Consolidated Financial Statements

Mitsui E&S Holdings Co., Ltd.
and Consolidated Subsidiaries

For the Years ended March 31,
2018 and 2017
Together with Independent
Auditor's Report

MITSUI E&S

Financial Data

Consolidated Balance Sheets

As of March 31, 2018 and 2017

Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
Current Assets	2018	2017	2018
Cash and time deposits (Notes 1(r) and 4)	¥ 93,698	¥ 119,812	$ 881,947
Receivables (Note 13)			
Trade	243,768	261,674	2,294,503
Others	12,447	14,445	117,159
Less allowance for doubtful accounts	(1,957)	(3,301)	(18,421)
Merchandise and finished goods	4,086	4,091	38,460
Raw materials and supplies	5,159	5,977	48,560
Work in progress	35,661	35,585	335,665
Deferred tax assets (Note 11)	9,492	10,791	89,345
Short-term loans	47,227	56,495	444,531
Others (Note 16)	30,944	31,804	291,265
Total current assets	480,525	537,373	4,523,014
Property, Plant and Equipment (Note 4)			
Land (Note 1(p))	245,294	249,265	2,308,867
Buildings and structures	197,753	201,237	1,861,380
Machinery, equipment and vehicles	187,584	202,405	1,765,663
Lease assets	16,156	18,196	152,071
Construction in progress	4,332	2,034	40,775
	651,119	673,137	6,128,756
Less accumulated depreciation	(299,052)	(303,879)	(2,814,872)
Net property, plant and equipment	352,067	369,258	3,313,884
Intangible Assets			
Intangible assets	30,234	29,761	284,582
Investments and Other Assets			
Investment securities (Notes 2, 3, and 4)	91,472	88,171	860,994
Long-term loans	41,380	31,488	389,495
Net defined benefit assets (Note 9)	5,576	6,698	52,485
Deferred tax assets (Note 11)	8,631	17,450	81,241
Others (Notes 3 and 4)	20,072	17,285	188,931
Less allowance for doubtful accounts	(734)	(749)	(6,909)
Total investments and other assets	166,397	160,343	1,566,237
Total assets	¥ 1,029,223	¥ 1,096,735	$ 9,687,717

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Liabilities and Net Assets

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
Current Liabilities	2018	2017	2018
Short-term borrowings (Notes 5 and 7)	¥ 11,703	¥ 14,124	$ 110,156
Current portion of long-term indebtedness (Notes 4 and 6)	62,925	62,633	592,291
Lease obligations	1,991	2,433	18,741
Trade payables (Note 13)	180,787	195,850	1,701,685
Advances from customers	56,944	72,905	535,994
Accrued expenses	24,225	24,708	228,021
Accrued income taxes (Note 11)	9,010	13,736	84,808
Deferred tax liabilities (Note 11)	293	537	2,758
Provision for losses on construction contracts (Note 1(m))	10,328	15,857	97,214
Provision for construction warranties (Note 1(n))	11,440	10,542	107,681
Asset retirement obligations	8	10	75
Others	13,992	16,149	131,702
Total current liabilities	383,646	429,484	3,611,126
Long-term Liabilities			
Long-term indebtedness (Notes 4 and 6)	180,649	188,419	1,700,386
Lease obligations	7,117	7,312	66,990
Liability for severance and retirement benefits			
For directors and corporate auditors	346	425	3,257
Net defined benefit liabilities (Note 9)	12,274	12,778	115,531
Deferred tax liabilities			
On revaluation reserve for land (Notes 1(p) and 11)	18,009	18,616	169,512
Others (Note 11)	49,950	50,317	470,162
Asset retirement obligations	1,283	1,285	12,076
Others	19,112	20,491	179,895
Total long-term liabilities	288,740	299,643	2,717,809
Net Assets (Note 8)			
Common stock			
Authorized shares,			
150,000,000 in 2018			
1,500,000,000 in 2017			
Issued shares,			
83,098,717 in 2018			
830,987,176 in 2017	44,385	44,385	417,780
Capital surplus	18,800	18,809	176,958
Retained earnings	135,354	146,961	1,274,040
Treasury stock	(4,759)	(4,779)	(44,795)
Net unrealized holding gains (losses) on securities (Note 2)	7,478	9,957	70,388
Unrealized gains (losses) on hedging derivatives	(6,786)	(6,612)	(63,874)
Revaluation reserve for land (Note 1(p))	39,912	41,264	375,678
Foreign currency translation adjustments	6,093	5,596	57,351
Remeasurements of defined benefit plans (Note 9)	(1,317)	(5,212)	(12,396)
Subscription rights to shares	217	236	2,042
Non-controlling interests	117,460	117,003	1,105,610
Total net assets	356,837	367,608	3,358,782
Total liabilities and net assets	¥ 1,029,223	¥ 1,096,735	$ 9,687,717

Consolidated Statements of Operations

For the Years Ended March 31, 2018 and 2017

	Japanese Yen (millions)		U.S.Dollars (thousands) (Note 1(a))
	2018	2017	2018
Net Sales	¥ 703,217	¥ 731,465	$ 6,619,136
Cost of Sales (Note 1(q))	654,814	672,580	6,163,535
Gross profit	48,403	58,885	455,601
Selling, General and Administrative Expenses (Note 1(q))	53,628	50,581	504,782
Operating income (loss)	(5,225)	8,304	(49,181)
Other Income (Expenses)			
Interest and dividend income	7,190	5,671	67,677
Interest expenses	(3,950)	(3,417)	(37,180)
Loss on valuation of derivatives	-	(205)	-
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	5,223	5,548	49,162
Foreign currency exchange losses	(1,200)	(1,889)	(11,295)
Gain on disposal of non-current assets	7,668	27,260	72,176
Gain on sales of investment securities (Note 2)	3,879	294	36,512
Gain on valuation of derivatives	43	-	405
Gain on liquidation of subsidiaries and affiliates	250	-	2,353
Gain on sales of subsidiaries and affiliates' stocks	492	-	4,631
Gain on bargain purchase	-	273	-
Loss on disposal of non-current assets	(732)	(1,056)	(6,890)
Loss on impairment of non-current assets (Note 14)	(3,672)	(5,090)	(34,563)
Loss on sales of investment securities (Note 2)	-	(2)	-
Loss on valuation of investment securities	(7)	(11)	(66)
Loss on valuation of investments in capital of subsidiaries and affiliates	-	(5)	-
Loss on valuation of shares of subsidiaries and affiliates	(31)	(272)	(292)
Loss on step acquisitions	-	(437)	-
Loss on settlement	-	(1,084)	-
Provision for loss on litigation	-	(715)	-
Others, net	979	847	9,215
Total	16,132	25,710	151,845
Profit before income taxes	10,907	34,014	102,664
Income Taxes (Note 11)			
Current	7,922	11,613	74,567
Deferred	8,285	3,839	77,984
	16,207	15,452	152,551
Profit (loss)	(5,300)	18,562	(49,887)
Profit (loss) attributable to non-controlling interests	4,837	6,368	45,529
Profit (loss) attributable to owners of parent	¥ (10,137)	¥ 12,194	$ (95,416)
Amounts Per Share of Common Stock (Notes 1(a) and 8)			
Earnings per share	¥ (125.42)	¥ 150.87	$ (1.181)
Diluted earnings per share	¥ -	¥ 150.60	$ -
Dividends, applicable to the year	¥ -	¥ 30.00	$ -

(note) Effective October 1, 2017, the Company consolidated every 10 shares of its common stock into 1 share. Dividends per share which is mentioned in "Amounts Per Share of Common Stock" has been converted into those after the share consolidation.

Consolidated Statements of Comprehensive Income

For the Years Ended March 31,2018 and 2017

	Japanese Yen (millions) 2018	Japanese Yen (millions) 2017	U.S.Dollars (thousands) (Note 1(a)) 2018
Profit (loss)	¥ (5,300)	¥ 18,562	$ (49,887)
Other comprehensive income (Note 15)			
Net unrealized holding gains (losses) on securities	(2,596)	3,618	(24,435)
Unrealized gains (losses) on hedging derivatives	(1,247)	1,729	(11,738)
Foreign currency translation adjustments	1,042	(1,660)	9,808
Remeasurements of Defined Benefit Plans	3,821	7,750	35,966
Share of other comprehensive income of affiliates accounted for using equity method	(1,160)	(4,371)	(10,919)
Total	(140)	7,066	(1,318)
Comprehensive income	¥ (5,440)	¥ 25,628	$ (51,205)
Comprehensive income attributable to owners of parent	¥ (8,398)	¥ 18,824	$ (79,048)
Comprehensive income attributable to non-controlling interests	¥ 2,958	¥ 6,804	$ 27,843

Consolidated Statements of Changes in Net Assets

For the Years ended March 31, 2018 and 2017

	Thousands	Japanese Yen (Millions)											
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non -controlling interests	Total net assets
Balance as of April 1, 2016	830,987	¥ 44,385	¥ 18,812	¥148,723	¥ (4,779)	¥ 6,185	¥ (7,654)	¥ 30,541	¥ 11,531	¥(12,969)	¥ 232	¥108,846	¥343,853
Cash dividends paid				(3,233)									(3,233)
Profit attributable to owners of parent				12,194									12,194
Purchases of treasury stock					(9)								(9)
Disposal of treasury stock			(3)		9								6
Transfer from revaluation reserve for land				(10,723)									(10,723)
Change in treasury stock of parent arising from transactions with non-controlling shareholders			(0)										(0)
Net changes of items other than those in Shareholders' equity						3,772	1,042	10,723	(5,935)	7,757	4	8,157	25,520
Balance as of April 1, 2017	830,987	¥ 44,385	¥ 18,809	¥146,961	¥ (4,779)	¥ 9,957	¥ (6,612)	¥ 41,264	¥ 5,596	¥ (5,212)	¥ 236	¥117,003	¥367,608
Cash dividends paid				(2,425)									(2,425)
Loss attributable to owners of parent				(10,137)									(10,137)
Change of scope of consolidation				(301)									(301)
Change of scope of equity method				(96)									(96)
Purchases of treasury stock					(9)								(9)
Disposal of treasury stock			(9)		29								20
Transfer from revaluation reserve for land				1,352									1,352
Change in treasury stock of parent arising from transactions with non-controlling shareholders			(0)										(0)
Share consolidation	(747,888)												
Net changes of items other than those in Shareholders' equity						(2,479)	(174)	(1,352)	497	3,895	(19)	457	825
Balance as of March 31, 2018	83,099	¥ 44,385	¥ 18,800	¥135,354	¥ (4,759)	¥ 7,478	¥ (6,786)	¥ 39,912	¥ 6,093	¥ (1,317)	¥ 217	¥117,460	¥356,837

	U.S.Dollars (Thousands) (Note 1(a))											
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains(losses) on securities	Unrealized gains(losses) on hedging derivatives	Revaluation reserve for land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non -controlling interests	Total net assets
Balance as of April 1, 2017	$417,780	$177,042	$1,383,293	$(44,983)	$ 93,722	$(62,236)	$388,404	$ 52,673	$(49,058)	$ 2,221	$1,101,308	$3,460,166
Cash dividends paid			(22,826)									(22,826)
Loss attributable to owners of parent			(95,416)									(95,416)
Change of scope of consolidation			(2,833)									(2,833)
Change of scope of equity method			(904)									(904)
Purchases of treasury stock				(85)								(85)
Disposal of treasury stock		(84)		273								189
Transfer from revaluation reserve for land			12,726									12,726
Change in treasury stock of parent arising from transactions with non-controlling shareholders		(0)										(0)
Net changes of items other than those in Shareholders' equity					(23,334)	(1,638)	(12,726)	4,678	36,662	(179)	4,302	7,765
Balance as of March 31, 2018	$417,780	$176,958	$1,274,040	$(44,795)	$ 70,388	$(63,874)	$375,678	$ 57,351	$(12,396)	$ 2,042	$1,105,610	$3,358,782

