to delay in payment), and the Company appeals this decision by the Tokyo District Court. The Company has already written off ¥6,465 million as a provision for loss on litigation under this lawsuit in its accounts. Nevertheless, depending on the subsequent course of events, this matter may have an adverse effect on the Group's performance.

## **12. Risk of Collection of Export Receivables**

The Group exports its products to the Middle East, etc. There is concern that export receivables outstanding from customers in this region may not be collectible because of international cooperation measures, changes in regional political conditions, and other factors. In the event that it is impossible to make collections, this may have an adverse impact on the Group's performance.

## **13. Projected Benefit Obligation**

The changes in the cost burden of the Group's retirement benefit plans (due to changes and other variations in the market value of pension assets, return on pension assets under management, and other factors) may have an effect on the Group's performance and financial position. In addition, the changes in the amounts of unrecognized actuarial differences and unrecognized costs related to past services of employees may have an effect on the Group's financial position.

# Consolidated Balance Sheet

EBARA CORPORATION and Consolidated Subsidiaries  
As of March 31, 2017 and 2016

| ASSETS   | Millions of yen  |                  | Thousands of<br>U.S. dollars<br>(Note 4) |
|--|------------------|------------------|--|
|  | 2017             | 2016             | 2017                                     |
| <b>Current assets:</b>                                     |                  |                  |  |
| Cash on hand and in banks and securities                   | ¥ 92,880         | ¥ 94,189         | \$ 827,881                               |
| Notes and accounts receivable—trade                        | 202,874          | 216,311          | 1,808,307                                |
| Electronically recorded monetary claims                    | 4,511            | 727              | 40,209                                   |
| Allowance for doubtful accounts                            | (3,250)          | (3,234)          | (28,969)                                 |
| Inventories (Note 5)                                       | 97,328           | 88,965           | 867,528                                  |
| Deferred tax assets (Note 19)                              | 11,645           | 12,506           | 103,797                                  |
| Other current assets                                       | 17,419           | 13,994           | 155,264                                  |
| Total current assets                                       | 423,407          | 423,458          | 3,774,017                                |
| <b>Property, plant and equipment:</b>                      |                  |                  |  |
| Land   | 21,153           | 21,266           | 188,546                                  |
| Buildings and structures                                   | 117,124          | 110,873          | 1,043,979                                |
| Machinery, equipment and vehicles                          | 130,609          | 125,674          | 1,164,177                                |
| Lease assets (Note 13)                                     | 3,757            | 3,902            | 33,488                                   |
| Construction in progress                                   | 5,208            | 7,960            | 46,421                                   |
| Other  | 37,594           | 34,575           | 335,092                                  |
|  | 315,445          | 304,250          | 2,811,703                                |
| Accumulated depreciation                                   | (205,313)        | (199,077)        | (1,830,047)                              |
| Property, plant and equipment, net (Note 6)                | 110,132          | 105,173          | 981,656                                  |
| <b>Investments and other assets:</b>                       |                  |                  |  |
| Investment securities (Notes 6 and 15)                     | 14,545           | 16,670           | 129,646                                  |
| Investments in and advances to subsidiaries and affiliates | 14,310           | 12,726           | 127,551                                  |
| Long-term loans receivable                                 | 264              | 802              | 2,353                                    |
| Deferred tax assets (Note 19)                              | 2,660            | 5,921            | 23,710                                   |
| Defined benefit asset (Note 17)                            | 119              | 32               | 1,060                                    |
| Other investments  | 7,750            | 8,411            | 69,080                                   |
| Other assets   | 20,071           | 11,467           | 178,902                                  |
| Allowance for doubtful accounts                            | (4,800)          | (4,800)          | (42,784)                                 |
| Total investments and other assets                         | 54,919           | 51,229           | 489,518                                  |
| <b>Total assets</b>  | <b>¥ 588,458</b> | <b>¥ 579,860</b> | <b>\$ 5,245,191</b>                      |

The accompanying notes are an integral part of these statements.



| LIABILITIES AND NET ASSETS                                       | Millions of yen |                 | Thousands of U.S. dollars (Note 4) |
|--|-----------------|-----------------|------------------------------------|
|  | 2017            | 2016            | 2017                               |
| <b>Current liabilities:</b>                                      |                 |                 |                                    |
| Short-term loans payable (Notes 6 and 8)                         | ¥ 60,716        | ¥ 58,386        | \$ 541,189                         |
| Current portion of long-term loans payable (Notes 6 and 8)       | 2,073           | 19,329          | 18,478                             |
| Notes and accounts payable–trade                                 | 64,156          | 68,905          | 571,851                            |
| Electronically recorded obligations                              | 55,922          | 47,551          | 498,458                            |
| Accrued income taxes   | 4,599           | 4,128           | 40,993                             |
| Deferred tax liabilities   | 3               | —               | 27                                 |
| Lease obligations  | 749             | 741             | 6,676                              |
| Reserve for warranties for completed construction                | 3,836           | 3,889           | 34,192                             |
| Reserve for product warranties                                   | 3,482           | 3,507           | 31,037                             |
| Reserve for construction losses                                  | 8,667           | 7,748           | 77,253                             |
| Reserve for expenses related to the sales of land                | 254             | 254             | 2,264                              |
| Accrued expenses and other current liabilities                   | 49,761          | 45,162          | 443,542                            |
| Total current liabilities  | 254,218         | 259,600         | 2,265,960                          |
| <b>Long-term liabilities:</b>                                    |                 |                 |                                    |
| Long-term debt (Notes 6 and 8)                                   | 31,521          | 39,859          | 280,961                            |
| Lease obligations  | 1,472           | 1,812           | 13,121                             |
| Reserve for directors' retirement benefits                       | 153             | 160             | 1,364                              |
| Provision for loss on litigation                                 | 6,465           | 6,457           | 57,625                             |
| Defined benefit liability (Note 17)                              | 12,556          | 16,682          | 111,917                            |
| Deferred tax liabilities   | 809             | 746             | 7,211                              |
| Asset retirement obligations                                     | 1,970           | 1,900           | 17,559                             |
| Other long-term liabilities                                      | 1,785           | 2,199           | 15,911                             |
| Total long-term liabilities                                      | 56,731          | 69,815          | 505,669                            |
| <b>Net assets (Note 11):</b>                                     |                 |                 |                                    |
| Shareholders' equity:  |                 |                 |                                    |
| Common stock:  |                 |                 |                                    |
| Authorized: 200,000,000 shares                                   |                 |                 |                                    |
| Issued: 101,736,053 shares in 2017 and 93,208,919 shares in 2016 | 78,765          | 68,761          | 702,068                            |
| Capital surplus  | 81,206          | 72,691          | 723,826                            |
| Retained earnings  | 117,884         | 102,446         | 1,050,753                          |
| Treasury stock:  |                 |                 |                                    |
| 187,635 shares in 2017 and 181,913 shares in 2016                | (426)           | (408)           | (3,797)                            |
| Total shareholders' equity                                       | 277,429         | 243,490         | 2,472,850                          |
| Accumulated other comprehensive income:                          |                 |                 |                                    |
| Net unrealized gains (losses) on investment securities           | 2,692           | 2,740           | 23,995                             |
| Deferred gains (losses) on hedges                                | (2)             | (12)            | (18)                               |
| Translation adjustments  | 745             | 5,879           | 6,640                              |
| Remeasurements of defined benefit plans                          | (9,507)         | (11,080)        | (84,740)                           |
| Total accumulated other comprehensive income                     | (6,072)         | (2,473)         | (54,123)                           |
| Subscription rights to shares                                    | 1,361           | 952             | 12,131                             |
| Non-controlling interests  | 4,791           | 8,476           | 42,704                             |
| Total net assets   | 277,509         | 250,445         | 2,473,562                          |
| <b>Total liabilities and net assets</b>                          | <b>¥588,458</b> | <b>¥579,860</b> | <b>\$5,245,191</b>                 |

# Consolidated Statement of Income

EBARA CORPORATION and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2017 and 2016

|   | Millions of yen |          | Thousands of U.S. dollars (Note 4) |
|---|-----------------|----------|------------------------------------|
|   | 2017            | 2016     | 2017                               |
| <b>Net sales</b>  | <b>¥476,105</b> | ¥486,235 | <b>\$4,243,738</b>                 |
| <b>Cost of sales</b>  | <b>350,033</b>  | 353,344  | <b>3,120,001</b>                   |
| Gross profit  | <b>126,072</b>  | 132,891  | <b>1,123,737</b>                   |
| <b>Selling, general and administrative expenses</b>           | <b>96,076</b>   | 94,880   | <b>856,370</b>                     |
| Operating income  | <b>29,996</b>   | 38,011   | <b>267,367</b>                     |
| <b>Other income (expenses):</b>                               |                 |          |                                    |
| Interest and dividends income                                 | <b>776</b>      | 713      | <b>6,917</b>                       |
| Interest expenses   | <b>(1,185)</b>  | (1,205)  | <b>(10,562)</b>                    |
| Gain on sales of securities, net                              | <b>1,922</b>    | 381      | <b>17,132</b>                      |
| Write-down of securities and other investments                | <b>(436)</b>    | (2)      | <b>(3,886)</b>                     |
| Gain (loss) on sales and retirement of fixed assets, net      | <b>258</b>      | (38)     | <b>2,300</b>                       |
| Impairment loss (Note 9)                                      | —               | (261)    | —                                  |
| Reversal of reserve for expenses related to the sales of land | —               | 1,590    | —                                  |
| Provision for loss on litigation                              | —               | (6,457)  | —                                  |
| Gain on sales of investments in capital                       | <b>289</b>      | —        | <b>2,576</b>                       |
| Other, net  | <b>(1,123)</b>  | (1,046)  | <b>(10,011)</b>                    |
|   | <b>501</b>      | (6,325)  | <b>4,466</b>                       |
| <b>Income before income taxes</b>                             | <b>30,497</b>   | 31,686   | <b>271,833</b>                     |
| <b>Income taxes (Note 19):</b>                                |                 |          |                                    |
| Current taxes   | <b>5,546</b>    | 9,582    | <b>49,434</b>                      |
| Deferred tax expenses (benefits)                              | <b>3,300</b>    | 3,208    | <b>29,414</b>                      |
|   | <b>8,846</b>    | 12,790   | <b>78,848</b>                      |
| <b>Profit</b>   | <b>21,651</b>   | 18,896   | <b>192,985</b>                     |
| <b>Profit attributable to non-controlling interests</b>       | <b>1,063</b>    | 1,642    | <b>9,475</b>                       |
| <b>Profit attributable to owners of parent</b>                | <b>¥ 20,588</b> | ¥ 17,254 | <b>\$ 183,510</b>                  |

| Per share of common stock:                            | Yen            | U.S. dollars |                |
|---|----------------|--------------|----------------|
|   |                |              |                |
| Profit attributable to owners of parent               | <b>¥213.71</b> | ¥185.58      | <b>\$1.905</b> |
| Fully diluted profit attributable to owners of parent | <b>201.53</b>  | 169.42       | <b>1.796</b>   |
| Cash dividends (Note 11)                              | <b>36.00</b>   | 12.00        | <b>0.321</b>   |

Note: Ebara Corporation has executed a consolidation of common shares at a rate of one share for every five shares with an effective date of October 1, 2016. Profit attributable to owners of parent per share and fully diluted profit attributable to owners of parent per share have been calculated as if this consolidation of shares was conducted at the beginning of the previous fiscal year.

The accompanying notes are an integral part of these statements.

# Consolidated Statement of Comprehensive Income

EBARA CORPORATION and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2017 and 2016

|   | Millions of yen  |           | Thousands of<br>U.S. dollars<br>(Note 4) |
|---|------------------|-----------|--|
|   | 2017             | 2016      | 2017                                     |
| <b>Profit</b>   | <b>¥21,651</b>   | ¥18,896   | <b>\$192,985</b>                         |
| <b>Other comprehensive income:</b>  |                  |           |  |
| Net unrealized gains (losses) on investment securities                              | (11)             | (2,579)   | (98)                                     |
| Deferred gains (losses) on hedges   | 10               | (86)      | 89                                       |
| Translation adjustments   | (5,753)          | (5,114)   | (51,279)                                 |
| Retirement benefits liability adjustments   | 1,566            | (1,282)   | 13,958                                   |
| Share of other comprehensive income of associates accounted for using equity method | (33)             | (41)      | (294)                                    |
| <b>Total other comprehensive income (Note 10)</b>                                   | <b>¥ (4,221)</b> | ¥ (9,102) | <b>\$ (37,624)</b>                       |
| <b>Comprehensive income:</b>  | <b>¥17,430</b>   | ¥ 9,794   | <b>\$155,361</b>                         |
| Total comprehensive income attributable to:   |                  |           |  |
| Owners of parent  | ¥16,990          | ¥ 8,464   | \$151,440                                |
| Non-controlling interests   | 440              | 1,330     | 3,921                                    |

The accompanying notes are an integral part of these statements.

# Consolidated Statement of Changes in Net Assets

EBARA CORPORATION and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2017 and 2016

|   | Millions of yen         |                      |                 |                   |                |                            |
|---|-------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|   | Number of shares issued | Shareholders' equity |                 |                   |                |                            |
|   |                         | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| <b>Balance at April 1, 2016</b>   | 466,044,596             | ¥68,761              | ¥72,691         | ¥102,446          | ¥(408)         | ¥243,490                   |
| Changes during the fiscal year  |                         |                      |                 |                   |                |                            |
| Issuance of new shares (exercise of subscription rights to shares)                        | 8,595,051               | 10,004               | 10,004          |                   |                | 20,008                     |
| Cash dividends  |                         |                      |                 | (5,582)           |                | (5,582)                    |
| Profit attributable to owners of parent   |                         |                      |                 | 20,588            |                | 20,588                     |
| Change of scope of consolidation  |                         |                      |                 | 432               |                | 432                        |
| Purchase of treasury stock  |                         |                      |                 |                   | (18)           | (18)                       |
| Disposal of treasury stock  |                         |                      | 0               |                   | 0              | 0                          |
| Change in ownership interest of parent due to transactions with non-controlling interests |                         |                      | (1,489)         |                   |                | (1,489)                    |
| Consolidation of shares   | (372,903,594)           |                      |                 |                   |                |                            |
| Net changes of items other than shareholders' equity                                      |                         |                      |                 |                   |                |                            |
| <b>Total changes during the fiscal year</b>   | <b>(364,308,543)</b>    | <b>10,004</b>        | <b>8,515</b>    | <b>15,438</b>     | <b>(18)</b>    | <b>33,939</b>              |
| <b>Balance at March 31, 2017</b>  | <b>101,736,053</b>      | <b>¥78,765</b>       | <b>¥81,206</b>  | <b>¥117,884</b>   | <b>¥(426)</b>  | <b>¥277,429</b>            |

|   | Millions of yen  |                                   |                         |   |  |                               |                           |                  |
|---|--|-----------------------------------|-------------------------|---|--|-------------------------------|---------------------------|------------------|
|   | Accumulated other comprehensive income                 |                                   |                         |   |  | Subscription rights to shares | Non-controlling interests | Total net assets |
|   | Net unrealized gains (losses) on investment securities | Deferred gains (losses) on hedges | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                           |                  |
| <b>Balance at April 1, 2016</b>   | ¥2,740   | ¥(12)                             | ¥ 5,879                 | ¥(11,080)                               | ¥(2,473)                                     | ¥ 952                         | ¥8,476                    | ¥250,445         |
| Changes during the fiscal year  |  |                                   |                         |   |  |                               |                           |                  |
| Issuance of new shares (exercise of subscription rights to shares)                        |  |                                   |                         |   |  |                               |                           | 20,008           |
| Cash dividends  |  |                                   |                         |   |  |                               |                           | (5,582)          |
| Profit attributable to owners of parent   |  |                                   |                         |   |  |                               |                           | 20,588           |
| Change of scope of consolidation  |  |                                   |                         |   |  |                               |                           | 432              |
| Purchase of treasury stock  |  |                                   |                         |   |  |                               |                           | (18)             |
| Disposal of treasury stock  |  |                                   |                         |   |  |                               |                           | 0                |
| Change in ownership interest of parent due to transactions with non-controlling interests |  |                                   |                         |   |  |                               |                           | (1,489)          |
| Consolidation of shares   |  |                                   |                         |   |  |                               |                           |                  |
| Net changes of items other than shareholders' equity                                      | (48)   | 10                                | (5,134)                 | 1,573                                   | (3,599)                                      | 409                           | (3,685)                   | (6,875)          |
| <b>Total changes during the fiscal year</b>   | <b>(48)</b>  | <b>10</b>                         | <b>(5,134)</b>          | <b>1,573</b>                            | <b>(3,599)</b>                               | <b>409</b>                    | <b>(3,685)</b>            | <b>27,064</b>    |
| <b>Balance at March 31, 2017</b>  | <b>¥2,692</b>  | <b>¥ (2)</b>                      | <b>¥ 745</b>            | <b>¥ (9,507)</b>                        | <b>¥(6,072)</b>                              | <b>¥1,361</b>                 | <b>¥4,791</b>             | <b>¥277,509</b>  |