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2018 and 2017

Cash Flows from Operating Activities :	Japanese Yen (millions) 2018	Japanese Yen (millions) 2017	U.S.Dollars (thousands) (Note 1(a)) 2018
Profit before income taxes	¥ 10,907	¥ 34,014	$ 102,664
Adjustments to reconcile Profit before income taxes to net cash provided by (used in) operating activities			
Depreciation and amortization	17,196	18,577	161,860
Loss on impairment of non-current assets	3,672	5,090	34,563
Amortization of goodwill	1,242	1,311	11,691
Gain on bargain purchase	-	(273)	-
Loss on step acquisitions	-	437	-
Share-based compensation expenses	-	10	-
Decrease of allowance for doubtful accounts	(1,030)	(1,128)	(9,695)
Increase in net defined benefit liablities	264	190	2,485
Decrease in net defined benefit assets	1,694	29	15,945
Interest and dividend income	(7,190)	(5,671)	(67,677)
Interest expenses	3,950	3,417	37,180
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	(5,223)	(5,548)	(49,162)
Foreign currency exchange losses (gain), net	151	(1,715)	1,421
Gain on sales of investment securities, net	(3,879)	(292)	(36,512)
Gain on sales of subsidiaries and affiliates' stocks	(492)	-	(4,631)
Loss on valuation of investment securities	7	11	66
Loss on valuation of shares of subsidiaries and affiliates	31	272	292
Loss on valuation of investments in capital of subsidiaries and affiliates	-	5	-
Gain on liquidation of subsidiaries and affiliates	(250)	-	(2,353)
Gain on disposal of non-current assets, net	(6,936)	(26,204)	(65,286)
Changes in assets and liabilities :			
Decrease (increase) in			
Trade receivables	838	10,783	7,888
Inventories	740	(1,391)	6,965
Other assets	1,474	(2,674)	13,874
Increase (decrease) in			
Trade payables	(14,551)	(44,466)	(136,964)
Other liabilities	(4,589)	7,743	(43,195)
Others, net	(1,864)	(460)	(17,545)
Sub-total	(3,838)	(7,933)	(36,126)
Interest and dividend received	15,615	12,522	146,979
Interest paid	(3,953)	(3,429)	(37,208)
Proceeds from insurance income	204	576	1,920
Income taxes paid	(11,584)	(9,580)	(109,036)
Net cash provided by (used in) operating activities	¥ (3,556)	¥ (7,844)	$ (33,471)

Cash Flows from Investing Activities :	Japanese Yen (millions) 2018	2017	U.S.Dollars (thousands) (Note 1(a)) 2018
Net increase in time deposits	(865)	(27)	(8,142)
Capital expenditure	(18,098)	(20,238)	(170,350)
Proceeds from sales of non-current assets	13,298	37,694	125,169
Purchases of investment securities	(367)	(4,542)	(3,454)
Proceeds from sales of investment securities	6,240	612	58,735
Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation (Note 1(r))	-	(766)	-
Purchase of shares of subsidiaries and affiliates	(12,787)	(7,881)	(120,360)
Proceeds from sales of shares of subsidiaries and affiliates	908	1	8,547
Payments for investments in capital of subsidiaries and affiliates	(1,407)	(115)	(13,244)
Disbursements of loans receivable	(68,961)	(83,493)	(649,105)
Collection of loans receivable	73,733	50,353	694,023
Others, net	(741)	(351)	(6,975)
Net cash provided by (used in) investing activities	¥ (9,047)	¥ (28,753)	$ (85,156)
Cash Flows from Financing Activities :			
Net decrease in short-term borrowings	(2,216)	(14,175)	(20,858)
Proceeds from long-term borrowings	40,664	57,609	382,756
Repayments of long-term borrowings	(42,285)	(32,314)	(398,015)
Repayments of lease obligations	(2,203)	(1,767)	(20,736)
Proceeds from issuance of bonds	10,000	15,000	94,127
Repayments on bonds	(15,000)	-	(141,190)
Purchases of treasury stock	(9)	(9)	(85)
Cash dividends	(2,417)	(3,221)	(22,750)
Dividends paid to non-controlling interests	(1,365)	(1,865)	(12,848)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(0)	-	(0)
Others, net	18	144	169
Net cash provided by (used in) financing activities	¥ (14,813)	¥ 19,402	$ (139,430)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(76)	(2,933)	(716)
Net decrease in Cash and Cash Equivalents	(27,492)	(20,128)	(258,773)
Decrease due to changes in scope of consolidation	(1,816)	-	(17,093)
Cash and Cash Equivalents at Beginning of Year	115,620	135,748	1,088,291
Cash and Cash Equivalents at End of Year (Note1(r))	¥ 86,312	¥ 115,620	$ 812,425

Notes to Consolidated Financial Statements

1. Significant Accounting and Reporting Policies

The following is a summary of the significant accounting and reporting policies adopted by the Mitsui E&S Group (the "Group"), which consists of Mitsui E&S Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries ("Subsidiaries") in the preparation of the accompanying consolidated financial statements.

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Group have been prepared in accordance with the provisions set forth in the "Japanese Financial Instruments and Exchange Act" and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the overseas Subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile ("Local GAAP") and significant differences between Japanese GAAP and Local GAAP are adjusted in consolidation. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Finance Bureau of the Ministry of Finance as required by the "Financial Instruments and Exchange Act". Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Group, over which the Company has power of control through majority voting rights or existence of certain conditions requiring control by the Company.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

The assets and liabilities of the Subsidiaries, including the portion attributable to non-controlling shareholders, were evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in all significant unconsolidated subsidiaries and affiliates are accounted for using equity method.

Goodwill is generally amortized over certain periods on the straight-line method.

Fiscal years of some Subsidiaries end on the 31st of December. The Company consolidates these subsidiaries' financial statements as of each subsidiary's latest fiscal year and significant transactions occurred between each subsidiary's fiscal year-end and the Company's fiscal year-end are adjusted on consolidation.

(c) Revenue Recognition

Revenue and costs associated with construction contracts

1) Construction of its certainty of achievement on the progressed portion until the fiscal year end can be recognized:
   The percentage-of-completion method
   (The progress of work is mainly measured by the percentage of cost method)
2) Construction other than above:
   The completed-contract method

Revenues and costs of sales on finance lease transactions are recognized when lease payments are received.

(d) Securities

The Company and its domestic Subsidiaries examined the intent of holding each security and classified those securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Company and its domestic Subsidiaries did not have trading securities or held-to-maturity debt securities.

Equity securities issued by Subsidiaries and affiliated companies, which are not accounted for using equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Fair market value is calculated using mainly the average price of securities over one month before the consolidated balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without market prices available are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for using equity method, and available-for-sale securities decline significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market values of these securities are not readily available, they should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Derivative Transaction and Hedge Accounting

Japanese accounting standard for financial instruments requires the Company and domestic Subsidiaries to measure derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the instruments are applied to hedged items.

In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedging items are accounted for in the following manner.

1) If forward foreign exchange contracts are entered into to hedge existing foreign currency receivables or payables,
   i. the difference, if any, between the Japanese yen amount of the hedged foreign currency receivables or payables converted by the contracted forward foreign exchange rate and the book value of the receivables or payables is recognized in the statement of income of the fiscal year in which such contracts are entered into, and
   ii. the difference between the Japanese yen amount converted by the contracted forward foreign exchange rate and the Japanese yen amount by spot rate at the trade date of the contract is allocated to every fiscal period over the term of the contract.

2) If forward foreign exchange contracts are entered into to hedge a future transaction (be contracted but not stated in financial statements) denominated in foreign currency, recognition of gains and losses resulting from fair value of the forward foreign exchange contracts are deferred until the contracts are applied to the hedged item.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was allocated.

(f) Allowance for Doubtful Accounts
In order to provide for credit losses, non recoverable amount is recorded based on write-off ratio for general accounts. For doubtful accounts, collectability is examined and recoverable amount is estimated individually.

(g) Inventories
Merchandise, finished goods, raw materials and supplies are stated at cost determined mainly by the moving-average method (except steels for new shipbuilding, which are by identified cost method) (Balance sheet value reflects downturn in profitability). Work in progress is stated using identified cost method (Balance sheet value reflects downturn in profitability). Construction costs, which are accumulated in inventory, consist of direct materials, labor, other items directly attributable to each contract and an allocable portion of general manufacturing and construction overheads.

(h) Property, Plant and Equipment and Depreciation
Depreciation of plant and equipment is mainly computed using the straight-line method over their estimated useful lives. Ordinary maintenance and repairs are charged to the profit and loss account as incurred.

(i) Intangible assets
Intangible assets primarily consist of software, customer-related assets and goodwill. Software for own use is depreciated using the straight-line method over the estimated useful life (five years). Customer-related assets is also amortized using the straight-line method based on effected period (mainly eighteen years). Goodwill is generally amortized using the straight-line method over a reasonable period in which the economic benefits are expected to be realized.

(j) Employees' Severance and Retirement Benefits
In calculating retirement benefit obligations, the benefit formula basis is used to allocate projected retirement benefits over the period to the end of this consolidated fiscal year. Actuarial gains and losses are recognized in the Consolidated Statements of Operations commencing with the following year using the straight-line method mainly for five or ten years. Prior service costs are recognized in the Consolidated Statements of Operations using the straight-line method mainly for one or five years.
After being adjusted for tax effect, unrecognized actuarial gains and losses, unrecognized prior service costs are added to "Remeasurements of defined benefit plans", an item within "Accumulated other comprehensive income (net assets)".

(k) Liability for Severance and Retirement Benefits for Directors and Corporate Auditors
Amount is recorded based on internal regulations in order to prepare for payment of retirement benefit of directors and corporate auditors.

(l) Translation of Foreign Currency Accounts
Under Japanese accounting standard for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included in the current statements of income.
Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at each balance sheet date, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are also translated at the exchange rates in effect at each balance sheet date.

(m) Provision for Losses on Construction Contracts
Provision for losses on construction contracts, etc., is provided based on an estimate of the total losses which can probably occur for the next fiscal year and beyond with respect to construction projects, etc., on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

(n) Provision for Construction Warranties
Provision for construction warranties for ships and other products is provided based on the estimated amounts calculated by using mainly the average proportion of construction warranties against amounts of construction revenue for past two years.

(o) Income Taxes
Deferred income tax is recognized from temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(p) Revaluation Reserve for Land
The land used for business operations is revaluated based on real estate tax value on March 31, 2000 and March 31, 2002 respectively, in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the "Law") effective March 31, 1998. The related unrealized gain, net of income taxes was recorded as "Revaluation reserve for land" in Net assets and the deferred income tax effects were recorded as Deferred tax liabilities on "Revaluation reserve for land" in Long-term liabilities.
According to the Law, revaluation of the land is not permitted at any time after the above revaluation even in cases where the fair value of the land declines. Such unrecorded revaluation losses are ¥ 38,415 million ($361,587 thousand) and ¥38,944 million as of March 31, 2018 and 2017, respectively.

(q) Research and Development
Costs relating to research and development activities are charged to the profit and loss account as incurred. The amounts for the years ended March 31, 2018 and 2017 were ¥3,531 million ($33,236 thousands) and ¥3,912 million, respectively.

(r) Cash Flow Statement
In preparing the consolidated statements of cash flows, cash and cash equivalents consists of cash on hand, readily available deposits including short-term loans and short-term highly liquid investments with maturities not exceeding three months at the time of purchase which involve only an insignificant risk in their movements of value.
Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Cash and time deposits	¥ 93,698	¥ 119,812	$ 881,947
Time deposits with maturities exceeding 3 months	(7,490)	(4,192)	(70,501)
Cash equivalents included in marketable securities	104	-	979
Cash and cash equivalents	¥ 86,312	¥ 115,620	$ 812,425

The following tables summarize breakdown of assets and liabilities of newly consolidated subsidiaries acquired through stock purchase.

2018:
Not applicable.

2017:
Acquisition cost and net payments for assets and liabilities of Simon Carves Engineering Limited, newly consolidated subsidiaries acquired through stock purchase, for the year ended March 31, 2017 were as follows:

	Japanese Yen (millions)
Current assets	¥ 382
Non-current assets	18
Goodwill	125
Current liabilities	(308)
Acquisition cost of stock	217
Cash and cash equivalents of newly consolidated subsidiaries	(98)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 119

Acquisition cost and net payments for assets and liabilities of Kaji Technology Corporation, newly consolidated subsidiaries acquired through stock purchase, for the year ended March 31, 2017 were as follows:

	Japanese Yen (millions)
Current assets	¥ 6,844
Non-current assets	2,017
Current liabilities	(1,445)
Non-current liabilities	(853)
Non-controlling interests	(3,216)
Sub-total	3,347
Book value on an equity method basis before acquisition	(2,384)
Gain on bargain purchase	(273)
Loss on step acquisitions	437
Acquisition cost of stock	1,127
Cash and cash equivalents of newly consolidated subsidiaries	(480)
Net: Payments for the purchase of investment in subsidiaries resulting in change in scope of consolidation	¥ 647

(s) Finance Lease Transactions without Transfer of Ownership
Lessee:
The method of amortization of the lease assets related to finance lease transactions without transfer of ownership is by the straight-line method corresponding to lease period. The residual value is the guaranteed residual value in case such value is set forth in the lease contract but otherwise is zero value.
Lessor:
Revenues and costs of sales on finance lease transactions, other than those that transfer ownership of the leased property to the lessee, are recognized when lease payments are received.

(t) Reclassifications

Certain reclassifications have been made in the financial statement of the previous fiscal year to conform to the classification used in this fiscal year. These reclassifications had no effect on previously reported profit or net assets.

(u) Change in Accounting Policy that is Difficult to Distinguish from Change in Accounting Estimate

Change in depreciation method for property, plant and equipment

Although the Company and domestic Subsidiaries previously computed depreciation of property, plant and equipment (excluding lease assets) mainly using the declining-balance method (except for buildings, other than facilities attached to buildings that were acquired on or after April 1, 1998, and facilities attached to buildings and structures that were acquired on or after April 1, 2016, which were depreciated using the straight-line method), the Company and domestic Subsidiaries changed its depreciation method to the straight-line method from the current fiscal year ended March 31, 2018.

Under the Mid-term Business Plan that ended in the previous fiscal year (14 MBP), the Group proceeded with large-scale capital investments to expand its production capacity. However, under the next Mid-term Business Plan that started in the current fiscal year (17 MBP), while benefiting from the effect of the previous investments, the Group has shifted its focus of investments on maintenance and renewal of the existing equipment and facilities to correspond to the market environment, and has reassessed the depreciation method for property, plant and equipment. The Group believes that the manufacturing equipment and facilities owned by the Group will scarcely become obsolete either technologically or economically and, with constant level of demand for products, are expected to be operated steadily over their useful lives, and that, accordingly, depreciation using the straight-line method is a reasonable cost allocation method to more appropriately reflect the economic situation.

As a result of this change, operating loss and profit before income taxes for the year ended March 31, 2018 improved by ¥1,296 million ($12,199 thousand) and increased by ¥1,234 million ($11,615 thousand), respectively, compared with the previous method.

Impact on segment information is shown in the corresponding note.

(v) Accounting Standards and Guidance Issued but not yet Applied

- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, revision on February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, final revision on February 16, 2018)

1) Outline:

The "Implementation Guidance on Tax Effect Accounting" and "Implementation Guidance on Recoverability of Deferred Tax Assets" adhere fundamentally to the previous contents and made the following revisions that were deemed necessary, on the occasion of transferring the practical guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan (ASBJ).

(Major accounting treatments revised)

- Accounting treatment of taxable temporary difference pertaining to subsidiaries' shares, etc. in non-consolidated financial statements
- Accounting treatment of recoverability of deferred tax assets in companies that fall under (Category 1)

2) Planned date of application:

To be applied from the beginning of the fiscal year ending March 31, 2019.

3) Impact of application of the accounting guidance:

The impacts of the application of the "Implementation guidance on Tax Effect Accounting" and "Implementation Guidance on Recoverability of Deferred Tax Assets" on the Group's consolidated financial statements are currently being evaluated.

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

1) Outline:

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition and published the "Revenue from Contracts with Customers" (IFRS 15 for the IASB and Topic 606 for the FASB) in May 2014. IFRS 15 is effective for fiscal years beginning on or after January 1, 2018 and Topic 606 is effective for fiscal years beginning after December 15, 2017. Given these circumstances, the ASBJ has developed comprehensive accounting standards for revenue recognition and published them with the implementation guidance thereon.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to set such accounting standards by adopting basic principles of IFRS 15 as a starting point, from the viewpoint of comparability among financial statements, which is one of benefits of ensuring consistency with IFRS 15, and to additionally provide for alternative accounting treatments to the extent that it would not impair comparability, if there is an item to be taken into consideration in practices that have been conducted in Japan.

2) Planned date of application:

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

3) Impact of application of the accounting standards:

The impacts of the application of the "Accounting Standard for Revenue Recognition" and the "Implementation Guidance on Accounting Standard for Revenue Recognition" on the Group's consolidated financial statements are currently being evaluated.

2. Investment Securities

(a) The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2018 and 2017:

2018	Japanese Yen (millions)		
	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 15,496	¥ 27,511	¥ 12,015
Sub Total	15,496	27,511	12,015
Securities with book values not exceeding acquisition costs:			
Equity securities	4,688	4,070	(618)
Sub Total	4,688	4,070	(618)
Total	¥ 20,184	¥ 31,581	¥ 11,397

2017	Japanese Yen (millions)		
	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 20,268	¥ 35,849	¥ 15,581
Sub Total	20,268	35,849	15,581
Securities with book values not exceeding acquisition costs:			
Equity securities	2,265	1,744	(521)
Sub Total	2,265	1,744	(521)
Total	¥ 22,533	¥ 37,593	¥ 15,060

2018	U. S. Dollars (thousands)		
	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book values exceeding acquisition costs:			
Equity securities	$ 145,858	$ 258,952	$ 113,094
Sub Total	145,858	258,952	113,094
Securities with book values not exceeding acquisition costs:			
Equity securities	44,127	38,309	(5,818)
Sub Total	44,127	38,309	(5,818)
Total	$ 189,985	$ 297,261	$ 107,276

(b) Proceeds from sales of available-for-sale securities and realized gains and losses on sales of available-for-sale securities for the years ended March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Proceeds from sales of available-for-sale securities			
Securities	¥ 6,240	¥ 612	$ 58,735
Realized gains on sales of available-for-sale securities			
Securities	¥ 3,879	¥ 294	$ 36,512
Realized losses on sales of available-for-sale securities			
Securities	¥ -	¥ 2	$ -

3. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities as of March 31, 2018 and 2017 were ¥52,000 million ($489,458 thousand) and ¥43,495 million, respectively. Investments in unconsolidated subsidiaries and affiliates included in other assets as of March 31, 2018 and 2017 were ¥7,940 million ($74,736 thousand) and ¥5,719 million, respectively.

4. Pledged Assets

Assets pledged as collateral for long-term indebtedness as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Land	¥ 2,514	¥ 4,197	$ 23,663
Buildings and structures	182	215	1,713
Machinery, equipment and vehicles	9,016	10,557	84,864
Investment securities	1,133	530	10,665
Cash and time deposits	3,186	919	29,989
Long-term deposits	1,476	3,782	13,893
	¥ 17,507	¥ 20,200	$ 164,787

Long-term indebtedness secured by the above pledged assets as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Long-term indebtedness	¥ 11,919	¥ 13,788	$ 112,189
	¥ 11,919	¥ 13,788	$ 112,189

5. Short-Term Borrowings

Short-term borrowings represent notes payable to banks due within twelve months. The average interest rate for the year ended March 31, 2018 is 1.95%.

6. Long-Term Indebtedness

Long-term indebtedness as of March 31, 2018 and 2017 were summarized below:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Secured by mortgages on plant and equipment-			
loans from Japanese banks, due on various dates through 2026	¥ 11,919	¥ 13,788	$ 112,189
Unsecured or non-guaranteed-			
1.08% bonds, due June 15, 2017	-	10,000	-
1.47% bonds, due January 26, 2018	-	5,000	-
1.14% bonds, due December 12, 2019	5,000	5,000	47,063
0.63% bonds, due December 12, 2019	5,000	5,000	47,063
0.62% bonds, due September 14, 2020	5,000	5,000	47,063
1.03% bonds, due December 10, 2021	5,000	5,000	47,063
0.46% bonds, due September 15, 2021	10,000	10,000	94,127
1.01% bonds, due September 14, 2022	5,000	5,000	47,063
0.62% bonds, due December 15, 2022	10,000	-	94,127
0.70% bonds, due September 15, 2023	5,000	5,000	47,063
loans from banks, insurance companies and trading companies due on various dates through 2027	181,655	182,264	1,709,856
	243,574	251,052	2,292,677
Less: Current portion included in current liabilities	(62,925)	(62,633)	(592,291)
	¥ 180,649	¥ 188,419	$ 1,700,386

The aggregate annual maturities of long-term indebtedness are summarized below:

Year ended March 31,	Japanese Yen (millions)	U.S.Dollars (thousands)
2019	¥ 62,925	$ 592,291
2020	46,115	434,065
2021	47,908	450,941
2022	36,762	346,028
2023 and thereafter	49,864	469,352
	¥ 243,574	$ 2,292,677

7. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at the Group as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Total overdraft facilities and lending commitments	¥ 67,496	¥ 70,611	$ 635,316
Less amounts currently executed	2,778	4,386	26,148
Unexecuted balance	¥ 64,718	¥ 66,225	$ 609,168

8. Net Assets and Per Share Data

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half the price of the new shares as additional paid-in capital, which is included in capital surplus.

In cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution in the shareholders' meeting or could be capitalized by a resolution in the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

Earnings per share is computed based on the weighted average number of shares of common stock outstanding during each period. Cash dividends per share represent the cash dividends declared applicable to the respective year. Effective October 1, 2017, the Company consolidated every 10 shares of its common stock into 1 share. Per share figures are computed assuming that the share consolidation was conducted as of April 1, 2016.