The accompanying notes are an integral part of these statements.

|   | Thousands of U.S. dollars (Note 4) |                  |                    |                  |                            |
|---|------------------------------------|------------------|--------------------|------------------|----------------------------|
|   | Shareholders' equity               |                  |                    |                  |                            |
|   | Common stock                       | Capital surplus  | Retained earnings  | Treasury stock   | Total shareholders' equity |
| <b>Balance at April 1, 2016</b>   | \$612,898                          | \$647,928        | \$ 913,147         | \$(3,637)        | \$2,170,336                |
| Changes during the fiscal year  |                                    |                  |                    |                  |                            |
| Issuance of new shares (exercise of subscription rights to shares)                        | 89,170                             | 89,170           |                    |                  | 178,340                    |
| Cash dividends  |                                    |                  | (49,755)           |                  | (49,755)                   |
| Profit attributable to owners of parent   |                                    |                  | 183,510            |                  | 183,510                    |
| Change of scope of consolidation  |                                    |                  | 3,851              |                  | 3,851                      |
| Purchase of treasury stock  |                                    |                  |                    | (160)            | (160)                      |
| Disposal of treasury stock  |                                    | 0                |                    | 0                | 0                          |
| Change in ownership interest of parent due to transactions with non-controlling interests |                                    | (13,272)         |                    |                  | (13,272)                   |
| Consolidation of shares   |                                    |                  |                    |                  |                            |
| Net changes of items other than shareholders' equity                                      |                                    |                  |                    |                  |                            |
| Total changes during the fiscal year  | 89,170                             | 75,898           | 137,606            | (160)            | 302,514                    |
| <b>Balance at March 31, 2017</b>  | <b>\$702,068</b>                   | <b>\$723,826</b> | <b>\$1,050,753</b> | <b>\$(3,797)</b> | <b>\$2,472,850</b>         |

|   | Thousands of U.S. dollars (Note 4)                     |                                   |                         |   |  |                 |                               |                           |                  |
|---|--|-----------------------------------|-------------------------|---|--|-----------------|-------------------------------|---------------------------|------------------|
|   | Accumulated other comprehensive income                 |                                   |                         |   |  |                 | Subscription rights to shares | Non-controlling interests | Total net assets |
|   | Net unrealized gains (losses) on investment securities | Deferred gains (losses) on hedges | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                 |                               |                           |                  |
| <b>Balance at April 1, 2016</b>   | \$24,423   | \$(107)                           | \$ 52,402               | \$(98,761)                              | \$(22,043)                                   | \$ 8,486        | \$75,550                      | \$2,232,329               |                  |
| Changes during the fiscal year  |  |                                   |                         |   |  |                 |                               |                           |                  |
| Issuance of new shares (exercise of subscription rights to shares)                        |  |                                   |                         |   |  |                 |                               | 178,340                   |                  |
| Cash dividends  |  |                                   |                         |   |  |                 |                               | (49,755)                  |                  |
| Profit attributable to owners of parent   |  |                                   |                         |   |  |                 |                               | 183,510                   |                  |
| Change of scope of consolidation  |  |                                   |                         |   |  |                 |                               | 3,851                     |                  |
| Purchase of treasury stock  |  |                                   |                         |   |  |                 |                               | (160)                     |                  |
| Disposal of treasury stock  |  |                                   |                         |   |  |                 |                               | 0                         |                  |
| Change in ownership interest of parent due to transactions with non-controlling interests |  |                                   |                         |   |  |                 |                               | (13,272)                  |                  |
| Consolidation of shares   |  |                                   |                         |   |  |                 |                               |                           |                  |
| Net changes of items other than shareholders' equity                                      | (428)  | 89                                | (45,762)                | 14,021                                  | (32,080)                                     | 3,645           | (32,846)                      | (61,281)                  |                  |
| Total changes during the fiscal year  | (428)  | 89                                | (45,762)                | 14,021                                  | (32,080)                                     | 3,645           | (32,846)                      | 241,233                   |                  |
| <b>Balance at March 31, 2017</b>  | <b>\$23,995</b>  | <b>\$ (18)</b>                    | <b>\$ 6,640</b>         | <b>\$(84,740)</b>                       | <b>\$(54,114)</b>                            | <b>\$12,131</b> | <b>\$42,704</b>               | <b>\$2,473,562</b>        |                  |

|   | Millions of yen         |                      |                 |                   |                |                            |
|---|-------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|   | Number of shares issued | Shareholders' equity |                 |                   |                |                            |
|   |                         | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| <b>Balance at April 1, 2015</b>   | 465,644,024             | ¥68,697              | ¥72,627         | ¥ 91,816          | ¥(398)         | ¥232,742                   |
| Changes during the fiscal year  |                         |                      |                 |                   |                |                            |
| Issuance of new shares (exercise of subscription rights to shares)                        | 400,572                 | 64                   | 64              |                   |                | 128                        |
| Cash dividends  |                         |                      |                 | (6,624)           |                | (6,624)                    |
| Profit attributable to owners of parent   |                         |                      |                 | 17,254            |                | 17,254                     |
| Change of scope of consolidation  |                         |                      |                 |                   |                |                            |
| Purchase of treasury stock  |                         |                      |                 |                   | (10)           | (10)                       |
| Disposal of treasury stock  |                         |                      | 0               |                   | 0              | 0                          |
| Change in ownership interest of parent due to transactions with non-controlling interests |                         |                      |                 |                   |                |                            |
| Consolidation of shares   |                         |                      |                 |                   |                |                            |
| Net changes of items other than shareholders' equity                                      |                         |                      |                 |                   |                |                            |
| <b>Total changes during the fiscal year</b>   | 400,572                 | 64                   | 64              | 10,630            | (10)           | 10,748                     |
| <b>Balance at March 31, 2016</b>  | 466,044,596             | ¥68,761              | ¥72,691         | ¥102,446          | ¥(408)         | ¥243,490                   |

|   | Millions of yen  |                                   |                         |   |  |                               |                           |                  |
|---|--|-----------------------------------|-------------------------|---|--|-------------------------------|---------------------------|------------------|
|   | Accumulated other comprehensive income                 |                                   |                         |   |  | Subscription rights to shares | Non-controlling interests | Total net assets |
|   | Net unrealized gains (losses) on investment securities | Deferred gains (losses) on hedges | Translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                           |                  |
| <b>Balance at April 1, 2015</b>   | ¥ 5,325  | ¥ 74                              | ¥10,743                 | ¥ (9,825)                               | ¥ 6,317                                      | ¥730                          | ¥7,764                    | ¥247,553         |
| Changes during the fiscal year  |  |                                   |                         |   |  |                               |                           |                  |
| Issuance of new shares (exercise of subscription rights to shares)                        |  |                                   |                         |   |  |                               |                           | 128              |
| Cash dividends  |  |                                   |                         |   |  |                               |                           | (6,624)          |
| Profit attributable to owners of parent   |  |                                   |                         |   |  |                               |                           | 17,254           |
| Change of scope of consolidation  |  |                                   |                         |   |  |                               |                           |                  |
| Purchase of treasury stock  |  |                                   |                         |   |  |                               |                           | (10)             |
| Disposal of treasury stock  |  |                                   |                         |   |  |                               |                           | 0                |
| Change in ownership interest of parent due to transactions with non-controlling interests |  |                                   |                         |   |  |                               |                           |                  |
| Consolidation of shares   |  |                                   |                         |   |  |                               |                           |                  |
| Net changes of items other than shareholders' equity                                      | (2,585)  | (86)                              | (4,864)                 | (1,255)                                 | (8,790)                                      | 222                           | 712                       | (7,856)          |
| <b>Total changes during the fiscal year</b>   | (2,585)  | (86)                              | (4,864)                 | (1,255)                                 | (8,790)                                      | 222                           | 712                       | 2,892            |
| <b>Balance at March 31, 2016</b>  | ¥ 2,740  | ¥(12)                             | ¥ 5,879                 | ¥(11,080)                               | ¥(2,473)                                     | ¥952                          | ¥8,476                    | ¥250,445         |

# Consolidated Statement of Cash Flows

EBARA CORPORATION and Consolidated Subsidiaries  
For the fiscal years ended March 31, 2017 and 2016

|  | Millions of yen |                | Thousands of<br>U.S. dollars<br>(Note 4) |
|--|-----------------|----------------|--|
|  | 2017            | 2016           | 2017                                     |
| <b>Cash Flows from Operating Activities:</b>   |                 |                |  |
| Income before income taxes   | ¥ 30,497        | ¥ 31,686       | \$ 271,833                               |
| Depreciation and amortization  | 13,739          | 11,611         | 122,462                                  |
| Impairment loss  | —               | 261            | —  |
| Loss (gain) on sales of securities and investment securities   | (1,922)         | (381)          | (17,132)                                 |
| Loss (gain) on sales of investments in capital   | (289)           | —              | (2,576)                                  |
| Increase (decrease) in reserve   | 744             | 8,516          | 6,632                                    |
| Increase (decrease) in net defined benefit liability   | (2,242)         | (3,595)        | (19,984)                                 |
| Loss (gain) on sales of fixed assets   | (384)           | (62)           | (3,423)                                  |
| Interest and dividends income  | (776)           | (713)          | (6,917)                                  |
| Interest expenses  | 1,185           | 1,205          | 10,562                                   |
| Decrease (increase) in notes and accounts receivable–trade   | 7,345           | (9,858)        | 65,469                                   |
| Decrease (increase) in inventories   | (9,137)         | (10,072)       | (81,442)                                 |
| Increase (decrease) in notes and accounts payable–trade  | 3,430           | 6,127          | 30,573                                   |
| Increase (decrease) in other assets/liabilities  | (3,785)         | (5,951)        | (33,737)                                 |
| Other loss (gain)  | 771             | (1,011)        | 6,873                                    |
| Sub-total  | 39,176          | 27,763         | 349,193                                  |
| Interest and dividends received  | 1,182           | 717            | 10,536                                   |
| Interest expenses paid   | (1,203)         | (1,265)        | (10,723)                                 |
| Income taxes paid  | (5,339)         | (5,687)        | (47,589)                                 |
| Net cash provided by operating activities  | 33,816          | 21,528         | 301,417                                  |
| <b>Cash Flows from Investing Activities:</b>   |                 |                |  |
| Purchases of fixed assets  | (21,591)        | (12,499)       | (192,450)                                |
| Proceeds from sales of fixed assets  | 551             | 109            | 4,911                                    |
| Purchases of securities and investment securities  | (8,798)         | (10,846)       | (78,421)                                 |
| Proceeds from sales and redemption of securities and investment securities   | 12,087          | 11,167         | 107,737                                  |
| Payments into time deposits  | (2,637)         | (1,048)        | (23,505)                                 |
| Proceeds from withdrawal of time deposits  | 1,840           | 1,048          | 16,401                                   |
| Payments of loans receivable   | (117)           | (318)          | (1,043)                                  |
| Collection of loans receivable   | 763             | 459            | 6,801                                    |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation   | —               | (2,129)        | —  |
| Others   | (662)           | (286)          | (5,900)                                  |
| Net cash used in investing activities  | (18,564)        | (14,343)       | (165,469)                                |
| <b>Cash Flows from Financing Activities:</b>   |                 |                |  |
| Net increase (decrease) in short-term loans payable  | 2,501           | (1,349)        | 22,293                                   |
| Proceeds from long-term loans payable  | 14,079          | 4,679          | 125,492                                  |
| Repayment of long-term loans payable   | (19,615)        | (5,111)        | (174,837)                                |
| Redemption of bonds  | (22)            | —              | (196)                                    |
| Proceeds from issuance of common stock   | 0               | 0              | 0  |
| Proceeds from disposal of treasury shares  | 0               | 1              | 0  |
| Purchase of treasury stock   | (18)            | (10)           | (160)                                    |
| Cash dividends paid  | (5,582)         | (6,624)        | (49,755)                                 |
| Cash dividends paid to non-controlling interests   | (459)           | (466)          | (4,091)                                  |
| Payments from changes in ownership interests in subsidiaries and from purchase of investment in capital that do not result in change in scope of consolidation | (5,169)         | —              | (46,074)                                 |
| Others   | (817)           | (775)          | (7,283)                                  |
| Net cash used in financing activities  | (15,102)        | (9,655)        | (134,611)                                |
| <b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>  | <b>(1,188)</b>  | <b>(1,948)</b> | <b>(10,589)</b>                          |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>(1,038)</b>  | <b>(4,418)</b> | <b>(9,252)</b>                           |
| <b>Cash and Cash Equivalents:</b>  |                 |                |  |
| At the beginning of the fiscal year:   |                 |                |  |
| Balance brought forward  | 91,185          | 95,603         | 812,773                                  |
| Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation   | 536             | —              | 4,777                                    |
| At the end of the fiscal year (Note 12)  | ¥ 90,683        | ¥ 91,185       | \$ 808,298                               |

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

EBARA CORPORATION and Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

EBARA CORPORATION (the "Company") and its subsidiaries (hereinafter, collectively referred to as the "Group") maintain their records and prepare their statutory financial statements in accordance with generally accepted accounting principles in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile, which are substantially equivalent to generally accepted accounting principles in the United States or International Financial Reporting Standards (IFRS). The accompanying consolidated financial statements were also prepared in accordance with generally accepted accounting principles in Japan.

## 2. Summary of Significant Accounting Policies

### Basis of consolidation

The consolidated financial statements include the accounts of the Company and those of certain of its subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation.