9. Liability for Severance and Retirement Benefits

(a) Overview of adopting severance and retirement benefits plans

The Group has system of funded and unfunded severance and retirement benefits, and defined contribution pension plans.

Severance and retirement benefits (all funded) pay out lump-sum payment or annual pension based on salary and length of service.

Part of funded severance and retirement benefits is entrusted.

Lump-sum payment (part of which becomes funded as a result of benefit trust although the system is unfunded) is paid out based on salary and length of service as retirement benefits.

Some domestic Subsidiaries have adopted a "simpler method" to calculate liability for severance and retirement benefits for employees.

(b) Breakdown of information concerning severance and retirement benefits

i) Movements of severance and retirement benefit obligation:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Balance at beginning of year	¥ 48,035	¥ 48,717	$ 452,137
Current service costs	2,713	2,902	25,537
Interest costs	353	266	3,322
Actuarial differences on pension plan obligation	719	(110)	6,768
Benefits paid	(2,845)	(4,796)	(26,779)
Change of scope of consolidation	(253)	1,005	(2,382)
Others	(157)	51	(1,478)
Balance at end of year	¥ 48,565	¥ 48,035	$ 457,125

ii) Movements of pension assets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Balance at beginning of year	¥ 41,955	¥ 36,649	$ 394,908
Expected return on pension assets	19	10	179
Actuarial differences on pension assets	1,559	6,658	14,674
Contribution to pension plans	204	210	1,920
Benefits paid	(1,848)	(1,966)	(17,395)
Change of scope of consolidation	-	399	-
Others	(22)	(5)	(207)
Balance at end of year	¥ 41,867	¥ 41,955	$ 394,079

iii) Reconciliation of projected retirement benefit obligation and net defined benefit assets / liabilities recorded in the consolidated balance sheets:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Retirement benefit obligation (funded non-contributory)	¥ 41,336	¥ 40,064	$ 389,081
Less fair value of pension assets	(41,867)	(41,955)	(394,079)
Retirement benefit obligation (Unfunded termination and retirement allowance plan)	7,229	7,971	68,044
Net defined benefit assets / liabilities recorded in the consolidated balance sheets	¥ 6,698	¥ 6,080	$ 63,046
Defined benefit liabilities	12,274	12,778	115,531
Defined benefit assets	(5,576)	(6,698)	(52,485)
Net defined benefit assets / liabilities recorded in the consolidated balance sheets	¥ 6,698	¥ 6,080	$ 63,046

iv) Severance and retirement benefit expenses:	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Current service costs	¥ 2,713	¥ 2,902	$ 25,537
Interest costs	353	266	3,322
Expected return on pension assets	(19)	(10)	(179)
Amortization of actuarial differences	4,773	4,396	44,927
Amortization of prior service costs	(127)	(55)	(1,195)
Severance and retirement benefit expenses	¥ 7,693	¥ 7,499	$ 72,412

v) Remeasurements of defined benefit plans (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Prior service costs	¥ 108	¥ 5	$ 1,017
Actuarial differences	5,646	11,149	53,144
Others	(193)	17	(1,817)
Total	¥ 5,561	¥ 11,171	$ 52,344

vi) Unrecognized actuarial differences (before deducted tax effects):	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Unrecognized prior service costs	¥ (120)	¥ (12)	$ (1,130)
Unrecognized actuarial differences	1,681	7,319	15,823
Others	574	379	5,403
Total	¥ 2,135	¥ 7,686	$ 20,096

vii) The major categories of pension assets:	Percentage of composition	
	2018	2017
Bonds	3%	3%
Securities	76%	84%
Cash and deposits	17%	9%
Others	4%	4%
Total	100%	100%

viii) The principal actuarial assumptions at reporting date are summarized below:

	2018	2017
Discount rate	0.0% - 1.0%	0.0% - 1.1%
Expected rate of return on pension plan assets	Not applicable	Not applicable
Expected rate of pay raises	Primarily 2.0% - 3.8%	Primarily 2.0% - 3.9%

To determine the expected rate of return on pension plan assets, allocation of pension assets expected in present and future, and long-term rate of return on portfolio assets expected in present and future are considered.

(c) Defined contribution pension plan

The contribution paid to the defined contribution pension plan is summarized below:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Contribution paid to the defined contribution pension plan	¥ 159	¥ 338	$ 1,497

10. Stock options

(a) Expenses for stock options and account titles at March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Selling, general and administrative expenses	¥ -	¥ 10	$ -

(b) The stock options outstanding at March 31, 2018 were as follows:

	FY2014 Stock option	FY2013 Stock option
Persons granted	Directors of MES: 14 Deputy directors of MES: 21	Directors of MES: 14 Deputy directors of MES: 19
Class and number of shares	Common stock 36,600 shares	Common stock 62,400 shares
Grant date	August 22, 2014	August 23, 2013
Vesting conditions	It continues in the position of Director or Deputy director until (June 30, 2015 or March 31, 2015) on data of vested after (August 22, 2014) on date of grant.	It continues in the position of Director or Deputy director until (June 30, 2014) on data of vested after (August 23, 2013) on data of grant.
Service period	(Directors of MES) From July 1, 2014 to June 30, 2015 (Deputy directors of MES) (continuously - appointed) From July 1, 2014 to March 31, 2015 (Deputy directors of MES) (newly - appointed) From April 1, 2014 to March 31, 2015	From July 1, 2013 to June 30, 2014
Exercise period	From August 23, 2014 to August 22, 2044	From August 24, 2013 to August 23, 2043

	FY2015 Stock option
Persons granted	Directors of MES: 9 (including executive officers additional post) Executive officers of MES: 13 (excluding directors additional post) Deputy directors of MES: 17
Class and number of shares	Common stock 49,700 shares
Grant date	August 21, 2015
Vesting conditions	It continues in the position of Director, Executive officer or Deputy director until (June 30, 2016 or March 31, 2016) on data of vested after (August 21, 2015) on date of grant.
Service period	(Directors of MES) From July 1, 2015 to June 30, 2016 (Executive officers of MES) From April 1, 2015 to March 31, 2016 (Deputy directors of MES) From April 1, 2015 to March 31, 2016
Exercise period	From August 22, 2015 to August 21, 2045

(note) Effective October 1, 2017, the Company consolidated every 10 shares of its common stock into 1 share. The number of shares has been converted into those after the share consolidation.

(c) The numbers of and changes in stock options during the year ended March 31, 2018 were as follows:

	FY2015 Stock option	FY2014 Stock option	FY2013 Stock option
Non-vested:			
Outstanding at March 31, 2017	-	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested	-	-	-
Outstanding of non-vested at March 31, 2018	-	-	-
Vested:			
Outstanding at March 31, 2017	49,600	36,400	57,500
Vested	-	-	-
Exercised	1,100	-	12,100
Forfeited	-	-	-
Outstanding of non-vested at March 31, 2018	48,500	36,400	45,400
Exercise price - Yen (U.S. Dollars)	¥ 1 ($0.009)	¥ 1 ($0.009)	¥ 1 ($0.009)
Average share price at exercise - Yen (U.S. Dollars)	¥ 1,695 ($15.954)	-	¥ 1,635 ($15.390)
Fair value price at grant date - Yen (U.S. Dollars)	¥ 1,690 ($15.907)	¥ 1,910 ($17.978)	¥ 1,440 ($13.554)

(note) Effective October 1, 2017, the Company consolidated every 10 shares of its common stock into 1 share. The number of shares has been converted into those after the share consolidation.

(d) Calculation method for the number of rights vested

Only actual forfeited number of the vested stock option is used for calculation for the number of rights vested, since it is difficult to reasonably estimate the number of options that will forfeited in the future.

11. Income Taxes

The Company and domestic Subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 30.8% for the year ended March 31, 2018 and 2017.
The following table summarizes the significant differences between the statutory tax rate and the Group's effective tax rate for financial statement purposes for the years ended March 31, 2018 and 2017:

	2018	2017
Statutory tax rate	30.8%	30.8%
Valuation allowance	166.6	31.9
Revaluation of land	5.8	(0.7)
Non-deductible expenses for tax purposes	1.7	2.2
Amortization of goodwill	3.3	0.7
Taxation on per capita basis	1.4	0.4
Equity in earnings of unconsolidated subsidiaries and affiliates accounted for using equity method	(14.7)	(5.0)
Income of foreign subsidiaries taxed at lower than Japanese normal rate	(30.8)	(15.2)
Non-taxable dividend income	1.4	(1.5)
Gain on bargain purchase	-	(0.2)
Increase of deferred tax assets, net of liabilities at fiscal year-end by the change of tax rate	1.6	1.1
Corporate income taxes, etc. paid in past fiscal years	(18.5)	0.6
Others	(0.0)	0.3
Effective tax rate	148.6%	45.4%

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Deferred tax assets:			
Net defined benefit liabilities	¥ 9,520	¥ 10,658	$ 89,608
Elimination of intercompany profit of fixed assets	3,184	7,262	29,970
Tax loss carry forward	22,015	19,350	207,220
Losses on revaluation of inventories	255	313	2,400
Accrued expenses	6,135	4,874	57,747
Provision for construction warranties	2,647	2,448	24,915
Allowance for doubtful accounts	1,246	1,619	11,728
Provision for losses on construction contracts	3,165	5,398	29,791
Loss on impairment of non-current assets	7,849	7,502	73,880
Loss on revaluation of marketable and investment securities	413	413	3,887
Stock investment to subsidiaries and affiliates	16,225	11,340	152,720
Others	15,574	19,835	146,593
Total deferred tax assets	88,228	91,012	830,459
Valuation allowance	(57,222)	(46,371)	(538,610)
Net deferred tax assets	31,006	44,641	291,849
Deferred tax liabilities:			
Net unrealized holding gains on securities	(4,747)	(5,828)	(44,682)
Accelerated depreciation on non-current assets	(628)	(807)	(5,911)
Reserve for advanced depreciation of non-current assets	(2,904)	(3,181)	(27,334)
Gains on contribution of securities to trust for employees' retirement benefit	(1,288)	(1,637)	(12,124)
Percentage of completion	(810)	(1,944)	(7,624)
Undistributed earnings of foreign subsidiaries	(267)	-	(2,513)
Unrealized gain on assets and liabilities of consolidated subsidiaries	(48,132)	(47,994)	(453,050)
Others	(4,351)	(5,861)	(40,954)
Total deferred tax liabilities	(63,127)	(67,252)	(594,192)
Net deferred tax assets	¥ (32,121)	¥ (22,611)	$ (302,343)

Correction to amounts for deferred tax assets and deferred tax liabilities due to change in tax rates for corporate tax, etc.
In the United States, Tax Reform Act which stipulates, in particular, a reduction of federal corporate income tax rate from 35% to 21% with effect from January 1, 2018, was enacted on December 22, 2017. Accordingly, deferred tax assets and deferred tax liabilities of the U.S. Subsidiaries for the year ended March 31, 2018 have been calculated using the statutory tax rate based on the revised tax rate.
The effect of the change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥175 million ($1,647 thousand) and to increase income taxes — deferred by ¥158 million ($1,487 thousand) for the year ended March 31, 2018.