As of March 31, 2017, the numbers of consolidated subsidiaries, non-consolidated subsidiaries that applied the equity method, and affiliated companies that applied the equity method were 56, 0, and 1 (54, 1, and 2 in 2016), respectively.

The financial statements of 28 foreign subsidiaries are consolidated by using their financial statements as of the fiscal-year end, and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

The differences, at the time of acquisition or consolidation newly made, between the cost and underlying net equity of investments in consolidated subsidiaries are included in other assets and are amortized on a straight-line basis over a reasonable estimated period of time within a 20-year period in respect of each particular difference. The differences that are not deemed to be material may be amortized in periods when they arise.

### Foreign currency translation

Foreign currency denominated trade receivables and payables are translated into yen at the rate prevailing at the balance sheet date. Investments are translated into yen at the exchange rates prevailing at the time the transactions occur.

Assets and liabilities of foreign consolidated subsidiaries are translated into yen at the appropriate year-end rates. Revenue, expenses, and net income of these companies are also translated into yen at the appropriate year-end rates. Capital contributed to those companies by the parent company is translated at the rates prevailing at the time the transactions were made. Receivables and payables with the parent company are translated at the same rates used by the parent company, and the resultant translation adjustments are recognized in the net assets.

### Investment securities and other financial instruments

Investment securities and other financial instruments are valued using the following methods:

- (a) Securities having market value are stated at market value, and the unrealized gains or losses, net of tax, is credited or debited to net assets as shown in the balance sheet. Cost of securities sold is determined by the gross average method.
- (b) Securities not having market value are recorded at the gross average cost.
- (c) Bonds held to maturity are stated at cost less accumulated amortization.
- (d) Other financial assets (or instruments), including golf memberships, are valued at market value, if available.

### Inventories

Merchandise and finished goods and raw materials and supplies are primarily measured using the gross average cost method, except for in the Precision Machinery Group, which employs the moving average method, and work in process is measured using the specific identification cost method. For presentation on balance sheet, inventories are measured at book value or written down value to account for the decline in their profit abilities if necessary.

### Property, plant and equipment and related depreciation (except lease assets)

The straight-line method is used as the primary method for computing depreciation. Note that the method for depreciating minor assets valued from ¥100,000 to less than ¥200,000 is the lump-sum method specified in the corporate income tax laws, and these assets are depreciated in equal amounts over a three-year period.



### **Intangible assets and investments and other assets (except lease assets)**

Intangible assets are mainly amortized on a straight-line basis, according to the criteria specified in the Corporation Tax Law.

Software used by the Company is amortized on a straight-line basis for the estimated useful life of five years.

### **Lease assets**

Lease assets under finance lease transactions that do not transfer ownership of the asset to the lessee are depreciated by the straight-line method over the lease term of the useful life and have a residual value of zero.

### **Allowance for doubtful accounts**

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

### **Reserve for warranties for completed construction**

To cover for possible expenses arising from warranties against defects, the Group makes reasonable estimates of the ratio of such expenses to construction revenue and uses this ratio to derive provisions for such losses.

### **Reserve for product warranties**

To cover for expenses related to defect guarantees related to sales contracts, the amount of such warranties is estimated by multiplying a reasonable percentage of defects by the value of product sales.

### **Reserve for construction losses**

To cover for possible losses on construction projects contracted to the Group, the Group makes estimates of such losses for those uncompleted projects deemed to have a high possibility of incurring losses and for which such construction losses can be reasonably estimated.

Inventories related to construction contracts on which losses are expected and the reserve for construction losses are both presented on the balance sheet without offsetting. The value of inventories related to construction contracts on which losses are expected that are contained within the reserve for construction losses was ¥5,239 million (\$46,698 thousand) (comprising work in process of ¥5,239 million) and ¥2,721 million (comprising work in process of ¥2,721 million) for the fiscal years ended March 31, 2017 and 2016, respectively.

The provision to the reserve for construction losses contained in cost of sales was ¥4,135 million (\$36,857 thousand) and ¥4,567 million for the fiscal years ended March 31, 2017 and 2016, respectively.

### **Reserve for expenses related to the sales of land**

Accompanying the sales of the land formerly occupied by the Group's Haneda Plant, the estimated cost of restoring this land to its original condition has been recognized in the fiscal year.

### **Reserve for directors' retirement benefits**

In domestic consolidated subsidiaries, reserve for directors' retirement benefits is accrued at the amounts of the future liabilities in relation to the length of service at the balance sheet date.

### **Retirement benefits**

#### **i. Method of attribution of projected benefit obligations**

In the calculation of defined benefit liability, the method used to attribute projected benefit obligations in the period up to the fiscal year is based on the benefit formula basis.

#### **ii. Method of amortization of actuarial gain or loss and past service cost**

Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual.

Actuarial gain or loss is amortized starting in the fiscal year following the fiscal year in which the gain or loss is recognized using the declining balance method over a certain number of years within the average remaining service period of employees.

#### **iii. Adoption of the simplified accounting method in small companies, etc.**

Certain consolidated subsidiaries adopt the simplified accounting method in calculating their net defined benefit liabilities and retirement benefit expenses. Under the simplified method, retirement benefit obligations are calculated as if all eligible employees voluntarily terminated their employment at the year-end.

### **Provision for loss on litigation**

To cover for possible losses on lawsuits, the Group estimates the amount of losses that may emerge in the future and sets aside the amount deemed necessary.

### **Revenue recognition**

#### **Standard for cost of completed work and construction revenue**

The percentage-of-completion method has been applied for the completion of a portion of the construction work that is deemed to be certain by the end of each fiscal year. (The percentage of completion is estimated based on the percentage of cost incurred compared with the estimated total cost.) For other construction work, the completed-contract method has been applied.

### **Hedging accounting methods**

#### **Hedging transactions**

For foreign exchange contracts that fulfill the requirements for deferral hedge accounting under the Accounting Standards for Financial Instruments, the following method in Japan is applied in accordance with generally accepted accounting principles. The difference between the amount of hedged foreign currency denominated receivables or payables at the current spot rate and the equivalent amount at the forward rate is recognized through profit or loss over the period from the contract date of forward exchange contract date to the settlement date. For interest-rate swaps that fulfill the requirements for special exceptions under the Accounting Standards for Financial Instruments, such special exceptions are adopted.

#### **Hedging instruments and hedged objects**

##### Hedging instruments

Foreign exchange forward contracts, foreign currency option contracts, and interest-rate swap agreements were used.

##### Hedged objects

Foreign currency dominated receivables or payables, loan payables

#### **Hedging policy**

The Company and its consolidated subsidiaries hedge currency exchange rate risk on existing assets and liabilities in foreign currencies and interest-rate risk based on internal risk management policy.

#### **Assessing the effectiveness of hedging**

##### Interest risk

The effectiveness of hedging is assessed by comparing the accumulated cash flows between hedging instruments and hedged objects. However, with regard to the interest-rate swaps that meet the requirements for special exceptions, the assessments are omitted.

##### Currency exchange rate risk

As long as one hedging instrument and one hedged object correspond, the hedge is considered effective.

### **Income taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured by applying the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### **Stock and bond issue costs**

Stock and bond issue costs are charged to income as incurred.

### **Research and development costs**

Costs relating to research and development activities are charged to income as incurred. Research and development costs charged to income were ¥8,759 million (\$78,073 thousand) and ¥7,633 million for the fiscal years ended March 31, 2017 and 2016, respectively.

### **Cash and cash equivalents in Consolidated Statement of Cash Flows**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with insignificant risk of changes in value that have maturities of three months or less.

**Profit (Loss) attributable to owners of parent and dividends per share**

Primary profit (loss) attributable to owners of parent per share of common stock is based on the average number of shares of common stock outstanding (excluding treasury stock) during each period.

Common stock equivalents on subscription rights to shares and convertible bonds are not taken into consideration for the aforementioned computation. Fully diluted profit attributable to owners of parent per share of common stock is computed assuming outstanding convertible bonds at that date are all converted to common shares after adjustment of after-tax debt servicing costs and outstanding subscription rights to shares at that date are all exercised to common shares, unless an antidilutive effect results.

**Consumption tax**

Consumption taxes are accounted for using the net-of-tax method.

**Consolidated taxation system**

A consolidated taxation system is applied.

### 3. Additional Information

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**Revised Implementation Guidance on Recoverability of Deferred Tax Assets**

Effective from April 1, 2016, the Group has applied Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, issued on March 28, 2016).

**Progress about Fire Accident**

On October 23, 2015, a fire broke out at the waste processing facility for bulky refuse at the Gifu City Eastern Clean Center, which is located in the Akutami section of Gifu City in Gifu Prefecture, as Ebara Environmental Plant Co., Ltd. (EEP), the Company's consolidated subsidiary, was making repairs on the facility. Please note that EEP is responsible for the operation and management of a refuse incinerating facility that is located next to the bulky refuse processing plant where the fire occurred. Regarding this incident, the Company is discussing with Gifu City the construction work required to make the damaged facility operational again and compensation for related damages.

At this time, it is not possible to make a reasonable estimate of the effect of this incident on the Group's consolidated statement of income.

### 4. U.S. Dollar Amounts

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The U.S. dollar amounts are included solely for convenience and have been translated as a matter of arithmetical computation only at the rate of ¥112.19=US\$1, the rate of exchange prevailing on March 31, 2017.

## 5. Inventories

Inventories comprised the following:

| As of March 31                 | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------|-----------------|---------|---------------------------|
|                                | 2017            | 2016    | 2017                      |
| Merchandise and finished goods | ¥12,717         | ¥13,060 | \$113,352                 |
| Work in process                | 56,570          | 47,164  | 504,234                   |
| Raw materials and supplies     | 28,041          | 28,741  | 249,942                   |
| Total                          | ¥97,328         | ¥88,965 | \$867,528                 |

Note: Inventories for the fiscal year ended March 31, 2016 reflects the finalization impact of the provisional accounting treatment related to the business combination in the third quarter ended December 31, 2015. For further information, please refer to "Note 20. Business Combination."

## 6. Pledged Assets and Related Liabilities

Pledged assets are as follows:

| As of March 31                    | Millions of yen |        | Thousands of U.S. dollars |
|-----------------------------------|-----------------|--------|---------------------------|
|                                   | 2017            | 2016   | 2017                      |
| Buildings and structures          | ¥3,919          | ¥4,255 | \$34,932                  |
| Machinery, equipment and vehicles | —               | 42     | —                         |
| Land                              | 90              | 103    | 802                       |
| Others                            | 446             | 558    | 3,975                     |
| Investment securities             | 20              | 20     | 179                       |
| Total                             | ¥4,475          | ¥4,978 | \$39,888                  |

Collateral for loans is as follows:

| As of March 31  | Millions of yen |      | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
|   | 2017            | 2016 | 2017                      |
| Short-term loans payable and current portion of long-term loans payable | ¥208            | ¥283 | \$1,854                   |
| Long-term loans payable   | 705             | 942  | 6,284                     |

Pledged assets for purposes other than loans payable are as follows:

| As of March 31           | Millions of yen |        | Thousands of U.S. dollars |
|--------------------------|-----------------|--------|---------------------------|
|                          | 2017            | 2016   | 2017                      |
| Buildings and structures | ¥1,069          | ¥1,212 | \$9,528                   |
| Investment securities    | 20              | 20     | 178                       |
| Others                   | 445             | 496    | 3,966                     |

## 7. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries had the following commitments and contingent liabilities:

| As of March 31                               | Millions of yen |      | Thousands of U.S. dollars |
|--|-----------------|------|---------------------------|
|  | 2017            | 2016 | 2017                      |
| Loans guaranteed:                            |                 |      |                           |
| Non-consolidated subsidiaries and affiliates | ¥721            | ¥ 9  | \$6,427                   |
| Other  | 86              | 112  | 767                       |

## 8. Short-Term Loans Payable and Long-Term Debt

As of March 31, 2017 and 2016, short-term loans payable amounted to ¥60,716 million (\$541,189 thousand) and ¥58,386 million, respectively. In addition, ¥1 million (\$9 thousand) and ¥76 million of short-term loans payable were secured, respectively. Short-term loans payable have a due date in one year or less.

As of March 31, 2017 and 2016, ¥913 million (\$8,138 thousand) and ¥1,225 million of short-term loans payable and long-term loans payable were collateralized by the part of assets amounting to ¥4,475 million (\$39,888 thousand) and ¥4,978 million, respectively.

The weighted-average interest rates for short-term loans payable and current portion of long-term loans payable as of March 31, 2017 and 2016 were 1.076% and 0.913%, respectively.

Long-term debt (excluding lease obligations) comprised of the following:

| As of March 31   | Millions of yen |                 | Thousands of U.S. dollars |
|--|-----------------|-----------------|---------------------------|
|  | 2017            | 2016            | 2017                      |
| Loans payable from banks, insurance companies, and other, due 2019 to 2023 with interest rates of 0.248% to 12.0% at March 31, 2017 and with interest rates of 0.410% to 15.4% at March 31, 2016 |                 |                 |                           |
| Secured  | ¥ 911           | ¥ 1,149         | \$ 8,120                  |
| Unsecured  | 22,683          | 28,051          | 202,184                   |
| Unsecured bonds with stock acquisition rights due 2018 issued in the domestic market   | —               | 19,988          | —                         |
| 0.53% unsecured yen bonds due 2018 issued in the domestic market   | 10,000          | 10,000          | 89,135                    |
|  | 33,594          | 59,188          | 299,439                   |
| Less: current portion due within one year  | (2,073)         | (19,329)        | (18,478)                  |
| <b>Total</b>   | <b>¥31,521</b>  | <b>¥ 39,859</b> | <b>\$280,961</b>          |

The maturities of long-term debt (excluding lease obligations) are summarized as follows:

| As of March 31      | Millions of yen | Thousands of U.S. dollars |
|---------------------|-----------------|---------------------------|
| 2018                | ¥ 2,073         | \$ 18,478                 |
| 2019                | 12,030          | 107,229                   |
| 2020                | 3,810           | 33,960                    |
| 2021                | 3,288           | 29,307                    |
| 2022                | 2,374           | 21,161                    |
| 2023 and thereafter | 10,019          | 89,304                    |

## 9. Impairment Loss of Long-Lived Assets

### Fiscal year ended March 31, 2017

None

### Fiscal year ended March 31, 2016

The Group reported impairment loss of long-lived assets amounting to ¥261 million in the fiscal year ended March 31, 2016. The impairment loss was recognized in the following asset groups: Idle assets and assets held for sale.

Outline of asset grouping: The Group categorizes its assets according to its business segments, except idle assets which are grouped individually.

Recognition of impairment loss: Since idle assets, casting equipment, testing facility, buildings and structures, machinery and equipment, land, software, and others which are subject to impairment are no longer expected to contribute to future economic inflow in future periods, the book value has been reduced to a nominal value. Also, since the expected sales price at which buildings and structures, land, and others held for sale is below the book value of such assets, the Group has written down the book value to the recoverable value.

Computation of recoverable value: The net sales value or the value in use is used to calculate the recoverable value of assets. For land, reasonable estimates of its recoverable value have been made based on land price used for tax assessment and other information. The value in use is assessed at zero in case the total future cash flow is a negative amount.