12. Contingent Liabilities

Contingent liabilities of the Group as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Guarantees of bank loans and other indebtedness	¥ 65,659	¥ 86,052	$ 618,025

13. Notes Matured on the Year-End Date that Falls on a Bank Holiday

Notes matured on the year-end date that falls on a bank holiday are accounted for as settled on their clearing date though it belongs to the next fiscal year. As March 31, 2018 was a bank holiday, the notes matured on the year-end date were included in the year-end balance as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Notes receivable	¥ 430	¥ -	$ 4,047
Notes payable	¥ 66	¥ -	$ 621

14. Loss on Impairment of non-current assets

The Group adopted the accounting standard for impairment of non-current assets. The non-current assets are grouped by each segment. Idle non-current assets are grouped individually. The book value of the non-current assets is reduced to the collectable amount.
The loss on impairment of non-current assets for the years ended March 31, 2018 and 2017 were comprised of the following.

2018

Location	: Etajima City, Hiroshima Prefecture
Major use	: Idle assets
Asset category	: Land
Amount	: ¥ 0 million ($ 0 thousand)
Reason	: Decline in market value
Location	: Takamatsu City, Kagawa Prefecture etc.
Major use	: Business assets
Asset category	: Land, Building, Machinery and Equipment etc.
Amount	: ¥ 3,672 million ($ 34,563 thousand)
Reason	: Decline in market value and deterioration of business environment

2017

Location	: Oita City, Oita Prefecture etc.
Major use	: Idle assets
Asset category	: Land
Amount	: ¥ 30 million
Reason	: Decline in market value
Location	: Yamakita Town, Kanagawa Prefecture etc.
Major use	: Business assets
Asset category	: Land, Structure, Machinery and Equipment etc.
Amount	: ¥ 893 million
Reason	: Decline in market value and deterioration of business environment
Location	: Yamakita Town, Kanagawa Prefecture
Major use	: Assets to be disposed
Asset category	: Land, Structure
Amount	: ¥ 2,642 million
Reason	: Determination of disposal
Location	: The United States
Major use	: -
Asset category	: Goodwill
Amount	: ¥ 1,525 million
Reason	: Deterioration of estimated profitability of MODEC INTERNATIONAL, INC.

15. Comprehensive Income

Each component of other comprehensive income for the years ended March 31, 2018 and 2017 were the following:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Net unrealized holding gains (losses) on securities:			
Amount of generation at this fiscal term	¥ 199	¥ 5,469	$ 1,873
Amount of rearrangement adjustment	(3,876)	(246)	(36,483)
Before adjusting the tax effect	(3,677)	5,223	(34,610)
Tax effect	1,081	(1,605)	10,175
Net unrealized holding gains (losses) on securities	(2,596)	3,618	(24,435)
Unrealized gains (losses) on hedging derivatives:			
Amount of generation at this fiscal term	(1,619)	2,807	(15,239)
Amount of rearrangement adjustment	(63)	(243)	(593)
Before adjusting the tax effect	(1,682)	2,564	(15,832)
Tax effect	435	(835)	4,094
Unrealized gains (losses) on hedging derivatives	(1,247)	1,729	(11,738)
Foreign currency translation adjustments:			
Amount of generation at this fiscal term	1,493	(1,798)	14,053
Amount of rearrangement adjustment	(249)	-	(2,344)
Before adjusting the tax effect	1,244	(1,798)	11,709
Tax effect	(202)	138	(1,901)
Foreign currency translation adjustments	1,042	(1,660)	9,808
Remeasurements of defined benefit plans:			
Amount of generation at this fiscal term	916	6,830	8,622
Amount of rearrangement adjustment	4,645	4,341	43,722
Before adjusting the tax effect	5,561	11,171	52,344
Tax effect	(1,740)	(3,421)	(16,378)
Remeasurements of defined benefit plans	3,821	7,750	35,966
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount of generation at this fiscal term	(2,271)	(5,606)	(21,376)
Amount of rearrangement adjustment	1,111	1,235	10,457
Share of other comprehensive income of affiliates accounted for using equity method	(1,160)	(4,371)	(10,919)
Total	¥ (140)	¥ 7,066	$ (1,318)

16. Leases

(a) Lessee

i) Unexpired lease payments of operating lease transactions as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Due within one year	¥ 1,908	¥ 1,655	$ 17,959
Due after one year	6,032	6,861	56,777
Total	¥ 7,940	¥ 8,516	$ 74,736

(b) Lessor

i) Unexpired lease receivables of operating lease transactions as of March 31, 2018 and 2017 were as follows:

	Japanese Yen (millions)		U.S.Dollars (thousands)
	2018	2017	2018
Due within one year	¥ 1,315	¥ 3,026	$ 12,378
Due after one year	8,027	9,812	75,555
Total	¥ 9,342	¥ 12,838	$ 87,933

17. Financial Instruments

(a) Articles concerning status of financial instruments

1) Policies for financial instruments

The Group restricts the fund management to short-term financial instruments. The Group transfers funds to each other through an inter-company cash management systems (CMS).

Regarding the funding, the Group raises the short-term working capital through bank loans and the issuance of commercial paper (CP), and raises the long term capital investment through bank loans and the issuance of bonds. Derivative financial instruments are utilized to hedge the risks described hereinafter and not for speculative transactions as a matter of policy.

2) Substances and risks of financial instruments

Trade receivables are exposed to credit risks of customers. Trade receivables in foreign currency, which the Company and certain Subsidiaries receive from foreign operations, are exposed to currency fluctuation risks. Forward foreign exchange contracts are applied to these hedged items in principle. Investment securities, mainly of companies with business relationships, are exposed to market fluctuation risks. Short-term and long-term loans for operating funds and capital expenditures of SPC's, which are established for charter project of FPSO or for generating electricity, are exposed to credit risks of customers.

Almost all of the trade payables are due within one year. Foreign currency trade payables for overseas procurement are exposed to currency fluctuation risks, but those trade payables are controlled not to exceed the balance of trade receivables in the same foreign currencies.

Short-term borrowings are mainly for the purpose of funding commercial transactions. Long-term borrowings and bonds are mainly for the purpose of funding capital investments. Although the portions of those debts with floating interest rates are exposed to interest rate fluctuation risks, interest rate swap contracts are applied to hedge the risks.

Derivative transactions are the above mentioned forward foreign exchange contracts, as well as interest rate swap contracts. They are for the purpose of hedging currency fluctuation risks and rising interest rate risks.

As to details on hedging instruments, hedged items, hedging policy and hedge effectiveness testing, please refer to "1. Significant Accounting and Reporting Policies (e) Derivative Transaction and Hedge Accounting."

3) Risk management in financial instruments

i. Management of credit risks (Risks for breach of contracts)

The Group monitors due dates and balances of trade receivables and regularly investigates the credit standings of main customers for early detection and reduction of default risks according to internal regulation. Certain Subsidiaries reduce their balance of loan receivables by arranging project finance or through cooperation with business partners such as general trading companies.

As to derivative transactions, credit risks are minimized by dealing solely with top-ranked financial institutions.

ii. Management of market risks (Exchange rate or interest rate fluctuation risks)

The Company and certain Subsidiaries utilize forward foreign exchange contracts, interest rate swap contracts, and interest rate and currency swap contracts. Forward foreign exchange contracts are for the purpose of hedging currency fluctuation risks arising from foreign currency receivables and payables in principle, and the others are utilized for the purpose of hedging interest rate fluctuation risks arising from short-term and long-term borrowings and bonds.

Holding position of investment securities are continuously reviewed by researching fair market value and financial status of important customers regularly and taking into account of market condition and relationship with customers.

Execution and management of derivative transactions are based on each company's internal regulation restricting scope of authority.

As to derivative transactions, the Group utilizes them to offset risks within the range of trade demand.

iii. Management of liquidity risks of raising funds (Default risks)

The Finance & Accounting department of the Group makes and updates finance plans, and maintains a certain level of liquidity on hand to minimize liquidity risks.

4) Supplementary explanation about fair value of financial instruments

Fair value of financial instruments includes not only fair market value based on market price but also reasonably estimated value if market price is not available. Reasonably estimated fair value may fluctuate because it depends on an estimation process which is based on certain preconditions.

The contract amounts for derivatives stated in the following "(b) Articles concerning fair value of financial instruments," do not indicate the market risks of derivatives.

(b) Articles concerning fair value of financial instruments

Consolidated balance sheet amounts, fair value of financial instruments and the differences between them for the fiscal years ended March 31, 2018 and 2017 were as follows. Financial instruments in which the fair value is considered to be extremely difficult to recognize are not included in the list below.

2018	Japanese Yen (millions)		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 93,698	¥ 93,698	¥ -
(2) Trade receivables	243,768		
Less allowance for doubtful accounts *1	(572)		
	243,196	243,195	(1)
(3) Short-term loans	47,227	47,227	-
(4) Investment securities			
Available-for-sale securities	31,581	31,581	-
(5) Long-term loans	41,380		
Less allowance for doubtful accounts *1	(394)		
	40,986	41,691	705
Total assets	¥ 456,688	¥ 457,392	¥ 704
(1) Trade payables	¥ 180,787	¥ 180,787	¥ -
(2) Short-term borrowings	11,703	11,703	-
(3) Current portion of long-term borrowings	62,925	62,969	44
(4) Current portion of bonds	-	-	-
(5) Accrued income taxes	9,010	9,010	-
(6) Bonds	50,000	50,222	222
(7) Long-term borrowings	130,649	130,783	134
Total liabilities	¥ 445,074	¥ 445,474	¥ 400
Derivative transactions *2			
i. Derivative transactions for which hedge accounting has not been applied	¥ 2,551	¥ 2,551	¥ -
ii. Derivative transactions for which hedge accounting has been applied	919	919	-
Total derivative transactions	¥ 3,470	¥ 3,470	¥ -

2017	Japanese Yen (millions)		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 119,812	¥ 119,812	¥ -
(2) Trade receivables	261,674		
Less allowance for doubtful accounts *1	(2,855)		
	258,819	258,819	0
(3) Short-term loans	56,495		
Less allowance for doubtful accounts *1	(84)		
	56,411	56,411	-
(4) Investment securities			
Available-for-sale securities	37,593	37,593	-
(5) Long-term loans	31,488		
Less allowance for doubtful accounts *1	(342)		
	31,146	31,413	267
Total assets	¥ 503,781	¥ 504,048	¥ 267
(1) Trade payables	¥ 195,850	¥ 195,850	¥ -
(2) Short-term borrowings	14,124	14,124	-
(3) Current portion of long-term borrowings	47,633	47,700	67
(4) Current portion of bonds	15,000	15,018	18
(5) Accrued income taxes	13,736	13,736	-
(6) Bonds	40,000	40,284	284
(7) Long-term borrowings	148,419	148,770	351
Total liabilities	¥ 474,762	¥ 475,482	¥ 720
Derivative transactions *2			
i. Derivative transactions for which hedge accounting has not been applied	¥ 1,997	¥ 1,997	¥ -
ii. Derivative transactions for which hedge accounting has been applied	1,730	1,730	-
Total derivative transactions	¥ 3,727	¥ 3,727	¥ -

2018	U.S. Dollars (thousands)		
	Book value	Fair value	Difference
(1) Cash and time deposits	$ 881,947	$ 881,947	$ -
(2) Trade receivables	2,294,503		
Less allowance for doubtful accounts *1	(5,384)		
	2,289,119	2,289,110	(9)
(3) Short-term loans	444,531	444,531	-
(4) Investment securities			
Available-for-sale securities	297,261	297,261	-
(5) Long-term loans	389,495		
Less allowance for doubtful accounts *1	(3,709)		
	385,786	392,423	6,637
Total assets	$ 4,298,644	$ 4,305,272	$ 6,628
(1) Trade payables	$ 1,701,685	$ 1,701,685	$ -
(2) Short-term borrowings	110,156	110,156	-
(3) Current portion of long-term borrowings	592,291	592,705	414
(4) Current portion of bonds	-	-	-
(5) Accrued income taxes	84,808	84,808	-
(6) Bonds	470,633	472,722	2,089
(7) Long-term borrowings	1,229,753	1,231,015	1,262
Total liabilities	$ 4,189,326	$ 4,193,091	$ 3,765
Derivative transactions *2			
i. Derivative transactions for which hedge accounting has not been applied	$ 24,012	$ 24,012	$ -
ii. Derivative transactions for which hedge accounting has been applied	8,650	8,650	-
Total derivative transactions	$ 32,662	$ 32,662	$ -

*1 Allowance for doubtful accounts is deducted from each account.