## 10. Other Comprehensive Income

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

| For the fiscal years ended March 31  | Millions of yen |          | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
|  | 2017            | 2016     | 2017                      |
| Net unrealized holding gains (losses) on securities:                                 |                 |          |                           |
| Amount arising during the fiscal year  | ¥ 1,865         | ¥(3,524) | \$ 16,624                 |
| Reclassification adjustments for gains (losses) realized in net income               | (1,882)         | (380)    | (16,775)                  |
| Amount of net unrealized holding gains (losses) on securities before tax effect      | (17)            | (3,904)  | (151)                     |
| Tax effect   | 6               | 1,325    | 53                        |
| Net unrealized holding gains (losses) on securities                                  | (11)            | (2,579)  | (98)                      |
| Deferred gains (losses) on hedges:   |                 |          |                           |
| Amount arising during the fiscal year  | (3)             | (26)     | (27)                      |
| Reclassification adjustments for gains (losses) realized in net income               | 20              | (100)    | 179                       |
| Amount of deferred gains (losses) on hedges before tax effect                        | 17              | (126)    | 152                       |
| Tax effect   | (7)             | 40       | (63)                      |
| Deferred gains (losses) on hedges  | 10              | (86)     | 89                        |
| Translation adjustments:   |                 |          |                           |
| Amount arising during the fiscal year  | (5,753)         | (5,114)  | (51,279)                  |
| Retirement benefits liability adjustments:   |                 |          |                           |
| Amount arising during the fiscal year  | 1,631           | (2,636)  | 14,538                    |
| Reclassification adjustments for gains (losses) realized in net income               | 718             | 319      | 6,400                     |
| Amount before tax effect   | 2,349           | (2,317)  | 20,938                    |
| Tax effect   | (783)           | 1,035    | (6,980)                   |
| Retirement benefits liability adjustments  | 1,566           | (1,282)  | 13,958                    |
| Share of other comprehensive income of associates accounted for using equity method: |                 |          |                           |
| Amount arising during the fiscal year  | (33)            | (41)     | (294)                     |
| Total other comprehensive income   | ¥(4,221)        | ¥(9,102) | \$(37,624)                |

## 11. Net Assets

The Companies Act of Japan (Act No. 86 of 2005, as amended) provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the total of the capital reserve and the legal reserve equals 25% of the common stock account.

Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

### Dividends

#### 1. Dividends paid

For the fiscal year ended March 31, 2017

| Resolution   | Type of shares | Total dividends (millions of yen) | Total dividends (thousands of U.S. dollars) | Dividends per share (yen) | Dividends per share (U.S. dollars) | Cut-off date   | Effective date |
|--|----------------|-----------------------------------|---|---------------------------|------------------------------------|----------------|----------------|
| Regular General Meeting of Shareholders on June 24, 2016 | Common stock   | ¥2,791                            | \$24,877                                    | ¥6.00                     | \$0.054                            | March 31, 2016 | June 27, 2016  |

| Resolution                         | Type of shares | Total dividends (millions of yen) | Total dividends (thousands of U.S. dollars) | Dividends per share (yen) | Dividends per share (U.S. dollars) | Cut-off date       | Effective date   |
|------------------------------------|----------------|-----------------------------------|---|---------------------------|------------------------------------|--------------------|------------------|
| Board Meeting on November 10, 2016 | Common stock   | ¥2,792                            | \$24,886                                    | ¥6.00                     | \$0.054                            | September 30, 2016 | December 6, 2016 |

Note: Dividends per share do not take into account the consolidation of shares executed on October 1, 2016, because the cut-off date was September 30, 2016.

For the fiscal year ended March 31, 2016

| Resolution   | Type of shares | Total dividends (millions of yen) | Dividends per share (yen) | Cut-off date   | Effective date |
|--|----------------|-----------------------------------|---------------------------|----------------|----------------|
| Regular General Meeting of Shareholders on June 24, 2015 | Common stock   | ¥3,834                            | ¥8.25                     | March 31, 2015 | June 25, 2015  |

| Resolution                         | Type of shares | Total dividends (millions of yen) | Dividends per share (yen) | Cut-off date       | Effective date   |
|------------------------------------|----------------|-----------------------------------|---------------------------|--------------------|------------------|
| Board Meeting on November 10, 2015 | Common stock   | ¥2,790                            | ¥6.00                     | September 30, 2015 | December 7, 2015 |

#### 2. Dividends with the cut-off date in the fiscal year ended March 31, 2017 and the effective date in the fiscal year ending December 31, 2017

| Resolution   | Type of shares | Total dividends (millions of yen) | Total dividends (thousands of U.S. dollars) | Source of dividends | Dividends per share (yen) | Dividends per share (U.S. dollars) | Cut-off date   | Effective date |
|--|----------------|-----------------------------------|---|---------------------|---------------------------|------------------------------------|----------------|----------------|
| Regular General Meeting of Shareholders on June 23, 2017 | Common stock   | ¥3,046                            | \$27,150                                    | Retained earnings   | ¥30.00                    | \$0.267                            | March 31, 2017 | June 26, 2017  |

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

| Resolution   | Type of shares | Total dividends (millions of yen) | Source of dividends | Dividends per share (yen) | Cut-off date   | Effective date |
|--|----------------|-----------------------------------|---------------------|---------------------------|----------------|----------------|
| Regular General Meeting of Shareholders on June 24, 2016 | Common stock   | ¥2,791                            | Retained earnings   | ¥6.00                     | March 31, 2016 | June 27, 2016  |

## 12. Supplementary Cash Flow Information

The reconciliation of cash and cash equivalents in the consolidated statement of cash flows for the fiscal years ended March 31, 2017 and 2016 to cash on hand and in banks and securities in the consolidated balance sheet is as follows:

| For the fiscal years ended March 31                             | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2017            | 2016    | 2017                      |
| Cash on hand and in banks                                       | ¥90,382         | ¥89,590 | \$805,615                 |
| Securities  | 2,498           | 4,599   | 22,266                    |
| Securities and others with maturities of more than three months | (585)           | (2,163) | (5,214)                   |
| Time deposits with maturities of more than three months         | (1,612)         | (841)   | (14,369)                  |
| Cash and cash equivalents                                       | ¥90,683         | ¥91,185 | \$808,298                 |

## 13. Leases

(As lessee)

### 1. Finance lease transactions

Finance lease transactions other than those for which the ownership transfers to the lessee

#### (1) Components of lease assets

Tangible fixed assets

This mainly comprises production equipment (tool, furniture and fixtures, etc.).

#### (2) Declining balance method of lease assets

This is presented under "Lease assets" in the section "Note 2. Summary of Significant Accounting Policies."

### 2. Operating lease transactions

Future minimum lease payments for non-cancelable operating leases for the fiscal years ended March 31, 2017 and 2016 are summarized as follows:

| As of March 31      | Millions of yen |        | Thousands of U.S. dollars |
|---------------------|-----------------|--------|---------------------------|
|                     | 2017            | 2016   | 2017                      |
| Due within one year | ¥ 877           | ¥ 860  | \$ 7,817                  |
| Due after one year  | 2,550           | 2,670  | 22,729                    |
| Total               | ¥3,427          | ¥3,530 | \$30,546                  |

## 14. Financial Instruments

### 1. Status of financial instruments

#### (1) Policies regarding financial instruments

The Company raises the necessary long-term funds for its capital investment and other requirements principally from bank borrowings, the issuance of bonds and other means. Short-term working capital is raised through bank borrowings and other sources, as necessary. Available short-term funds are invested in highly secure financial assets. In addition, derivatives are used to avoid risk based on actual demand, and the Company's policy is not to use derivatives for speculative purposes.



## **(2) Types and risk for financial instruments**

Notes and accounts receivable—trade and electronically recorded monetary claims, which are operating assets, are exposed to customer credit risk. In addition, since the Company conducts its business activities globally, its operating assets denominated in foreign currencies are exposed to foreign currency risk. To manage foreign currency risk, the Company hedges its net foreign currency assets and liabilities position through the use of foreign currency borrowings and deposits. The Company's consolidated subsidiaries use foreign currency forward contracts to hedge foreign currency exposure.

Securities and investment securities are principally certificates of deposit, money market funds (MMFs) and stocks in financial institutions and other companies that are held for business relationship purposes and are, therefore, exposed to market price fluctuations.

Notes and accounts payable—trade and electronically recorded obligations, which are operating liabilities, are settled, for the most part, within one year. In addition, a portion of these, which arise in connection with imports of motors and other items, are denominated in foreign currencies and are exposed to foreign currency risk; however, in general, the balance of these liabilities is within the amounts of accounts receivable—trade denominated in foreign currencies. Among these, a portion of borrowings have floating interest rates and are subject to interest-rate risk. These are hedged through the use of derivatives (interest-rate swaps).

Derivative transactions comprise forward exchange contract transactions for the purpose of hedging exchange rate fluctuation risk for trade payables and receivables denominated in foreign currencies and interest rate swap transactions for the purpose of hedging interest rate fluctuation risk for interest payable on loans. Please note that further information on hedge accounting, including hedging instruments, hedged items, hedging policy, and assessing the effectiveness of hedging, may be found in a previous section entitled "Hedging accounting methods" in the section "Note 2. Summary of Significant Accounting Policies."

## **(3) Risk management systems for financial instruments**

### **a. Management of credit risk (risk related to nonperformance of contractual obligations by transaction counterparties)**

Regarding operating assets, the Company's finance and business departments, based on the Company's regulations related to credit management, monitor the conditions of principal business customers and supervise the payment dates and balances by customers with the aims of identifying possible deterioration in the financial conditions of customers and other issues related to the recovery of exposure at an early date and taking steps to minimize credit risk. The Company's consolidated subsidiaries have also adopted the same method of management.

For securities held to maturity, under the Company's policies, investments are made only in securities with high credit ratings, and the credit risk of these investments is minimal.

The maximum value of credit risk, as of the fiscal year-end, is shown by the value on the balance sheets of financial assets subject to credit risk.

### **b. Management of market risk (risk of fluctuations in foreign currency rates, interest rates, and other indicators)**

To manage foreign currency risk, assets and liabilities denominated in foreign currencies are classified by currency, and risk is hedged through the use of foreign currency borrowings and deposits. Also, for foreign currency assets and liabilities, the Company makes use of foreign currency forward contracts to hedge its exposure. Please note that depending on conditions in foreign currency markets, the Company makes arrangements for foreign currency forward contracts for foreign currency denominated receivables and payables resulting from highly probable forecasted transactions. To hedge against interest-rate fluctuations, the Company makes use of interest-rate swaps.

For securities and investment securities, the Company regularly confirms the market prices and the financial condition of the issuers (transactions counterparties). In addition, for securities other than those held to maturity, the Company reviews the appropriateness of holding such securities on a continuing basis, taking account of the relationship with the issuer (counterparty).

For derivatives, the Company and its consolidated subsidiaries manage such exposure based on the Company's policies for management of financial instruments.

### **c. Management of liquidity risk related to fund-raising (risk of being unable to meet payment obligations on the scheduled date)**

The Company's finance department prepares and revises cash flow plans based on reports from each of the Company's departments and manages liquidity risk by maintaining a volume of liquidity appropriate for business conditions. Also, as an alternative to liquid assets, the Company manages its liquidity by arranging for commitment lines in a specified amount.

#### (4) Supplementary information on the fair value of financial instruments

The fair value of financial instruments, in addition to values based on market prices, includes the value of instruments that do not have market prices that have been calculated based on reasonable methods. Since factors that may fluctuate are taken into account in these calculations, the respective values may change when different assumptions are adopted.

In addition, the contract value of derivatives, as contained in "Information on the fair value of financial instruments," does not indicate the value of the market risk of these derivative transactions.

#### 2. Information on the fair value of financial instruments

The amounts shown on the consolidated balance sheet as of March 31, 2017 and 2016 (the Company's fiscal year-end), the corresponding fair values, and differences between book and fair value are as follows.

Please note that the values of the financial instruments for which ascertaining the fair value is deemed to be extremely difficult have not been included. (Refer to Note 2.)

| As of March 31, 2017                            | Millions of yen               |            |            |
|---|-------------------------------|------------|------------|
|   | On consolidated balance sheet | Fair value | Difference |
| Cash on hand and in banks                       | ¥ 90,382                      | ¥ 90,382   | ¥ —        |
| Notes and accounts receivable—trade             | 202,874                       |            |            |
| Electronically recorded monetary claims         | 4,511                         |            |            |
| Allowance for doubtful accounts <sup>(*)1</sup> | (3,250)                       |            |            |
|   | ¥204,135                      | ¥204,059   | ¥ (76)     |
| Securities and investment securities            | 13,133                        | 13,133     | —          |
| Total   | ¥307,650                      | ¥307,574   | ¥ (76)     |
| Notes and accounts payable—trade                | ¥ 64,156                      | ¥ 64,156   | ¥ —        |
| Electronically recorded obligations             | 55,922                        | 55,922     | —          |
| Short-term loans payable                        | 62,789                        | 62,789     | —          |
| Bonds payable                                   | 10,000                        | 10,086     | 86         |
| Bonds with subscription rights to shares        | —                             | —          | —          |
| Long-term loans payable                         | 21,521                        | 21,577     | 56         |
| Total   | ¥214,388                      | ¥214,530   | ¥142       |
| Derivative transactions <sup>(*)2</sup>         | ¥ (3)                         | ¥ (3)      | ¥ —        |

| As of March 31, 2017                            | Thousands of U.S. dollars     |             |            |
|---|-------------------------------|-------------|------------|
|   | On consolidated balance sheet | Fair value  | Difference |
| Cash on hand and in banks                       | \$ 805,615                    | \$ 805,615  | \$ —       |
| Notes and accounts receivable—trade             | 1,808,307                     |             |            |
| Electronically recorded monetary claims         | 40,209                        |             |            |
| Allowance for doubtful accounts <sup>(*)1</sup> | (28,969)                      |             |            |
|   | \$1,819,547                   | \$1,818,871 | \$ (676)   |
| Securities and investment securities            | 117,060                       | 117,060     | —          |
| Total   | \$2,742,222                   | \$2,741,546 | \$ (676)   |
| Notes and accounts payable—trade                | \$ 571,851                    | \$ 571,851  | \$ —       |
| Electronically recorded obligations             | 498,458                       | 498,458     | —          |
| Short-term loans payable                        | 559,667                       | 559,667     | —          |
| Bonds payable                                   | 89,135                        | 89,901      | 766        |
| Bonds with subscription rights to shares        | —                             | —           | —          |
| Long-term loans payable                         | 191,826                       | 192,326     | 500        |
| Total   | \$1,910,937                   | \$1,912,203 | \$1,266    |
| Derivative transactions <sup>(*)2</sup>         | \$ (27)                       | \$ (27)     | \$ —       |

| As of March 31, 2016                            | Millions of yen               |            |            |
|---|-------------------------------|------------|------------|
|   | On consolidated balance sheet | Fair value | Difference |
| Cash on hand and in banks                       | ¥ 89,590                      | ¥89,590    | ¥ —        |
| Notes and accounts receivable–trade             | 216,311                       |            |            |
| Electronically recorded monetary claims         | 727                           |            |            |
| Allowance for doubtful accounts <sup>(*)1</sup> | (3,234)                       |            |            |
|   | ¥213,804                      | ¥213,737   | ¥ (67)     |
| Securities and investment securities            | 17,361                        | 17,364     | 3          |
| Total   | ¥320,755                      | ¥320,691   | ¥ (64)     |
| Notes and accounts payable–trade                | ¥ 68,905                      | ¥ 68,905   | ¥ —        |
| Electronically recorded obligations             | 47,551                        | 47,551     | —          |
| Short-term loans payable                        | 77,715                        | 77,715     | —          |
| Bonds payable                                   | 10,000                        | 10,117     | 117        |
| Bonds with subscription rights to shares        | 19,988                        | 19,948     | (40)       |
| Long-term loans payable                         | 9,871                         | 10,189     | 318        |
| Total   | ¥234,030                      | ¥234,425   | ¥395       |
| Derivative transactions <sup>(*)2</sup>         | ¥ (20)                        | ¥ (20)     | ¥ —        |

(\*)1 The full amount of the allowance for doubtful accounts is excluded. Please note that the allowance for doubtful accounts includes notes receivable–trade, accounts receivable–trade, electronically recorded monetary claims and accounts receivable–other that are considered to be doubtful.

(\*)2 The net amount of the assets and liabilities is shown.

### **Note 1: Methods of calculating the fair value of financial instruments and matters related to securities and derivatives**

#### **(1) Assets**

##### **a. Cash on hand and in banks**

These items are settled within short periods and are shown at their respective book value, which approximates their fair values.

##### **b. Notes and accounts receivable–trade and electronically recorded monetary claims**

The fair value of these financial instruments is calculated, by specified period and type of security, as the present value by discounting the cash flow to maturity using a discount rate that takes account of credit risk.

##### **c. Securities and investment securities**

The fair value for stocks is based on quoted market prices. The value for bonds is determined using the price provided by exchanges or financial institutions. Also, certificates of deposit are settled within short periods and are shown at their respective book value, which approximates their fair values. For securities to be held to maturity and others, please refer to “Note 15. Marketable and Investment Securities.”

#### **(2) Liabilities**

##### **a. Notes and accounts payable–trade, electronically recorded obligations, and short-term loans payable**

These items are settled within short periods and are shown at their respective book value, which approximates their fair values.

##### **b. Bonds payable, bonds with subscription rights to shares, and long-term loans payable**

These fair values are calculated using the interest rate that would be required upon entering into new borrowings with similar terms. Long-term borrowings at floating interest rates are hedged through interest-rate swaps using special treatment accounting. The fair value is calculated as the total amount of the principal and interest payment accounted for in combination with the interest rate swap, which is discounted by the applied interest rate that would be reasonably estimated upon entering into borrowings with similar terms.

#### **(3) Derivative transactions**

Please refer to “Note 16. Derivative Financial Instruments.”

**Note 2: Financial instruments for which ascertaining the fair value is deemed to be extremely difficult**

| On consolidated balance sheet |                 |         |                           |
|-------------------------------|-----------------|---------|---------------------------|
| As of March 31                | Millions of yen |         | Thousands of U.S. dollars |
|                               | 2017            | 2016    | 2017                      |
| Stocks of affiliate companies | ¥11,658         | ¥ 9,992 | \$103,913                 |
| Unlisted stocks               | 3,910           | 3,909   | 34,852                    |
| Total                         | ¥15,568         | ¥13,901 | \$138,765                 |

Note: Market values are not available for these stocks, and, since ascertaining their fair value is deemed to be extremely difficult, the values of these stocks have not been included in "Securities and investment securities."

**Note 3: Monetary claims and securities with maturity dates that are scheduled to be amortized after the fiscal year-end**

| As of March 31, 2017                        | Millions of yen |                                |                                  |               |
|---|-----------------|--------------------------------|----------------------------------|---------------|
|   | Within 1 year   | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
| Cash on hand and in banks                   | ¥ 90,382        | ¥ —                            | ¥ —                              | ¥—            |
| Notes and accounts receivable—trade         | 192,217         | 8,092                          | 2,565                            | —             |
| Electronically recorded monetary claims     | 4,511           | —                              | —                                | —             |
| Investment securities and other securities: |                 |                                |                                  |               |
| Bonds to be held to maturity:               |                 |                                |                                  |               |
| Other                                       | —               | —                              | —                                | —             |
| Other securities with maturity:             |                 |                                |                                  |               |
| Negotiable certificates of deposit          | 1,166           | —                              | —                                | —             |
| Total                                       | ¥288,276        | ¥8,092                         | ¥2,565                           | ¥—            |

| As of March 31, 2017                        | Thousands of U.S. dollars |                                |                                  |               |
|---|---------------------------|--------------------------------|----------------------------------|---------------|
|   | Within 1 year             | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
| Cash on hand and in banks                   | \$ 805,615                | \$ —                           | \$ —                             | \$—           |
| Notes and accounts receivable—trade         | 1,713,316                 | 72,128                         | 22,863                           | —             |
| Electronically recorded monetary claims     | 40,209                    | —                              | —                                | —             |
| Investment securities and other securities: |                           |                                |                                  |               |
| Bonds to be held to maturity:               |                           |                                |                                  |               |
| Other                                       | —                         | —                              | —                                | —             |
| Other securities with maturity:             |                           |                                |                                  |               |
| Negotiable certificates of deposit          | 10,395                    | —                              | —                                | —             |
| Total                                       | \$2,569,543               | \$72,128                       | \$22,863                         | \$—           |

| As of March 31, 2016                        | Millions of yen |                                |                                  |               |
|---|-----------------|--------------------------------|----------------------------------|---------------|
|   | Within 1 year   | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
| Cash on hand and in banks                   | ¥ 89,590        | ¥ —                            | ¥ —                              | ¥—            |
| Notes and accounts receivable—trade         | 206,572         | 7,316                          | 2,423                            | —             |
| Electronically recorded monetary claims     | 727             | —                              | —                                | —             |
| Investment securities and other securities: |                 |                                |                                  |               |
| Bonds to be held to maturity:               |                 |                                |                                  |               |
| Other                                       | 352             | 6                              | —                                | —             |
| Other securities with maturity:             |                 |                                |                                  |               |
| Negotiable certificates of deposit          | 3,017           | —                              | —                                | —             |
| Total                                       | ¥300,258        | ¥7,322                         | ¥2,423                           | ¥—            |

**Note 4: Interest-bearing debt that is scheduled to be repaid after the fiscal year-end**

| As of March 31, 2017                     | Millions of yen |                                |                                 |                                 |                                 |                |
|--|-----------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------|
|  | Within 1 year   | Over 1 year and within 2 years | Over 2 years and within 3 years | Over 3 years and within 4 years | Over 4 years and within 5 years | Over 5 years   |
| Short-term loans payable                 | ¥60,716         | ¥ —                            | ¥ —                             | ¥ —                             | ¥ —                             | ¥ —            |
| Bonds payable                            | —               | 10,000                         | —                               | —                               | —                               | —              |
| Bonds with subscription rights to shares | —               | —                              | —                               | —                               | —                               | —              |
| Long-term loans payable                  | 2,073           | 2,030                          | 3,810                           | 3,288                           | 2,374                           | 10,019         |
| Lease obligations                        | 749             | 644                            | 485                             | 260                             | 72                              | 11             |
| <b>Total</b>                             | <b>¥63,538</b>  | <b>¥12,674</b>                 | <b>¥4,295</b>                   | <b>¥3,548</b>                   | <b>¥2,446</b>                   | <b>¥10,030</b> |

| As of March 31, 2017                     | Thousands of U.S. dollars |                                |                                 |                                 |                                 |                 |
|--|---------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------|
|  | Within 1 year             | Over 1 year and within 2 years | Over 2 years and within 3 years | Over 3 years and within 4 years | Over 4 years and within 5 years | Over 5 years    |
| Short-term loans payable                 | \$541,189                 | \$ —                           | \$ —                            | \$ —                            | \$ —                            | \$ —            |
| Bonds payable                            | —                         | 89,135                         | —                               | —                               | —                               | —               |
| Bonds with subscription rights to shares | —                         | —                              | —                               | —                               | —                               | —               |
| Long-term loans payable                  | 18,478                    | 18,094                         | 33,960                          | 29,307                          | 21,161                          | 89,304          |
| Lease obligations                        | 6,676                     | 5,740                          | 4,323                           | 2,317                           | 642                             | 199             |
| <b>Total</b>                             | <b>\$566,343</b>          | <b>\$112,969</b>               | <b>\$38,283</b>                 | <b>\$31,624</b>                 | <b>\$21,803</b>                 | <b>\$89,403</b> |

| As of March 31, 2016                     | Millions of yen |                                |                                 |                                 |                                 |              |
|--|-----------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------|
|  | Within 1 year   | Over 1 year and within 2 years | Over 2 years and within 3 years | Over 3 years and within 4 years | Over 4 years and within 5 years | Over 5 years |
| Short-term loans payable                 | ¥58,386         | ¥ —                            | ¥ —                             | ¥ —                             | ¥ —                             | ¥ —          |
| Bonds payable                            | —               | —                              | 10,000                          | —                               | —                               | —            |
| Bonds with subscription rights to shares | —               | 19,988                         | —                               | —                               | —                               | —            |
| Long-term loans payable                  | 19,329          | 2,023                          | 1,394                           | 3,356                           | 2,998                           | 100          |
| Lease obligations                        | 741             | 620                            | 503                             | 354                             | 166                             | 169          |
| <b>Total</b>                             | <b>¥78,456</b>  | <b>¥22,631</b>                 | <b>¥11,897</b>                  | <b>¥3,710</b>                   | <b>¥3,164</b>                   | <b>¥269</b>  |

## 15. Marketable and Investment Securities

Marketable and investment securities comprise securities which have fair value. The book value, gross unrealized gains and losses and fair value for such securities at March 31, 2017 and 2016 are as follows.

Held-to-maturity-securities:

| As of March 31, 2017       | Millions of yen |                  |                   |            |
|----------------------------|-----------------|------------------|-------------------|------------|
|                            | Book value      | Unrealized gains | Unrealized losses | Fair value |
| Fair value over book value |                 |                  |                   |            |
| Others                     | ¥—              | ¥—               | ¥—                | ¥—         |
| Book value over fair value |                 |                  |                   |            |
| Others                     | ¥—              | ¥—               | ¥—                | ¥—         |

| As of March 31, 2017       | Thousands of U.S. dollars |                  |                   |            |
|----------------------------|---------------------------|------------------|-------------------|------------|
|                            | Book value                | Unrealized gains | Unrealized losses | Fair value |
| Fair value over book value |                           |                  |                   |            |
| Others                     | \$—                       | \$—              | \$—               | \$—        |
| Book value over fair value |                           |                  |                   |            |
| Others                     | \$—                       | \$—              | \$—               | \$—        |

| As of March 31, 2016       | Millions of yen |                  |                   |            |
|----------------------------|-----------------|------------------|-------------------|------------|
|                            | Book value      | Unrealized gains | Unrealized losses | Fair value |
| Book value over fair value |                 |                  |                   |            |
| Others                     | ¥350            | ¥ 3              | ¥—                | ¥353       |
| Book value over fair value |                 |                  |                   |            |
| Others                     | ¥ —             | ¥—               | ¥—                | ¥ —        |

Other securities:

| As of March 31, 2017            | Millions of yen |                  |                   |            |
|---------------------------------|-----------------|------------------|-------------------|------------|
|                                 | Historical cost | Unrealized gains | Unrealized losses | Book value |
| Book value over historical cost |                 |                  |                   |            |
| Equity securities               | ¥6,762          | ¥3,809           | ¥ —               | ¥10,571    |
| Historical cost over book value |                 |                  |                   |            |
| Equity securities               | 100             | —                | 35                | 65         |
| Others                          | 2,497           | —                | —                 | 2,497      |

| As of March 31, 2017            | Thousands of U.S. dollars |                  |                   |            |
|---------------------------------|---------------------------|------------------|-------------------|------------|
|                                 | Historical cost           | Unrealized gains | Unrealized losses | Book value |
| Book value over historical cost |                           |                  |                   |            |
| Equity securities               | \$60,273                  | \$33,951         | \$ —              | \$94,224   |
| Historical cost over book value |                           |                  |                   |            |
| Equity securities               | 891                       | —                | 312               | 579        |
| Others                          | 22,257                    | —                | —                 | 22,257     |

| As of March 31, 2016            | Millions of yen |                  |                   |            |
|---------------------------------|-----------------|------------------|-------------------|------------|
|                                 | Historical cost | Unrealized gains | Unrealized losses | Book value |
| Book value over historical cost |                 |                  |                   |            |
| Equity securities               | ¥3,316          | ¥4,078           | ¥ —               | ¥7,394     |
| Historical cost over book value |                 |                  |                   |            |
| Equity securities               | 5,657           | —                | 288               | 5,369      |
| Others                          | 4,248           | —                | —                 | 4,248      |

Proceeds from sales of marketable and investment securities and realized gains and losses for the fiscal years ended March 31, 2017 and 2016 are as follows.

| For the fiscal year ended March 31, 2017 | Millions of yen     |                |                 |
|--|---------------------|----------------|-----------------|
|  | Proceeds from sales | Realized gains | Realized losses |
| Equity securities                        | ¥3,994              | ¥1,939         | ¥57             |

| For the fiscal year ended March 31, 2017 | Thousands of U.S. dollars |                |                 |
|--|---------------------------|----------------|-----------------|
|  | Proceeds from sales       | Realized gains | Realized losses |
| Equity securities                        | \$35,600                  | \$17,283       | \$508           |

| For the fiscal year ended March 31, 2016 | Millions of yen     |                |                 |
|--|---------------------|----------------|-----------------|
|  | Proceeds from sales | Realized gains | Realized losses |
| Equity securities                        | ¥540                | ¥381           | ¥—              |

Impairment loss on securities:

| For the fiscal years ended March 31     | Millions of yen |      | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
|   | 2017            | 2016 | 2017                      |
| Valuation loss on investment securities | ¥436            | ¥1   | \$3,886                   |

## 16. Derivative Financial Instruments

### Fiscal year ended March 31, 2017

#### 1. Derivatives not subject to hedge accounting

Omitted due to lack of importance

#### 2. Derivatives subject to hedge accounting

##### (1) Currency related

| Method                    | Transaction               | Hedged items              | Millions of yen   |                               |            |
|---------------------------|---------------------------|---------------------------|-------------------|-------------------------------|------------|
|                           |                           |                           | Contractual value | Contractual value over 1 year | Fair value |
| Deferred hedge accounting | Forward exchange contract | Accounts receivable-trade |                   |                               |            |
|                           | To sell:                  |                           |                   |                               |            |
|                           | EUR                       |                           | ¥ 73              | ¥—                            | ¥ 3        |
|                           | YEN                       |                           | 1,266             |                               | (6)        |
|                           | Total                     |                           | ¥1,339            | ¥—                            | ¥(3)       |

| Method                    | Transaction               | Hedged items              | Thousands of U.S. dollars |                               |            |
|---------------------------|---------------------------|---------------------------|---------------------------|-------------------------------|------------|
|                           |                           |                           | Contractual value         | Contractual value over 1 year | Fair value |
| Deferred hedge accounting | Forward exchange contract | Accounts receivable-trade |                           |                               |            |
|                           | To sell:                  |                           |                           |                               |            |
|                           | EUR                       |                           | \$ 651                    | \$—                           | \$ 27      |
|                           | YEN                       |                           | 11,284                    |                               | (54)       |
|                           | Total                     |                           | \$11,935                  | \$—                           | \$(27)     |

Note: Fair value is computed based on quotes from financial institutions, among other sources.