*2 Net credit or debt arising from derivative transactions is indicated by the offset amount and which is indicated as ( ) in case of the offset amount is debt.

(note 1) Articles concerning calculation method of fair value, marketable securities and derivative transactions.

Assets

(1) Cash and time deposits, (3) Short-term loans

Fair value of these accounts is stated at the book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.

(2) Trade receivables

Fair value of these accounts is stated at the present value discounted over the maturity term of each receivable divided into certain classified term.

(4) Investment securities

Fair value of these accounts is based on available market price. (Please see 2. Marketable Securities and Investment Securities)

(5) Long-term loans

Fair value of these accounts is stated at the present value using future cash flows discounted by the premium added rate on the appropriate index like yield on government bonds.

Liabilities

(1) Trade payables, (5) Accrued income taxes

Fair value of these accounts is stated at book value because these accounts are settled in the short term, so they are considered to be close to the balance sheet amounts.

(2) Short-term borrowings, (3) Current portion of long-term borrowings, (7) Long-term borrowings

Fair value of borrowings at fixed interest rates is calculated using the total amount of the principal and interest discounted by the interest rate on condition that the borrowing is newly executed at the date of fair value evaluation.

Fair value of borrowings at variable interest rates is stated at balance sheet amounts because variable interest rates reflects the latest market conditions and the Company's credit standings is considered to be almost same as when funds were borrowed, so fair value is considered to be close to the balance sheet amounts.

Some borrowings at variable interest rates are subjected to exceptional treatment of interest swaps or batch treatment of interest rate and currency swaps that fulfill special treatment requirements. Those fair values are calculated using the total amount of the principal and interest as accounted for as a single item with those swaps, discounted by the reasonably estimated interest rates which would be applied if a similar borrowing were executed.

(4) Current portion of bonds, (6) Bonds

These fair values consist of both the fair value based on fair market value and the present value using the total of the principal and interest discounted by a risk-free interest rate over the remaining term of each bond.

Derivative transactions

Please refer to "18. Derivative Transactions."

(note 2) Financial instruments in which the fair value is considered to be extremely difficult to recognize are as follows.

	Japanese Yen (millions)		U.S.Dollars (thousands)
	Book value		Book value
	2018	2017	2018
(1) Unlisted equity securities	¥ 59,684	¥ 50,434	$ 561,785
(2) Trust property	207	143	1,948
Total	¥ 59,891	¥ 50,577	$ 563,733

As to these financial instruments, there's no available fair market price and it is considered to cost a great deal to estimate future cash flows. So these financial instruments are not included in investment securities because it is considered to be extremely difficult to recognize fair value.

(note 3) The expected redemption amount of monetary credit and securities with maturity after the fiscal years ended March 31, 2018 and 2017 were as follows.

2018	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 93,628	¥ -	¥ -	¥ -
Trade receivables	242,753	1,009	6	-
Short-term loans	47,227	-	-	-
Long-term loans	4	6,223	15,224	19,929
Total	¥ 383,612	¥ 7,232	¥ 15,230	¥ 19,929

2017	Japanese Yen (millions)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 119,714	¥ -	¥ -	¥ -
Trade receivables	260,438	1,228	8	-
Short-term loans	56,495	-	-	-
Long-term loans	0	2,885	15,207	13,396
Total	¥ 436,647	¥ 4,113	¥ 15,215	¥ 13,396

2018	U.S. Dollars (thousands)			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	$ 881,288	$ -	$ -	$ -
Trade receivables	2,284,950	9,497	56	-
Short-term loans	444,531	-	-	-
Long-term loans	37	58,575	143,298	187,585
Total	$ 3,610,806	$ 68,072	$ 143,354	$ 187,585

(note 4) The expected redemption amount of bonds and borrowings after the fiscal years ended March 31, 2018 and 2017 were as follows.

2018	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 11,703	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds	-	10,000	5,000	15,000	15,000	5,000
Long-term borrowings	62,925	36,115	42,908	21,762	19,395	10,469
Total	¥ 74,628	¥ 46,115	¥ 47,908	¥ 36,762	¥ 34,395	¥ 15,469

2017	Japanese Yen (millions)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	¥ 14,124	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds	15,000	-	10,000	5,000	15,000	10,000
Long-term borrowings	47,633	55,764	29,527	36,993	16,158	9,977
Total	¥ 76,757	¥ 55,764	¥ 39,527	¥ 41,993	¥ 31,158	¥ 19,977

2018	U.S. Dollars (thousands)					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term borrowings	$ 110,156	$ -	$ -	$ -	$ -	$ -
Bonds	-	94,127	47,063	141,190	141,190	47,063
Long-term borrowings	592,291	339,938	403,878	204,838	182,558	98,541
Total	$ 702,447	$ 434,065	$ 450,941	$ 346,028	$ 323,748	$ 145,604

18. Derivative Transactions

Derivative transactions of the Group for market value information as of March 31, 2018 and 2017 were as follows:

(a) Derivative transactions for which hedge accounting has not been applied

2018	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain (loss)
	Total	Due after one year		
Currency related derivatives				
Market trades				
Forward contracts				
To buy U.S. Dollars	¥ 2	¥ -	¥ 0	¥ 0
Off-market trades				
Forward contracts				
To buy U.S. Dollars	¥ 1,768	¥ -	¥ 98	¥ 98
Swiss Franc	184	-	(3)	(3)
Chinese Yuan	302	-	5	5
To sell U.S. Dollars	6,355	-	12	12
Currency swap				
To receive Japanese Yen, pay U.S. Dollars	¥ 21,025	¥ 17,913	¥ 2,439	¥ 2,439
	¥ 29,636	¥ 17,913	¥ 2,551	¥ 2,551

2017	Japanese Yen (millions)			
	Contract amount		Fair value	Unrealized gain (loss)
	Total	Due after one year		
Currency related derivatives				
Off-market trades				
Forward contracts				
To buy U.S. Dollars	¥ 2,658	¥ -	¥ 58	¥ 58
Norwegian Krone	5	-	0	0
Swiss Franc	163	-	2	2
Chinese Yuan	285	-	3	3
To sell U.S. Dollars	15,370	-	(598)	(598)
Currency swap				
To receive Japanese Yen, pay U.S. Dollars	¥ 24,051	¥ 21,025	¥ 2,532	¥ 2,532
	¥ 42,532	¥ 21,025	¥ 1,997	¥ 1,997

2018	U.S. Dollars (thousands)			
	Contract amount		Fair value	Unrealized gain (loss)
	Total	Due after one year		
Currency related derivatives				
Market trades				
Forward contracts				
To buy U.S. Dollars	$ 19	$ -	$ 0	$ 0
Off-market trades				
Forward contracts				
To buy U.S. Dollars	$ 16,641	$ -	$ 922	$ 922
Swiss Franc	1,732	-	(28)	(28)
Chinese Yuan	2,843	-	47	47
To sell U.S. Dollars	58,817	-	113	113
Currency swap				
To receive Japanese Yen, pay U.S. Dollars	$ 197,901	$ 168,609	$ 22,958	$ 22,958
	$ 278,953	$ 168,609	$ 24,012	$ 24,012

(b) Derivative transactions for which hedge accounting has been applied

2018	Hedged items	Japanese Yen (millions)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	¥ 7,777	¥ 3,109	¥ 377
Euro		7,764	275	(39)
STG Pounds		3,354	1,092	(99)
Indonesian Rupiah		13,322	3,557	(679)
Singapore Dollars		568	-	21
To sell U.S. Dollars	Trade receivables	35,302	3,557	1,446
STG Pounds		14,085	8,004	958
Mauritian rupee		52	-	(0)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Loan receivables	920	-	-
		¥ 83,144	¥ 19,594	¥ 1,985
Interest swap				
Basic treatment: To receive float, pay fix	Long-term borrowings	¥ 20,601	¥ 17,661	¥ (1,066)
Exceptional treatment *2: To receive float, pay fix	Long-term borrowings	45,459	26,089	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term borrowings	5,893	3,929	-
		¥ 71,953	¥ 47,679	¥ (1,066)

2017	Hedged items	Japanese Yen (millions)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	¥ 4,462	¥ 984	¥ 941
Euro		2,548	244	(70)
STG Pounds		923	470	(92)
Indonesian Rupiah		7,790	4,252	(46)
Singapore Dollars		962	44	(36)
Japanese Yen		309	-	(10)
Swiss Franc		47	-	(3)
Brazil Real		10,263	-	2,043
To sell U.S. Dollars	Trade receivables	46,308	6,901	(132)
STG Pounds		20,194	7,086	834
Hong Kong Dollars		455	-	(38)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	1,297	-	-
		¥ 95,558	¥ 19,981	¥ 3,391
Interest swap				
Basic treatment: To receive float, pay fix	Long-term borrowings	¥ 25,671	¥ 20,619	¥ (1,661)
Exceptional treatment *2: To receive float, pay fix	Long-term borrowings	48,046	38,414	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term borrowings	7,858	5,893	-
		¥ 81,575	¥ 64,926	¥ (1,661)

2018	Hedged items	U.S. Dollars (thousands)		
		Contract amount		Fair value
		Total	Due after one year	
Deferral hedge accounting				
Currency related derivatives				
Forward contracts				
To buy U.S. Dollars	Trade payables	$ 73,202	$ 29,264	$ 3,549
Euro		73,080	2,588	(367)
STG Pounds		31,570	10,278	(933)
Indonesian Rupiah		125,395	33,481	(6,391)
Singapore Dollars		5,346	-	198
To sell U.S. Dollars	Trade receivables	332,285	33,481	13,611
STG Pounds		132,577	75,339	9,017
Mauritian rupee		490	-	(0)
Alternative method *1				
Currency related derivatives				
Forward contracts				
To sell U.S. Dollars	Loan receivables	8,660	-	-
		$ 782,605	$ 184,431	$ 18,684
Interest swap				
Basic treatment: To receive float, pay fix	Long-term borrowings	$ 193,910	$ 166,237	$ (10,034)
Exceptional treatment *2: To receive float, pay fix	Long-term borrowings	427,889	245,567	-
Interest rate and currency swap				
Batch treatment *2:				
To receive float, pay fix; To receive U.S. Dollars, Pay Japanese Yen	Long-term borrowings	55,469	36,982	-
		$ 677,268	$ 448,786	$ (10,034)

*1 When certain conditions are met, translation of foreign currency receivables is based on yen amount fixed by forward contract. The fair value is included in that of the hedged items (trade payables or loan receivables), which is shown in "17. Financial Instruments."

*2 As interest swap subject to exceptional treatment of interest swap and batch treatment of interest swap are accounted for as a single item with underlying long-term borrowings, which are hedged items, their fair value is included in that of long-term borrowings.