##### (2) Interest-rate related

No items reported

### Fiscal year ended March 31, 2016

#### 1. Derivatives not subject to hedge accounting

No items reported

#### 2. Derivatives subject to hedge accounting

##### (1) Currency related

| Method                    | Transaction               | Hedged items              | Millions of yen   |                               |            |
|---------------------------|---------------------------|---------------------------|-------------------|-------------------------------|------------|
|                           |                           |                           | Contractual value | Contractual value over 1 year | Fair value |
| Deferred hedge accounting | Forward exchange contract | Accounts receivable-trade |                   |                               |            |
|                           | To sell:                  |                           |                   |                               |            |
|                           | EUR                       |                           | ¥400              | ¥—                            | ¥(20)      |
|                           | Total                     |                           | ¥400              | ¥—                            | ¥(20)      |

Note: Fair value is computed based on quotes from financial institutions, among other sources.

##### (2) Interest-rate related

| Method                                   | Transaction   | Hedged items            | Millions of yen   |                               |                  |
|--|---|-------------------------|-------------------|-------------------------------|------------------|
|  |   |                         | Contractual value | Contractual value over 1 year | Fair value       |
| Special treatment of interest-rate swaps | Interest-rate swap contract Receipts floating, payments fixed | Long-term loans payable | ¥15,000           | ¥—                            | (See note below) |

Note: Items subject to special treatment of interest-rate swaps are accounted for in combination with long-term loans payable that are subject to hedging. The fair value is presented in "2. Information on the fair value of financial instruments" in the section "Note 14. Financial Instruments."

## 17. Retirement Benefits

The Company and certain consolidated subsidiaries have either funded or unfunded defined benefit plans and a defined contribution plan.

The Company and certain consolidated subsidiaries have defined benefit plans that consist of a defined-benefit corporate pension plan and a lump-sum payment plan. Further, the Company has set up a retirement benefit trust. Also, certain consolidated subsidiaries apply the simplified method to calculate the retirement benefit obligation. In addition, the Company and certain consolidated subsidiaries have multi-employer plans. As the amount of pension assets for these plans can be reasonably calculated, they are included in the note regarding defined benefit plans.

1. The changes in the retirement benefit obligation during the fiscal years ended March 31, 2017 and 2016 are as follows:

| For the fiscal years ended March 31 | Millions of yen |         | Thousands of U.S. dollars |
|-------------------------------------|-----------------|---------|---------------------------|
|                                     | 2017            | 2016    | 2017                      |
| Balance at April 1                  | ¥74,174         | ¥79,358 | \$661,146                 |
| Service cost                        | 3,072           | 3,192   | 27,381                    |
| Interest cost                       | 1,525           | 1,773   | 13,593                    |
| Actuarial (gain) loss               | 83              | (1,700) | 740                       |
| Retirement benefits paid            | (5,499)         | (5,555) | (49,015)                  |
| Others                              | (24)            | (2,894) | (213)                     |
| Balance at March 31                 | ¥73,331         | ¥74,174 | \$653,632                 |

2. The changes in plan assets during the fiscal years ended March 31, 2017 and 2016 are as follows:

| For the fiscal years ended March 31 | Millions of yen |         | Thousands of U.S. dollars |
|-------------------------------------|-----------------|---------|---------------------------|
|                                     | 2017            | 2016    | 2017                      |
| Balance at April 1                  | ¥57,524         | ¥62,190 | \$512,737                 |
| Expected return on plan assets      | 2,364           | 2,753   | 21,071                    |
| Actuarial gain (loss)               | 1,631           | (4,962) | 14,538                    |
| Company contributions               | 3,544           | 3,676   | 31,589                    |
| Retirement benefits paid            | (3,936)         | (3,833) | (35,083)                  |
| Others                              | (233)           | (2,300) | (2,077)                   |
| Balance at March 31                 | ¥60,894         | ¥57,524 | \$542,775                 |

3. The following table sets forth the funded status of the plan and the amounts recognized in the consolidated balance sheet as of March 31, 2017 and 2016 for the defined benefit plans:

| As of March 31  | Millions of yen |          | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
|   | 2017            | 2016     | 2017                      |
| Funded retirement benefit obligation                                    | ¥ 56,168        | ¥ 56,760 | \$ 500,651                |
| Plan assets   | (60,894)        | (57,524) | (542,776)                 |
|   | (4,726)         | (764)    | (42,125)                  |
| Unfunded retirement benefit obligation                                  | 17,163          | 17,414   | 152,982                   |
| Net liability for retirement benefits in the consolidated balance sheet | 12,437          | 16,650   | 110,857                   |
| Defined benefit liability   | 12,556          | 16,682   | 111,917                   |
| Defined benefit asset   | (119)           | (32)     | (1,060)                   |
| Net liability for retirement benefits in the consolidated balance sheet | ¥ 12,437        | ¥ 16,650 | \$ 110,857                |



4. The components of retirement benefit expense for the fiscal years ended March 31, 2017 and 2016 are as follows:

| For the fiscal years ended March 31   | Millions of yen |         | Thousands of U.S. dollars |
|---------------------------------------|-----------------|---------|---------------------------|
|                                       | 2017            | 2016    | 2017                      |
| Service cost                          | ¥ 3,072         | ¥ 3,192 | \$ 27,382                 |
| Interest cost                         | 1,525           | 1,773   | 13,593                    |
| Expected return on plan assets        | (2,364)         | (2,753) | (21,071)                  |
| Amortization of actuarial loss (gain) | 611             | 205     | 5,446                     |
| Amortization of past service cost     | 108             | 113     | 963                       |
| Others                                | (7)             | (3)     | (63)                      |
| Retirement benefit expense            | ¥ 2,945         | ¥ 2,527 | \$ 26,250                 |

5. The components of retirement benefits liability adjustments (before tax effect) for the fiscal years ended March 31, 2017 and 2016 are as follows:

| For the fiscal years ended March 31 | Millions of yen |          | Thousands of U.S. dollars |
|-------------------------------------|-----------------|----------|---------------------------|
|                                     | 2017            | 2016     | 2017                      |
| Past service cost                   | ¥ 108           | ¥ 15     | \$ 963                    |
| Actuarial loss (gain)               | 2,241           | (2,332)  | 19,975                    |
| Total                               | ¥2,349          | ¥(2,317) | \$20,938                  |

6. Unrecognized past service cost and actuarial gain (loss) included in remeasurements of defined benefit plans of accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 are as follows:

| As of March 31                     | Millions of yen |           | Thousands of U.S. dollars |
|------------------------------------|-----------------|-----------|---------------------------|
|                                    | 2017            | 2016      | 2017                      |
| Unrecognized past service cost     | ¥ (351)         | ¥ (466)   | \$ (3,129)                |
| Unrecognized actuarial gain (loss) | (11,734)        | (13,995)  | (104,590)                 |
| Total                              | ¥(12,085)       | ¥(14,461) | \$(107,719)               |

7. Plan assets

#### (1) Plan assets

Percentages of total plan assets for major components as of March 31, 2017 and 2016 are as follows:

| As of March 31   | Percentages |      |
|------------------|-------------|------|
|                  | 2017        | 2016 |
| Stocks           | 36%         | 35%  |
| Debt securities  | 41          | 41   |
| General accounts | 17          | 17   |
| Others           | 6           | 7    |
| Total            | 100%        | 100% |

Note: A retirement benefit trust set up for the corporate pension plan as of March 31, 2017 and 2016 accounts for 12% and 12% respectively of total plan assets.

## (2) Method of determining expected long-term rate of return on plan assets

In determining an expected long-term rate of return on plan assets, the Company considers current and projected plan asset allocations and current and expected future long-term rates of return on various components of plan assets.

### 8. Assumptions used for actuarial calculation

The assumptions used mainly for actuarial calculation for the above plans were as follows:

| For the fiscal years ended March 31  |      |      |
|--|------|------|
|  | 2017 | 2016 |
| Assumptions to determine above obligation and cost:                                      |      |      |
| Discount rate (the Company and domestic subsidiaries)                                    | 0.5% | 0.5% |
| Discount rate (foreign subsidiaries)   | 4.2% | 4.1% |
| Expected long-term rate of return on plan assets (the Company and domestic subsidiaries) | 2.5% | 2.5% |
| Expected long-term rate of return on plan assets (foreign subsidiaries)                  | 6.0% | 6.8% |

### 9. Defined contribution plans

The amount to be paid by the Company and its consolidated subsidiaries to defined contribution plans for the fiscal years ended March 31, 2017 and 2016 were ¥933 million (\$8,316 thousand) and ¥918 million, respectively.

## 18. Stock Options

### 1. Items and amounts of related expenses presented in the consolidated accounts for the fiscal years ended March 31, 2017 and 2016 are as follows:

| For the fiscal years ended March 31          |                 |      |                           |
|--|-----------------|------|---------------------------|
|  | Millions of yen |      | Thousands of U.S. dollars |
|  | 2017            | 2016 | 2017                      |
| Cost of sales                                | ¥ 34            | ¥ 39 | \$ 303                    |
| Selling, general and administrative expenses | 417             | 304  | 3,717                     |

### 2. Description and movement of stock options

#### (1) Description of stock options granted by the end of the fiscal year ended March 31, 2017

| 1st subscription rights to shares                               |  |
|---|--|
| Scope and number of people eligible to be granted stock options | 1. Directors excluding outside directors in the Company: 9 people<br>2. Executive officers in the Company: 23 people |
| Number of stock options granted by type of stock                | Common stock: 244,600 shares (Note 1)  |
| Granted date  | November 5, 2009   |
| Vesting conditions  | (Note 3)   |
| Vesting period  | No relevant service period has been established.   |
| Exercise period   | From July 1, 2011 to November 5, 2024  |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company and during a period of five years after retiring from those positions.
3. If the Company's consolidated return on equity (ROE; the "attained performance") is less than 8.0% (the "target performance") for the final fiscal year-end within a two-year period (the "final fiscal year"), those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).
4. When those granted stock options are those newly appointed as directors or executive officers after July 1, 2009, or when those granted stock options retire from their positions as directors or executive officers before the final day of the final fiscal year, the number of stock option rights they may exercise is calculated by multiplying the adjusted figure described in Note 3 above by a tenure period ratio (a figure representing the ratio of days of tenure to the number of days in the period from April 1, 2009, through March 31, 2011).
5. When the calculations described in notes 3 and 4 above result in numbers of exercisable stock option rights including a fraction of a right (a figure less than one), this fractional right is to be discarded.
6. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
7. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.
8. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 2nd subscription rights to shares                               |  |
|---|--|
| Scope and number of people eligible to be granted stock options | Executive officers in the Company: 4 people      |
| Number of stock options granted by type of stock                | Common stock: 7,200 shares (Note 1)              |
| Granted date  | September 28, 2010                               |
| Vesting conditions  | (Note 3)   |
| Vesting period  | No relevant service period has been established. |
| Exercise period   | From July 1, 2011 to November 5, 2024            |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company and during a period of five years after retiring from those positions.
3. If the Company's consolidated return on equity (ROE; the "attained performance") is less than 8.0% (the "target performance") for the final fiscal year-end within a one-year period (the "final fiscal year"), those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).
4. When those granted stock options are those newly appointed as directors or executive officers after July 1, 2010, or when those granted stock options retire from their positions as directors or executive officers before the final day of the final fiscal year, the number of stock option rights they may exercise is calculated by multiplying the adjusted figure described in Note 3 above by a tenure period ratio (a figure representing the ratio of days of tenure to the number of days in the period from April 1, 2010, through March 31, 2011).
5. When the calculations described in notes 3 and 4 above result in numbers of exercisable stock option rights including a fraction of a right (a figure less than one), this fractional right is to be discarded.
6. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
7. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.
8. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 3rd subscription rights to shares                               |  |
|---|--|
| Scope and number of people eligible to be granted stock options | 1. Directors excluding outside directors in the Company: 8 people<br>2. Executive officers in the Company: 23 people |
| Number of stock options granted by type of stock                | Common stock: 323,000 shares (Note 1)  |
| Granted date  | September 27, 2011   |
| Vesting conditions  | (Note 3)   |
| Vesting period  | No relevant service period has been established.   |
| Exercise period   | From July 1, 2014 to June 30, 2026   |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company and during a period of five years after retiring from those positions.
3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") is less than 8.0% (the "target performance") for the final fiscal year-end within a three-year period (the "final fiscal year"), those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).
4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.
6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 4th subscription rights to shares                               |   |
|---|---|
| Scope and number of people eligible to be granted stock options | 1. Directors excluding outside directors in the Company: 4 people<br>2. Executive officers in the Company: 4 people<br>3. Directors and executive officers in subsidiaries: 10 people |
| Number of stock options granted by type of stock                | Common stock: 106,800 shares (Note 1)   |
| Granted date  | October 1, 2012   |
| Vesting conditions  | (Note 3)  |
| Vesting period  | No relevant service period has been established.  |
| Exercise period   | From July 1, 2014 to June 30, 2026  |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.
3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 8.0% (the "target performance") for the final fiscal year that ends within a two-year period from the date of grant of stock options (the "final fiscal year"), those granted stock options may exercise all stock option rights. On the other hand, if the Company's attained performance is less than the target performance for the final fiscal year, those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).
4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.
6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 5th subscription rights to shares                               |  |
|---|--|
| Scope and number of people eligible to be granted stock options | 1. Directors excluding outside directors in the Company: 5 people<br>2. Executive officers in the Company: 4 people<br>3. Directors and executive officers in subsidiaries: 7 people |
| Number of stock options granted by type of stock                | Common stock: 42,400 shares (Note 1)   |
| Granted date  | October 1, 2013  |
| Vesting conditions  | (Note 3)   |
| Vesting period  | No relevant service period has been established.   |
| Exercise period   | From July 1, 2014 to June 30, 2026   |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.
3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 8.0% (the "target performance") for the final fiscal year that ends within a one-year period from the date of grant of stock options (the "final fiscal year"), those granted stock options may exercise all stock option rights. On the other hand, if the Company's attained performance is less than the target performance for the final fiscal year, those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).
4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.
6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 6th subscription rights to shares                               |  |
|---|--|
| Scope and number of people eligible to be granted stock options | 1. Directors excluding outside directors in the Company: 8 people<br>2. Executive officers in the Company: 19 people<br>3. Directors and executive officers in subsidiaries: 16 people |
| Number of stock options granted by type of stock                | Common stock: 261,800 shares (Note 1)  |
| Granted date  | October 1, 2014  |
| Vesting conditions  | (Note 3)   |
| Vesting period  | No relevant service period has been established.   |
| Exercise period   | From July 1, 2017 to June 30, 2029   |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.
3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 7.0% (the "target performance") for the final fiscal year that ends within a three-year period from the date of grant of stock options (the "final fiscal year"), those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not met, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement—which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated another stock option rights during the period from October 1, 2014, to the final day of the final fiscal year, but this provision will be limited to rights for the other stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. One is the unit of exercise of the stock option and the fraction is not exercisable.
4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.
6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 7th subscription rights to shares                               |  |
|---|--|
| Scope and number of people eligible to be granted stock options | 1. Directors in the Company: 11 people<br>2. Executive officers in the Company: 15 people<br>3. Directors and executive officers in subsidiaries: 5 people |
| Number of stock options granted by type of stock                | Common stock: 89,400 shares (Note 1)   |
| Granted date  | October 1, 2015  |
| Vesting conditions  | (Note 5)   |
| Vesting period  | No relevant service period has been established.   |
| Exercise period   | From July 1, 2017 to June 30, 2029   |

- Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.
3. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
4. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year that ends within a two-year period from the date of the grant of stock options (the "final fiscal year"), whichever is later.
5. The following conditions are stipulated in stock option grant contracts agreed between the Company and those granted stock options based on the position of the individual granted stock options. The unit of exercise of stock options is one and the fraction is not exercisable.
- (1) When those granted stock options are executive officers of the Company or directors or executive officers of subsidiaries of the Company as of the grant date.  
(Attained performance conditions)  
If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 7.0% (the "target performance") for the final fiscal year, those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not achieved, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement—which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated other stock option rights during the period from October 1, 2014, to the final day of the final fiscal year, but this provision will be limited to rights for the stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. Other details are stipulated in the stock option grant contracts.
- (2) When those granted stock options are outside directors of the Company as of the grant date  
(Exercise period limitations)  
Regardless of the provisions described above, stock options may not be exercisable during three years after the date of the grant of stock options.
- (3) When those granted stock options are non-executive directors of the Company (excluding outside directors) as of the grant date  
The period for exercise for all or some of the stock options granted to non-executive directors shall follow the provision described in (2) above, and the attained performance conditions described in (1) above shall also be applied for the remainder. Details are stipulated in the stock option grant contracts.
6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

| 8th subscription rights to shares                               |   |
|---|---|
| Scope and number of people eligible to be granted stock options | 1. Directors in the Company: 11 people<br>2. Executive officers in the Company: 5 people<br>3. Directors and executive officers in subsidiaries: 5 people |
| Number of stock options granted by type of stock                | Common stock: 38,000 shares (Note 1)  |
| Granted date  | October 1, 2016   |
| Vesting conditions  | (Note 5)  |
| Vesting period  | No relevant service period has been established.  |
| Exercise period   | From July 1, 2017 to June 30, 2029  |

- Notes: 1. Options are presented after conversion to the number of shares.
2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.
3. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.
4. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year that ends within a one-year period from the date of the grant of stock options (the "final fiscal year"), whichever is later.
5. The following conditions are stipulated in stock option grant contracts agreed between the Company and those granted stock options based on the position of the individual granted stock options. The unit of exercise of stock options is one and the fraction is not exercisable.
- (1) When those granted stock options are executive officers of the Company or directors or executive officers of subsidiaries of the Company as of the grant date.  
(Attained performance conditions)  
If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 7.0% (the "target performance") for the final fiscal year, those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not achieved, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement—which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated other stock option rights during the period from October 1, 2014, to the final day of the final fiscal year, but this provision will be limited to rights for the other stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. Other details are stipulated in the stock option grant contracts.
- (2) When those granted stock options are outside directors of the Company as of the grant date  
(Exercise period limitations)  
Regardless of the provisions described above, stock options may not be exercisable during three years after the date of the grant of stock options.
- (3) When those granted stock options are non-executive directors of the Company (excluding outside directors) as of the grant date  
The period for exercise for all or some of the stock options granted to non-executive directors shall follow the provision described in (2) above, and the attained performance conditions described in (1) above shall also be applied for the remainder. Details are stipulated in the stock option grant contracts.
6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

## (2) Movement of stock options and status of related changes

With respect to stock options existing during the fiscal year ended March 31, 2017, the relevant numbers of stock options and numbers of shares issuable on the conversion of stock options are as follows:

### a) Number of stock options

|  | 1st<br>subscription<br>rights to<br>shares | 2nd<br>subscription<br>rights to<br>shares | 3rd<br>subscription<br>rights to<br>shares | 4th<br>subscription<br>rights to<br>shares | 5th<br>subscription<br>rights to<br>shares | 6th<br>subscription<br>rights to<br>shares | 7th<br>subscription<br>rights to<br>shares | 8th<br>subscription<br>rights to<br>shares |
|--|--|--|--|--|--|--|--|--|
| Share subscription rights which are not yet vested       |  |  |  |  |  |  |  |  |
| Outstanding as of March 31, 2016                         | —  | —  | —  | —  | —  | 261,800                                    | 89,400                                     | —  |
| Granted  | —  | —  | —  | —  | —  | —  | —  | 38,000                                     |
| Forfeited  | —  | —  | —  | —  | —  | 4,000                                      | 1,400                                      | —  |
| Vested   | —  | —  | —  | —  | —  | —  | —  | —  |
| Unvested balance   | —  | —  | —  | —  | —  | 257,800                                    | 88,000                                     | 38,000                                     |
| Share subscription rights which have already been vested |  |  |  |  |  |  |  |  |
| Outstanding as of March 31, 2016                         | 49,800                                     | 4,200                                      | 179,400                                    | 57,800                                     | 26,400                                     | —  | —  | —  |
| Vested   | —  | —  | —  | —  | —  | —  | —  | —  |
| Exercised  | 9,600                                      | —  | 9,400                                      | 10,200                                     | —  | —  | —  | —  |
| Forfeited  | —  | —  | —  | —  | —  | —  | —  | —  |
| Unexercised balance                                      | 40,200                                     | 4,200                                      | 170,000                                    | 47,600                                     | 26,400                                     | —  | —  | —  |

Note: The Company consolidated its common shares at a rate of one share for every five shares on October 1, 2016.  
The number of shares is calculated in consideration of the consolidation.

### b) Price information

|  | 1st<br>subscription<br>rights to<br>shares | 2nd<br>subscription<br>rights to<br>shares | 3rd<br>subscription<br>rights to<br>shares | 4th<br>subscription<br>rights to<br>shares | 5th<br>subscription<br>rights to<br>shares | 6th<br>subscription<br>rights to<br>shares | 7th<br>subscription<br>rights to<br>shares | 8th<br>subscription<br>rights to<br>shares |
|--|--|--|--|--|--|--|--|--|
| Exercise price (yen)                           | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  |
| Weighted average exercise price (yen)          | 2,682                                      | —  | 2,808                                      | 2,665                                      | —  | —  | —  | —  |
| Fair value per stock at the granted date (yen) | 1,705                                      | 1,715                                      | 1,225                                      | 1,440                                      | 2,600                                      | 3,065                                      | 1,995                                      | 2,748                                      |

Note: The Company consolidated its common shares at a rate of one share for every five shares on October 1, 2016.  
The exercise price and fair value are calculated in consideration of the consolidation.

## 3. Method of estimating the fair value of stock options

Regarding 8th subscription rights to shares issued during the fiscal year ended March 31, 2017, the method of estimating the fair value of the stock options is as follows.

### a) Evaluation method used: Black-Scholes Method

### b) Basic parameters and evaluation methods

|                                  | 8th subscription rights to shares |
|----------------------------------|-----------------------------------|
| Expected volatility (Note 1)     | 33.86%                            |
| Expected holding period (Note 2) | 7.0 years                         |
| Expected dividend (Note 3)       | ¥33.21 per share                  |
| Risk-free rate (Note 4)          | (0.240)%                          |

Notes: 1. EBARA CORPORATION has executed a consolidation of common shares at a rate of one share for every five shares with an effective date of October 1, 2016. Figures use stock price data for the past seven years (October 1, 2009 to September 30, 2016) that accounts for the impacts of this share consolidation.  
2. Because sufficient data has not yet been accumulated and a rational estimate is difficult, estimates were performed based on an assumption that stock options are exercised at the midpoint of the period in which the options may be exercised.  
3. EBARA CORPORATION has executed a consolidation of common shares at a rate of one share for every five shares with an effective date of October 1, 2016. Figures use the simple average of dividend data for the past seven years that accounts for the impacts of this share consolidation.  
4. The risk-free rate corresponds to the interest rate (compounded) on Japanese government bonds with remaining periods to maturity of approximately seven years as of September 30, 2016.

## 4. Method of estimating the number of vested stock option rights

Basically, because reasonable estimation of the number of rights to be forfeited in the future is difficult, the method which reflects only the actual number of rights forfeited is used.

## 19. Income Taxes

### 1. Significant components of deferred tax assets and liabilities are as follows:

| As of March 31   | Millions of yen |           | Thousands of U.S. dollars |
|--|-----------------|-----------|---------------------------|
|  | 2017            | 2016      | 2017                      |
| Deferred tax assets:                                   |                 |           |                           |
| Bonus payment reserve                                  | ¥ 2,328         | ¥ 2,333   | \$ 20,751                 |
| Loss recognized on a percentage-of-completion basis    | 543             | 543       | 4,840                     |
| Accrued enterprise tax                                 | 463             | 302       | 4,127                     |
| Net defined benefit liability                          | 4,856           | 6,154     | 43,284                    |
| Reserve for directors' retirement benefits             | 32              | 36        | 285                       |
| Unrealized gains on fixed assets                       | 1,088           | 1,095     | 9,698                     |
| Tax loss carried forward                               | 6,324           | 9,541     | 56,369                    |
| Valuation loss on investment securities                | 979             | 1,123     | 8,726                     |
| Loss on write-down of inventories                      | 3,039           | 2,887     | 27,088                    |
| Reserve for warranties for completed construction      | 4,545           | 4,326     | 40,512                    |
| Allowance for doubtful accounts                        | 1,884           | 1,857     | 16,793                    |
| Provision for loss on litigation                       | 1,979           | 1,977     | 17,640                    |
| Others   | 5,475           | 3,569     | 48,799                    |
| Subtotal   | ¥ 33,535        | ¥ 35,743  | \$ 298,912                |
| Valuation allowance                                    | ¥(14,237)       | ¥(12,053) | \$(126,900)               |
| Total deferred tax assets                              | ¥ 19,298        | ¥ 23,690  | \$ 172,012                |
| Deferred tax liabilities:                              |                 |           |                           |
| Retained earnings of subsidiaries                      | (2,885)         | (2,958)   | (25,715)                  |
| Net unrealized gains (losses) on investment securities | (1,157)         | (1,161)   | (10,313)                  |
| Others   | (1,763)         | (1,890)   | (15,715)                  |
| Total deferred tax liabilities                         | ¥ (5,805)       | ¥ (6,009) | \$ (51,743)               |
| Net deferred tax assets                                | ¥ 13,493        | ¥ 17,681  | \$ 120,269                |

Note: Deferred tax liabilities for the fiscal year ended March 31, 2016 reflects the impact of the finalization of the provisional accounting treatment related to the business combination in the third quarter ended December 31, 2015. For further information, please refer to "Note 20. Business Combination."

### 2. A summary of the major differences between the Japanese statutory tax rate and the Group's effective tax rate is as follows:

| For the fiscal years ended March 31   | 2017   | 2016   |
|---|--------|--------|
| Statutory tax rate  | 30.9%  | 33.1%  |
| Entertainment expenses and other expenses not deductible                              | 1.4    | 0.8    |
| Per capital equalization inhabitants' taxes   | 2.8    | 0.6    |
| Dividends received not taxable  | (29.0) | (36.4) |
| Dividends received effected by elimination from consolidation                         | 27.9   | 35.9   |
| Valuation allowance   | 5.1    | (5.4)  |
| Tax rate differences with overseas consolidated subsidiaries                          | (2.7)  | (2.5)  |
| Reductions in deferred tax assets at the end of the period due to changes in tax rate | 1.0    | 11.7   |
| Others  | (8.5)  | 2.7    |
| Effective tax rate as shown in statements of income                                   | 29.0%  | 40.4%  |

### 3. Revision of the amount of deferred tax assets and deferred tax liabilities due to change in corporation tax rate

The legal effective tax rate applicable to the calculation of deferred tax assets and deferred tax liabilities for the fiscal year under review was changed from the previous fiscal year in reflection of the November 18, 2016 proposal to the National Diet regarding the Act on Partial Revisions to the Act on Partial Revisions to Consumption Tax Laws for Advancing Drastic Reform of Taxation Systems to Secure Stable Financial Resources for Social Security and the Act on Partial Revisions to the Act on Partial Revisions to Prefectural Tax and Locally Allocated Tax Laws for Advancing Drastic Reform of Taxation Systems to Secure Stable Financial Resources for Social Security.

The impact of this change to the legal effective tax rate on the deferred tax assets (net of deferred tax liabilities) and income and loss figures was minimal.



## 20. Business Combination

### **Finalization of provisional accounting treatments related to business combination and material revision of initial allocation of acquisition cost in comparative information**

For the fiscal year ended March 31, 2016, the Company applied provisional accounting treatments related to the business combination at December 1, 2015 with regard to Thebe Bombas Hidráulicas S.A. In the fiscal year under review, these accounting treatments were finalized and the allocation of the purchase price was revised.

Due to this revision, the provisionally calculated goodwill amount of ¥2,273 million was reduced by ¥628 million, to ¥1,645 million. The reduction in goodwill reflected increases of ¥57 million in inventories; ¥208 million in property, plant and equipment; ¥687 million in intangible assets; and ¥324 million in deferred tax liabilities.

In conjunction with the finalization of the provisional accounting treatments, the effects of related revisions were reflected in the initial allocation of the purchase price in the comparative information included in the Company's consolidated financial statements.

### **Transactions under common control**

Acquisition of additional ownership interest in subsidiary

#### **1. Overview of transaction**

##### **(1) Name and business of applicable company**

Name: YANTAI EBARA AIR CONDITIONING EQUIPMENT CO., LTD. (consolidated subsidiary of the Company)

Business: Manufacturing and sales of turbo chillers, absorption chillers, absorption heat pumps, absorption chiller/heaters, screw chillers, cooling towers, etc.

##### **(2) Date of business combination**

March 21, 2017

##### **(3) Legal form of business combination**

Acquisition of equity from non-controlling interests

##### **(4) Name of company after business combination**

YANTAI EBARA AIR CONDITIONING EQUIPMENT CO., LTD., was renamed as EBARA REFRIGERATION EQUIPMENT&SYSTEMS (CHINA) CO., LTD. on May 24, 2017

##### **(5) Other information related to transaction**

The company made the consolidated subsidiary into a wholly owned subsidiary to enhance management flexibility and to enable prompt decision making

#### **2. Overview of applied accounting procedures**

The transaction is accounted for as a transaction with non-controlling interest, among transactions under common control based on the Accounting Standard for Business Combinations and the Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

#### **3. Items applicable to acquisition of additional ownership interest in subsidiary**

Breakdown of acquisition cost and purchase price

Purchase price: Cash ¥5,206 million

#### **4. Items related to changes in ownership interest related to transactions with non-controlling interests**

##### **(1) Major factors for changes in capital surplus**

Acquisition of additional ownership interest in subsidiary

##### **(2) Decrease of capital surplus related to transactions with non-controlling interests**

¥1,572 million

## 21. Segment Information

### For the fiscal years ended March 31, 2017 and 2016

#### 1. Overview of reportable segments

The reportable segments constitute units of the Group for which separate financial information is available and which The Board of Directors periodically examines for the purpose of deciding the allocation of management resources and evaluating operating performance.