19. Segment Information

(a) Overview of Reportable Segment

Reportable Segment is composed of the segment by products and services belonging to headquarter and subject to be reviewed periodically by the Board of Directors to decide the allocation of management resources and to evaluate the performance.
The Company organizes headquarters by products and services in Head office. Each headquarter makes strategies of its products and services in both Japan and abroad comprehensively and develops the operation.
Reportable Segment is classified into 4 segments: Ship, Ocean Development, Machinery and Engineering. Main products and services of each Reportable Segment are as follows.

Ship: commercial ships, naval ships, high speed passenger/vehicle ferries, offshore structures, underwater TV vehicles, steel structures

Ocean Development: FPSOs (floating production storage offloading vessels)

Machinery: marine and stationary diesel engines, marine equipment, gas engines, steam turbines, blowers, process compressors, gas turbines, cogeneration system, regulating system, container cranes, industrial cranes, container terminal management systems, HWM manipulators, equipment of radar sensing for underground and construction, bridges, port structures, induction heaters

Engineering: renewable energy power generation plants, power generation business, overseas civil works, chemical plants, waste treatment plants, water treatment plants, resources recycling plants, PCB disposal plants

(b) Calculation method used for Sales, Operating income and loss, Assets, Liabilities and other items for each Reportable Segment

The accounting method used for Reportable Segment is almost same as the method stated in "Significant Accounting and Reporting Policies."
Operating income and loss in Reportable Segment is based on the one in Consolidated Statements of Operations.
Inter segment profit and transfer are based on the market price.
Change in depreciation method for property, plant and equipment:
As stated in Note 1 (u), although the Company and domestic Subsidiaries previously computed depreciation of property, plant and equipment (excluding lease assets) mainly using the declining-balance method (except for buildings, other than facilities attached to buildings that were acquired on or after April 1, 1998, and facilities attached to buildings and structures that were acquired on or after April 1, 2016, which were depreciated using the straight-line method), the Company and domestic Subsidiaries changed its depreciation method to the straight-line method from the current fiscal year ended March 31, 2018.
As a result of this change, segment operating income (loss) for the year ended March 31, 2018 increased by ¥796 million ($7,492 thousand) for the "Machinery" segment, increased by ¥50 million ($471 thousand) for the "Others" segment, improved by ¥411 million ($3,869 thousand) for the "Ship" segment, and improved by ¥39 million ($367 thousand) for the "Engineering" segment, compared with the previous method.

(c) Information about Sales, Operating income and loss, Assets, Liabilities and other items for each Reportable Segment

Reportable Segment information for the years ended March 31, 2018 and 2017 were as follows:

2018	Japanese Yen (millions)								
	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	¥ 112,473	¥ 191,182	¥ 181,734	¥ 180,382	¥ 665,771	¥ 37,446	¥ 703,217	¥ -	¥ 703,217
Inter segment	2,735	-	7,355	41	10,131	971	11,102	(11,102)	-
Total	115,208	191,182	189,089	180,423	675,902	38,417	714,319	(11,102)	703,217
Operating income (loss)	¥ (15,261)	¥ 11,321	¥ 11,394	¥ (15,545)	¥ (8,091)	¥ 2,866	¥ (5,225)	¥ -	¥ (5,225)
Assets	¥ 137,199	¥ 299,067	¥ 166,690	¥ 97,449	¥ 700,405	¥ 219,756	¥ 920,161	¥ 109,062	¥1,029,223
Depreciation and amortization	¥ 3,875	¥ 4,674	¥ 3,851	¥ 1,521	¥ 13,921	¥ 2,790	¥ 16,711	¥ 485	¥ 17,196
Amortization of goodwill	¥ 882	¥ 260	¥ 31	¥ 45	¥ 1,218	¥ 24	¥ 1,242	¥ -	¥ 1,242
Year-end balance of goodwill	¥ 11,907	¥ 2,069	¥ -	¥ 195	¥ 14,171	¥ 90	¥ 14,261	¥ -	¥ 14,261
Loss on impairment of non-current assets	¥ 1,583	¥ -	¥ 28	¥ 1,984	¥ 3,595	¥ 77	¥ 3,672	¥ 0	¥ 3,672
Increase in property, plant and equipment and intangible assets	¥ 2,584	¥ 3,125	¥ 4,903	¥ 1,018	¥ 11,630	¥ 1,545	¥ 13,175	¥ 987	¥ 14,162

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.
(note 2) Adjustments are as follows:
(1) Adjustments of ¥109,062 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of the Company of ¥110,625 million that are not allocated to any Reportable Segment.
(2) Adjustments of ¥485 million recorded for depreciation and amortization include depreciation for property, plant and equipment, and amortization for intangible assets related to the administration divisions of ¥485 million.
(3) Adjustments of ¥0 million recorded for loss on impairment of non-current assets are the impairment loss for Corporate.
(4) Adjustments of ¥987 million recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.
(note 3) Operating income (loss) is adjusted with operating loss in Consolidated Statements of Operations.

2017	Japanese Yen (millions)								
	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	¥ 126,690	¥ 228,420	¥ 174,847	¥ 162,598	¥ 692,555	¥ 38,910	¥ 731,465	¥ -	¥ 731,465
Inter segment	1,821	-	7,617	12	9,450	1,112	10,562	(10,562)	-
Total	128,511	228,420	182,464	162,610	702,005	40,022	742,027	(10,562)	731,465
Operating income (loss)	¥ (9,754)	¥ 17,896	¥ 14,772	¥ (17,333)	¥ 5,581	¥ 2,723	¥ 8,304	¥ -	¥ 8,304
Assets	¥ 159,912	¥ 312,377	¥ 170,164	¥ 101,861	¥ 744,314	¥ 225,985	¥ 970,299	¥ 126,436	¥1,096,735
Depreciation and amortization	¥ 4,000	¥ 5,364	¥ 4,158	¥ 1,468	¥ 14,990	¥ 3,149	¥ 18,139	¥ 438	¥ 18,577
Amortization of goodwill	¥ 809	¥ 465	¥ -	¥ 17	¥ 1,291	¥ 20	¥ 1,311	¥ -	¥ 1,311
Year-end balance of goodwill	¥ 11,738	¥ 2,372	¥ -	¥ 141	¥ 14,251	¥ 97	¥ 14,348	¥ -	¥ 14,348
Gain on bargain purchase	¥ -	¥ -	¥ 273	¥ -	¥ 273	¥ -	¥ 273	¥ -	¥ 273
Loss on impairment of non-current assets	¥ -	¥ 1,525	¥ 21	¥ -	¥ 1,546	¥ 58	¥ 1,604	¥ 3,486	¥ 5,090
Increase in property, plant and equipment and intangible assets	¥ 5,509	¥ 3,631	¥ 9,710	¥ 2,078	¥ 20,928	¥ 4,503	¥ 25,431	¥ 1,975	¥ 27,406

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.
(note 2) Adjustments are as follows:
(1) Adjustments of ¥126,436 million recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of the Company of ¥132,051 million that are not allocated to any Reportable Segment.
(2) Adjustments of ¥438 million recorded for depreciation and amortization include depreciation for property, plant and equipment, and amortization for intangible assets related to the administration divisions of ¥457 million.
(3) Adjustments of ¥3,486 million recorded for loss on impairment of non-current assets are the impairment loss for Corporate.
(4) Adjustments of ¥1,975 million recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.
(note 3) Operating income (loss) is adjusted with operating income in Consolidated Statements of Operations.

2018	U.S. Dollars (thousands)								
	Ship	Ocean Development	Machinery	Engineering	Sub total	Others	Total	Adjustments	Consolidated
Net Sales:									
Outside customers	$1,058,669	$1,799,529	$1,710,599	$1,697,873	$6,266,670	$ 352,466	$6,619,136	$ -	$6,619,136
Inter segment	25,743	-	69,230	386	95,359	9,140	104,499	(104,499)	-
Total	1,084,412	1,799,529	1,779,829	1,698,259	6,362,029	361,606	6,723,635	(104,499)	6,619,136
Operating income (loss)	$ (143,647)	$ 106,561	$ 107,248	$ (146,320)	$ (76,158)	$ 26,977	$ (49,181)	$ -	$ (49,181)
Assets	$1,291,406	$2,815,013	$1,568,995	$ 917,254	$6,592,668	$2,068,486	$8,661,154	$1,026,563	$9,687,717
Depreciation and amortization	$ 36,474	$ 43,995	$ 36,248	$ 14,317	$ 131,034	$ 26,261	$ 157,295	$ 4,565	$ 161,860
Amortization of goodwill	$ 8,302	$ 2,447	$ 292	$ 424	$ 11,465	$ 226	$ 11,691	$ -	$ 11,691
Year-end balance of goodwill	$ 112,076	$ 19,475	$ -	$ 1,835	$ 133,386	$ 848	$ 134,234	$ -	$ 134,234
Loss on impairment of non-current assets	$ 14,900	$ -	$ 263	$ 18,675	$ 33,838	$ 725	$ 34,563	$ 0	$ 34,563
Increase in property, plant and equipment and intangible assets	$ 24,322	$ 29,415	$ 46,150	$ 9,582	$ 109,469	$ 14,543	$ 124,012	$ 9,290	$ 133,302

(note 1) "Others" is the segment which is not included in Reportable Segment and includes Transport equipment related business, Systems development, Real estate lease business and others.
(note 2) Adjustments are as follows:
(1) Adjustments of $1,026,563 thousand recorded for assets include primarily comprised of surplus funds (cash and time deposits), long-term investment (investment securities) and assets related to the administration divisions of the Company of $1,041,274 thousand that are not allocated to any Reportable Segment.
(2) Adjustments of $4,565 thousand recorded for depreciation and amortization include depreciation for property, plant and equipment, and amortization for intangible assets related to the administration divisions of $4,565 thousand.
(3) Adjustments of $0 thousand recorded for loss on impairment of non-current assets are the impairment loss for Corporate.
(4) Adjustments of $9,290 thousand recorded for increase in property, plant and equipment and intangible assets include increase in assets related to the administration divisions.
(note 3) Operating income (loss) is adjusted with operating loss in Consolidated Statements of Operations.

[Related information]

(d) Information by products and services

Information by products and services is the same as Reportable Segment and the description is omitted.

(e) Information by geographical area

1) Sales

2018	Japanese Yen (millions)					
	Japan	Brazil	Asia	Africa	Others	Total
Net sales	¥ 287,826	¥ 90,970	¥ 89,073	¥ 81,702	¥ 153,646	¥ 703,217

2017	Japanese Yen (millions)					
	Japan	Brazil	Asia	Africa	Others	Total
Net sales	¥ 266,573	¥ 139,591	¥ 98,695	¥ 69,283	¥ 157,323	¥ 731,465

2018	U.S. Dollars (thousands)					
	Japan	Brazil	Asia	Africa	Others	Total
Net sales	$ 2,709,206	$ 856,269	$ 838,413	$ 769,032	$ 1,446,216	$ 6,619,136

*Sales amount is based on the place of customer and classified by country or geographical area.

2) Property, plant and equipment

2018	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 331,126	¥ 20,941	¥ 352,067

2017	Japanese Yen (millions)		
	Japan	Others	Total
Property, plant and equipment	¥ 339,132	¥ 30,126	¥ 369,258

2018	U.S. Dollars (thousands)		
	Japan	Others	Total
Property, plant and equipment	$ 3,116,774	$ 197,110	$ 3,313,884

(f) Information by major customer

Information by major customer for both 2018 and 2017 is not described because there is no customer with the sales amount exceeds 10% of the sales amount in Consolidated Statements of Operations.