The Group operates in the following three business segments:

| Segment                   | Principal Products   | Contents   |
|---------------------------|--|--|
| Fluid Machinery & Systems | Pumps, compressors, turbines, refrigeration equipment, fans and others                                       | Manufacture, sale, operation and maintenance (O&M) services and others |
| Environmental Engineering | Municipal waste incineration plants, industrial waste incineration plants, water treatment plants and others | Engineering, construction, O&M services and others                     |
| Precision Machinery       | Dry vacuum pumps, CMP systems, plating systems, gas abatement systems and others                             | Manufacture, sale and maintenance                                      |

#### 2. Calculation method used for sales, profits and losses, assets and liabilities, and other items for each reportable segment

The accounting method used for reportable business segments is the same as the method stated in “Notes to the Consolidated Financial Statements.”

Profits from reportable segments are figures based on operating income.

Intersegment sales are recorded at the same prices used in transactions with external customers.

#### 3. Information about sales, profits and losses, assets and liabilities, and other items for each reportable segment for the fiscal years ended March 31, 2017 and 2016 is as follows:

|   | Millions of yen                 |                              |                        |          |                    |          |                         |                          |
|---|---------------------------------|------------------------------|------------------------|----------|--------------------|----------|-------------------------|--------------------------|
|   | Reportable segments             |                              |                        |          | Others<br>(Note 1) | Total    | Adjustments<br>(Note 2) | Consolidated<br>(Note 3) |
| For the fiscal year ended March 31, 2017            | Fluid<br>Machinery &<br>Systems | Environmental<br>Engineering | Precision<br>Machinery | Total    |                    |          |                         |                          |
| Sales to external customers                         | ¥292,247                        | ¥68,065                      | ¥114,120               | ¥474,432 | ¥ 1,673            | ¥476,105 | ¥ —                     | ¥476,105                 |
| Intersegment sales and transfers                    | 333                             | 1                            | —                      | 334      | 3,319              | 3,653    | (3,653)                 | —                        |
| Total   | ¥292,580                        | ¥68,066                      | ¥114,120               | ¥474,766 | ¥ 4,992            | ¥479,758 | ¥ (3,653)               | ¥476,105                 |
| Segment income                                      | ¥ 9,477                         | ¥ 5,760                      | ¥ 14,115               | ¥ 29,352 | ¥ 632              | ¥ 29,984 | ¥ 12                    | ¥ 29,996                 |
| Segment assets                                      | ¥318,667                        | ¥60,660                      | ¥ 99,750               | ¥479,077 | ¥33,994            | ¥513,071 | ¥75,387                 | ¥588,458                 |
| Others:   |                                 |                              |                        |          |                    |          |                         |                          |
| Depreciation expense                                | ¥ 8,529                         | ¥ 490                        | ¥ 2,900                | ¥ 11,919 | ¥ 1,835            | ¥ 13,754 | ¥ (15)                  | ¥ 13,739                 |
| Amortization of goodwill                            | 587                             | —                            | —                      | 587      | —                  | 587      | —                       | 587                      |
| Investments for companies<br>applying equity method | —                               | 6,014                        | —                      | 6,014    | —                  | 6,014    | —                       | 6,014                    |
| Increase in tangible and intangible assets          | 11,832                          | 1,107                        | 7,433                  | 20,372   | 2,311              | 22,683   | (8)                     | 22,675                   |

| For the fiscal year ended March 31, 2017            | Thousands of U.S. dollars       |                              |                        |             |                    |             |                         |                          |
|---|---------------------------------|------------------------------|------------------------|-------------|--------------------|-------------|-------------------------|--------------------------|
|   | Reportable segments             |                              |                        |             | Others<br>(Note 1) | Total       | Adjustments<br>(Note 2) | Consolidated<br>(Note 3) |
|   | Fluid<br>Machinery &<br>Systems | Environmental<br>Engineering | Precision<br>Machinery | Total       |                    |             |                         |                          |
| Sales to external customers                         | \$2,604,929                     | \$606,694                    | \$1,017,203            | \$4,228,826 | \$ 14,912          | \$4,243,738 | \$ —                    | \$4,243,738              |
| Intersegment sales and transfers                    | 2,968                           | 9                            | —                      | 2,977       | 29,584             | 32,561      | (32,561)                | —                        |
| Total   | \$2,607,897                     | \$606,703                    | \$1,017,203            | \$4,231,803 | \$ 44,496          | \$4,276,299 | \$ (32,561)             | \$4,243,738              |
| Segment income                                      | \$ 84,472                       | \$ 51,342                    | \$ 125,813             | \$ 261,627  | \$ 5,634           | \$ 267,261  | \$106                   | \$ 267,367               |
| Segment assets                                      | \$2,840,422                     | \$540,690                    | \$ 889,117             | \$4,270,229 | \$303,004          | \$4,573,233 | \$671,958               | \$5,245,191              |
| Others:   |                                 |                              |                        |             |                    |             |                         |                          |
| Depreciation expense                                | \$ 76,023                       | \$ 4,368                     | \$ 25,849              | \$ 106,240  | \$ 16,356          | \$ 122,596  | \$ (134)                | \$ 122,462               |
| Amortization of goodwill                            | 5,232                           | —                            | —                      | 5,232       | —                  | 5,232       | —                       | 5,232                    |
| Investments for companies<br>applying equity method | —                               | 53,605                       | —                      | 53,605      | —                  | 53,605      | —                       | 53,605                   |
| Increase in tangible and intangible assets          | 105,464                         | 9,867                        | 66,254                 | 181,585     | 20,599             | 202,184     | (73)                    | 202,111                  |

Notes: 1. The "Others" item in the table above is the business segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The "Adjustments" item is as follows:

(1) Segment income shows eliminations among intersegment sales and transfers.

(2) Segment assets consisted of ¥77,298 million (\$688,992 thousand) for corporate assets and ¥(1,911) million (\$17,034 thousand) for eliminations among intersegment transactions. The corporate assets primarily consisted of cash and cash equivalents, some investment securities and deferred tax assets of the Group.

3. The adjustment in the increase in "Others" items under depreciation, fixed assets and intangible assets is due to the elimination of intersegment transactions.

4. Segment income has been reconciled within operating income in the consolidated statement of income.

5. Segment information for the fiscal year ended March 31, 2016 reflects the impact of the finalization of the provisional accounting treatment, effective from the fiscal year ended March 31, 2017, related to the business combination in the third quarter ended December 31, 2015.

For further information, please refer to "Note 20. Business Combination."

| For the fiscal year ended March 31, 2016            | Millions of yen                 |                              |                        |          |                    |          |                         |                          |
|---|---------------------------------|------------------------------|------------------------|----------|--------------------|----------|-------------------------|--------------------------|
|   | Reportable segments             |                              |                        |          | Others<br>(Note 1) | Total    | Adjustments<br>(Note 2) | Consolidated<br>(Note 3) |
|   | Fluid<br>Machinery &<br>Systems | Environmental<br>Engineering | Precision<br>Machinery | Total    |                    |          |                         |                          |
| Sales to external customers                         | ¥320,829                        | ¥70,381                      | ¥93,328                | ¥484,538 | ¥ 1,697            | ¥486,235 | ¥ —                     | ¥486,235                 |
| Intersegment sales and transfers                    | 785                             | 12                           | —                      | 797      | 3,370              | 4,167    | (4,167)                 | —                        |
| Total   | ¥321,614                        | ¥70,393                      | ¥93,328                | ¥485,335 | ¥ 5,067            | ¥490,402 | ¥ (4,167)               | ¥486,235                 |
| Segment income                                      | ¥ 19,335                        | ¥ 6,431                      | ¥11,698                | ¥ 37,464 | ¥ 516              | ¥ 37,980 | ¥31                     | ¥ 38,011                 |
| Segment assets                                      | ¥330,389                        | ¥62,278                      | ¥85,431                | ¥478,098 | ¥26,462            | ¥504,560 | ¥75,300                 | ¥579,860                 |
| Others:   |                                 |                              |                        |          |                    |          |                         |                          |
| Depreciation expense                                | ¥ 7,441                         | ¥ 382                        | ¥ 2,181                | ¥ 10,004 | ¥ 1,627            | ¥ 11,631 | ¥ (20)                  | ¥ 11,611                 |
| Amortization of goodwill                            | 352                             | —                            | —                      | 352      | —                  | 352      | —                       | 352                      |
| Investments for companies<br>applying equity method | 1,787                           | 5,664                        | —                      | 7,451    | —                  | 7,451    | —                       | 7,451                    |
| Increase in tangible and intangible assets          | 9,754                           | 518                          | 3,332                  | 13,604   | 2,144              | 15,748   | (18)                    | 15,730                   |

Notes: 1. The "Others" item in the table above is the business segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The "Adjustments" item is as follows:

(1) Segment income shows eliminations among intersegment sales and transfers.

(2) Segment assets consisted of ¥77,483 million for corporate assets and ¥(2,183) million for eliminations among intersegment transactions. The corporate assets primarily consisted of cash and cash equivalents, some investment securities and deferred tax assets of the Group.

3. The adjustment in the increase in "Others" items under depreciation, fixed assets and intangible assets is due to the elimination of intersegment transactions.

4. Segment income has been reconciled within operating income in the consolidated statement of income.

### Reference information

1. Geographical segment information for the fiscal years ended March 31, 2017 and 2016 is as follows:

a. Net sales

| For the fiscal years ended March 31 | Millions of yen |          | Thousands of U.S. dollars |
|-------------------------------------|-----------------|----------|---------------------------|
|                                     | 2017            | 2016     | 2017                      |
| Japan                               | ¥224,965        | ¥232,631 | \$2,005,214               |
| Asia                                | 145,968         | 130,969  | 1,301,079                 |
| North America                       | 39,134          | 53,074   | 348,819                   |
| Others                              | 66,038          | 69,561   | 588,626                   |
| Total                               | ¥476,105        | ¥486,235 | \$4,243,738               |

Note: Net sales information above is based on the location of the customer.

b. Property, plant and equipment

| As of March 31 | Millions of yen |          | Thousands of U.S. dollars |
|----------------|-----------------|----------|---------------------------|
|                | 2017            | 2016     | 2017                      |
| Japan          | ¥ 76,139        | ¥ 70,166 | \$678,661                 |
| Asia           | 11,050          | 12,767   | 98,494                    |
| North America  | 19,550          | 19,088   | 174,258                   |
| Others         | 3,393           | 3,152    | 30,243                    |
| Total          | ¥110,132        | ¥105,173 | \$981,656                 |

Note: Property, plant and equipment for the fiscal year ended March 31, 2016 reflects the impact of the finalization of the provisional accounting treatment, effective from the fiscal year ended March 31, 2017, related to the business combination in the third quarter ended December 31, 2015. For further information, please refer to "Note 20. Business Combination."

### Information about impairment loss on fixed assets by reportable segments for the fiscal years ended March 31, 2017 and 2016 is as follows:

| For the fiscal year ended March 31, 2017 | Millions of yen           |                           |                     |    |       |        |             |              |
|--|---------------------------|---------------------------|---------------------|----|-------|--------|-------------|--------------|
|  | Reportable segments       |                           |                     |    | Total | Others | Adjustments | Consolidated |
|  | Fluid Machinery & Systems | Environmental Engineering | Precision Machinery |    |       |        |             |              |
| Impairment loss                          | ¥—                        | ¥—                        | ¥—                  | ¥— | ¥—    | ¥—     | ¥—          |              |

| For the fiscal year ended March 31, 2017 | Thousands of U.S. dollars |                           |                     |     |       |        |             |              |
|--|---------------------------|---------------------------|---------------------|-----|-------|--------|-------------|--------------|
|  | Reportable segments       |                           |                     |     | Total | Others | Adjustments | Consolidated |
|  | Fluid Machinery & Systems | Environmental Engineering | Precision Machinery |     |       |        |             |              |
| Impairment loss                          | \$—                       | \$—                       | \$—                 | \$— | \$—   | \$—    | \$—         |              |

| For the fiscal year ended March 31, 2016 | Millions of yen           |                           |                     |      |       |        |             |              |
|--|---------------------------|---------------------------|---------------------|------|-------|--------|-------------|--------------|
|  | Reportable segments       |                           |                     |      | Total | Others | Adjustments | Consolidated |
|  | Fluid Machinery & Systems | Environmental Engineering | Precision Machinery |      |       |        |             |              |
| Impairment loss                          | ¥204                      | ¥—                        | ¥3                  | ¥207 | ¥54   | ¥—     | ¥261        |              |

**Information about amortization of goodwill and year-end balances by reportable segments for the fiscal years ended March 31, 2017 and 2016 is as follows:**

|  | Millions of yen           |                           |                     |       |        |             |              |
|--|---------------------------|---------------------------|---------------------|-------|--------|-------------|--------------|
|  | Reportable segments       |                           |                     |       |        |             | Consolidated |
|  | Fluid Machinery & Systems | Environmental Engineering | Precision Machinery | Total | Others | Adjustments |              |
| For the fiscal year ended March 31, 2017 |                           |                           |                     |       |        |             |              |
| Amortization of goodwill                 | ¥ 587                     | ¥—                        | ¥—                  | ¥ 587 | ¥—     | ¥—          | ¥ 587        |
| Balance as of March 31                   | 2,279                     | —                         | —                   | 2,279 | —      | —           | 2,279        |

|  | Thousands of U.S. dollars |                           |                     |          |        |             |              |
|--|---------------------------|---------------------------|---------------------|----------|--------|-------------|--------------|
|  | Reportable segments       |                           |                     |          |        |             | Consolidated |
|  | Fluid Machinery & Systems | Environmental Engineering | Precision Machinery | Total    | Others | Adjustments |              |
| For the fiscal year ended March 31, 2017 |                           |                           |                     |          |        |             |              |
| Amortization of goodwill                 | \$ 5,232                  | \$—                       | \$—                 | \$ 5,232 | \$—    | \$—         | \$ 5,232     |
| Balance as of March 31                   | 20,314                    | —                         | —                   | 20,314   | —      | —           | 20,314       |

|  | Millions of yen           |                           |                     |       |        |             |              |
|--|---------------------------|---------------------------|---------------------|-------|--------|-------------|--------------|
|  | Reportable segments       |                           |                     |       |        |             | Consolidated |
|  | Fluid Machinery & Systems | Environmental Engineering | Precision Machinery | Total | Others | Adjustments |              |
| For the fiscal year ended March 31, 2016 |                           |                           |                     |       |        |             |              |
| Amortization of goodwill                 | ¥ 352                     | ¥—                        | ¥—                  | ¥ 352 | ¥—     | ¥—          | ¥ 352        |
| Balance as of March 31                   | 2,639                     | —                         | —                   | 2,639 | —      | —           | 2,639        |

Note: Amortization of goodwill for the fiscal year ended March 31, 2016 reflects the impact of the finalization of the provisional accounting treatment, effective from the fiscal year ended March 31, 2017, related to the business combination in the third quarter ended December 31, 2015. For further information, please refer to "Note 20. Business Combination."

# Independent Auditor's Report

The Board of Directors  
EBARA CORPORATION

We have audited the accompanying consolidated financial statements of EBARA 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 EBARA 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*

Ernst & Young ShinNihon LLC

June 23, 2017  
Tokyo, Japan





## EBARA CORPORATION

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