[Information about gain on bargain purchase for each Reportable Segment]

2018
Not applicable.

2017
Gain on bargain purchase of ¥273 million is recorded under the "Machinery" segment due to additional acquirement of the shares of the subsidiary, Kaji Technology Corporation.

20. Investment and Rental Property

(a) Articles concerning situation of investment and rental property

The Company and certain Subsidiaries own rental office building, commercial facilities, and houses (including land) in Tokyo, Okayama and other areas. Idle land is also owned in Tokyo, Oita and other areas.

(b) Articles concerning fair value of investment and rental property

The book value of investment and rental properties stated in the consolidated balance sheets, the increase or decrease in this fiscal year, and fair value are shown below.

2018	Japanese Yen (millions)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2017	Increase (Decrease)	Ending balance as of March 31, 2018	As of March 31, 2018
Facilities for lease	¥ 98,387	¥ 751	¥ 99,138	¥ 97,546
Idle assets (Land)	17,257	(4,428)	12,829	13,087
Total	¥ 115,644	¥ (3,677)	¥ 111,967	¥ 110,633

	U.S. Dollars (thousands)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2017	Increase (Decrease)	Ending balance as of March 31, 2018	As of March 31, 2018
Facilities for lease	$ 926,083	$ 7,068	$ 933,151	$ 918,167
Idle assets (Land)	162,434	(41,679)	120,755	123,183
Total	$ 1,088,517	$ (34,611)	$ 1,053,906	$ 1,041,350

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.
(note 2) The increase in rental properties in this fiscal year is mainly due to new acquisitions (¥1,019 million/ $9,591 thousand), and the decrease in rental properties is mainly due to sales of rental properties (¥3,242 million/ $30,516 thousand) and depreciation (¥1,296 million/ $12,199 thousand).
In addition, reclassification amounts (¥4,325 million/ $40,710 thousand) are included both in the increase of rental properties and in the decrease of idle assets.
(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

	Japanese Yen (millions)			
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc.)
Facilities for lease	¥ 7,697	¥ 4,719	¥ 2,978	¥ 5,792
Idle assets (Land)	-	-	-	(21)
Total	¥ 7,697	¥ 4,719	¥ 2,978	¥ 5,771

	U.S. Dollars (thousands)			
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc.)
Facilities for lease	$ 72,449	$ 44,418	$ 28,031	$ 54,518
Idle assets (Land)	-	-	-	(198)
Total	$ 72,449	$ 44,418	$ 28,031	$ 54,320

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.
(note 2) Others include gain/loss on disposal of non-current assets, loss on impairment of non-current assets and taxes-and-dues, which are recognized as other income (expenses).

2017	Japanese Yen (millions)			
	Book value			Fair value
Usage	Beginning balance as of April 1, 2016	Increase (Decrease)	Ending balance as of March 31, 2017	As of March 31, 2017
Facilities for lease	¥ 107,221	¥ (8,834)	¥ 98,387	¥ 97,323
Idle assets (Land)	22,743	(5,486)	17,257	17,849
Total	¥ 129,964	¥ (14,320)	¥ 115,644	¥ 115,172

(note 1) Book value stated in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses.
(note 2) The increase in rental properties in this fiscal year is mainly due to new acquisitions (¥444 million), and the decrease in rental properties is mainly due to sales of rental properties (¥7,147 million), diversion of land (¥3,092 million), impairment loss (¥3,230 million) and depreciation (¥1,426 million).
In addition, reclassification amounts (¥191 million) are included both in the increase of rental properties and in the decrease of idle assets.
(note 3) Fair value at the end of this fiscal year is mainly estimated based on the "Real estate appraising standard" with an adjustment using a certain indicator.

The profit and loss from investment and rental properties in this fiscal year are shown below.

	Japanese Yen (millions)			
Usage	Rental income	Rental expenses	Difference	Others (Profit or Loss on sales of assets, etc.)
Facilities for lease	¥ 8,605	¥ 5,151	¥ 3,454	¥ 21,750
Idle assets (Land)	-	-	-	(2,487)
Total	¥ 8,605	¥ 5,151	¥ 3,454	¥ 19,263

(note 1) Rental expenses include depreciation, repair, insurance and taxes-and-dues. Rental income is recognized as revenue from operations, and rental expenses are recognized as operating expenses.
(note 2) Others include gain/loss on disposal of non-current assets, loss on impairment of non-current assets and taxes-and-dues, which are recognized as other income (expenses).

21. Related Party Transactions

Transactions between Subsidiaries and related parties for the fiscal years ended March 31, 2018 and 2017 were as follows:
Unconsolidated subsidiaries and affiliates of the Company

2018 — Japanese Yen (millions)

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year-end
Affiliate	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 149,650	Charter of FPSO	Indirect 15.0%	Time Charter of FPSO	The equipment capital collection	33,535	Short-term loans	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 169,420	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	The equipment capital lending	37,079	Short-term loans	37,612
							The equipment capital collection	31,088		
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 110	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	Construction of FPSO	37,364	Receivable	29,156
							Guarantee Obligation	49,846	-	-

2017 — Japanese Yen (millions)

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year-end
Affiliate	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 15.0%	Time Charter of FPSO	The equipment capital lending	33,708	Short-term loans	27,993
							The equipment capital collection	12,182		
	CERNAMBI NORTE MV26 B.V.	Amsterdam, The Netherlands	EURO 175,026	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	The equipment capital lending	15,618	Short-term loans	-
							The equipment capital collection	24,033		
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 100	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	Construction of FPSO	14,108	Receivables	11,249
							The equipment capital lending	27,418	Short-term loans	31,704
							The equipment capital collection	12,828		
							Guarantee Obligation	24,211	-	-
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 110	Charter of FPSO	Indirect 14.7%	Time Charter of FPSO	Construction of FPSO	75,059	Receivables	43,242
							Guarantee Obligation	35,457	-	-

2018 — U.S.Dollars (thousands)

Category	Name of company	Address	Capital (thousands)	Business	Voting shares	Business relationship	Contents of transaction	Transaction amount	Account title	Outstanding balance at the year-end
Affiliate	T.E.N. GHANA MV25 B.V.	Amsterdam, The Netherlands	EURO 149,650	Charter of FPSO	Indirect 15.0%	Time Charter of FPSO	The equipment capital collection	315,653	Short-term loans	-
	CARIOCA MV27 B.V.	Amsterdam, The Netherlands	EURO 169,420	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	The equipment capital lending	349,012	Short-term loans	354,029
							The equipment capital collection	292,620		
	TARTARUGA MV29 B.V.	Amsterdam, The Netherlands	USD 110	Charter of FPSO	Indirect 19.4%	Time Charter of FPSO	Construction of FPSO	351,694	Receivable	274,435
							Guarantee Obligation	469,183	-	-

1. The transaction amount does not include foreign currency exchange gains and losses, while outstanding balance at the year-end includes foreign currency exchange gains and losses. The transaction amount does not include sales tax, while outstanding balance at the year-end includes sales tax.
2. Policies for determining terms and conditions are as follows:
   (1) FPSO/FSO construction and operation trade are deliberately determined in consideration by each project plan.
   (2) The equipment capital lending is deliberately determined in consideration by each project plan.
   (3) Guarantee Obligation is deliberately determined in consideration by each project plan.

22. Notes to Important Subsequent Events

(a) Transition to a holding company structure by means of an absorption-type company split

Following the approval at the Ordinary General Meeting of Shareholders held on June 28, 2017, the Company executed an absorption-type company split on April 1, 2018, with the Company as the splitting company and the Company's three wholly owned subsidiaries as succeeding companies, and shifted to a holding company structure.
As of the same date, the Company also changed its trade name to Mitsui E&S Holdings Co., Ltd.

Transactions under common control

1) Summary of transactions
   i. Business operations subject to the transaction
      Ship and ocean business, Machinery and systems business, and Engineering business of the Company
   ii. Date of business combination
      April 1, 2018
   iii. Legal form of business combination
      Absorption-type company split, with the Company as the splitting company and the Company's three wholly owned subsidiaries as succeeding companies.
      The succeeding companies for each business, with their trade names being changed as of April 1, 2018, are as follows:

      Ship and ocean business – Mitsui E&S Shipbuilding Co., Ltd.
      (formerly, MES Ship Split Preparation Co., Ltd.)

      Machinery and systems business – Mitsui E&S Machinery Co., Ltd.
      (formerly, MES Machinery and Systems Split Preparation Co., Ltd.)

      Engineering business – Mitsui E&S Engineering Co., Ltd.
      (formerly, MES Engineering Split Preparation Co., Ltd.)

   iv. Other transaction summary
      Business environment surrounding the Company is entering a period of major changes. In addition to fluctuations of crude oil prices, slowdown of recovery speed of investment for large plants, exchange-rate fluctuations (risk of switching of the U.S. exchange policy), and delay of recovery of demand in the market of commercial ships, there is a rapid catch-up by ship constructing competitors in emerging countries such as China and South Korea including in technical aspects. On the other hand, opportunities of business expansion are increasing in the context of growing energy demand mainly in emerging countries and increasing tendency toward environmental efficiency and energy conservation. Under this business environment, the Group decided to spin off each of the Company's ship and ocean business, machinery & systems business, and engineering business into separate operating companies and shift to a holding company structure in order to accelerate deepening of management of the Group.
      Transitioning to a holding company structure will enable the Company to transfer authority and responsibility over business execution to the spin-off operating companies and establish clear independence of business execution and management responsibility. Under this arrangement, the operating companies will formulate and execute strategies quickly, adapt their strategies to changes in the business environment flexibly, execute bold strategies such as M&A activities (or business partnerships), pursue a selection-and-concentration strategy, and thereby further enhance their corporate value.
      As a pure holding company, the Company will work to enhance collaboration between the Group companies and the spin-off operating companies, whose independence of business execution has been strengthened, develop business plans and other business strategies so as to foster an organic sense of unity among Group companies, concentrate corporate resources on business domains that the Company identifies as growth areas, and thus enhance the corporate value of the Group as a whole.
2) Summary of accounting applied
   The transaction was accounted for as transactions under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

(b) Acquisition of non-current asset

Showa Aircraft Industry Co., Ltd., a consolidated subsidiary of the Company, resolved at its Board of Directors Meeting held on January 26, 2018 to acquire the following non-current asset. The delivery of the asset was completed on April 3, 2018.

1) Purpose of acquisition
   To acquire land for lease business in order to replace the non-current asset transferred in June 2017.
2) Summary of asset to be acquired
   i. Location : Koga city, Fukuoka prefecture
   ii. Area : 26,463.00 m²
   iii. Acquisition price : ¥3,200 million ($30,120 thousand)
   iv. Asset to be acquired : Land

Independent Auditor's Report

To the Board of Directors of Mitsui E&S Holdings Co., Ltd.

We have audited the accompanying consolidated financial statements of Mitsui E&S Holdings Co., Ltd. (formerly Mitsui Engineering & Shipbuilding Co., Ltd.) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information 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 such internal control as management determines is necessary to enable the preparation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of Mitsui E&S Holdings Co., Ltd. (foemerly Mitsui Engineering & Shipbuilding Co., Ltd.) and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2018
Tokyo, Japan

MITSUI E&S

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