Financial Information 2016

Iwatani Corporation

CONTENTS

Management's Discussion and Analysis

1. Financial Position

Total assets as of March 31, 2016 stood at ¥404,479 million, a ¥4,345 million decrease compared with the previous fiscal year-end. The change is mainly attributable to decreases of ¥5,961 million in investments in securities, ¥3,168 million in notes and accounts receivable–trade, and ¥2,592 million in merchandise and finished goods, which exceeded increases of ¥4,151 million in buildings and structures, ¥1,217 million in tangible lease assets, and ¥1,108 million in buildings and structures.

Total liabilities as of March 31, 2016 stood at ¥279,895 million, a ¥10,986 million decrease compared with the previous fiscal year-end. The change is mainly attributable to decreases of ¥21,522 million in notes and accounts payable–trade, ¥20,300 million in long-term borrowings, and ¥14,224 million in short-term borrowings, which exceeded increases of ¥30,136 million in bonds and ¥14,487 million in electronically recorded obligations–operating. Among liabilities, the aggregate amount of interest-bearing debt including lease obligations was ¥136,514 million, a ¥5,278 million decrease.

Total net assets as of March 31, 2016 stood at ¥124,583 million, a ¥6,640 million increase compared with the previous fiscal year-end. The change is mainly attributable to an increase of ¥10,640 million in retained earnings, which exceeded decreases of ¥2,925 million in unrealized gains on securities and ¥1,793 million in foreign currency translation adjustments.

2. Cash Flows

Cash and cash equivalents as of March 31, 2016 amounted to ¥21,804 million, a ¥1,363 million increase from the previous fiscal year-end.

(1) Cash flows from operating activities

Net cash provided by operating activities in the fiscal year ended March 31, 2016 decreased by ¥6,907 million from the previous fiscal year to ¥36,101 million. Major items include ¥20,781 million in income before income taxes and minority interests and ¥15,203 million in depreciation and amortization.

(2) Cash flows from investing activities

Net cash used in investing activities in the fiscal year ended March 31, 2016 increased by ¥4,611 million from the previous fiscal year to ¥25,088 million. Major items include ¥22,013 million in payments for purchase of property, plant, and equipment.

(3) Cash flows from financing activities

Net cash used in financing activities in the fiscal year ended March 31, 2016 decreased by ¥12,365 million from the previous fiscal year to ¥9,969 million. Major items include ¥30,150 million in proceeds from issuance of bonds, ¥2,629 million in repayment of long-term debt, and a ¥13,836 million net decrease in short-term borrowings.

3. Corporate Governance Structure

(1) Basic policy on corporate governance

The Company's corporate philosophy is "Become a person needed by society, as those needed by society can prosper." In keeping with that philosophy, the Company has set forth a basic policy on corporate governance consisting of five elements and endeavors to develop a corporate governance structure to increase management soundness, transparency, and efficiency.

Basic policy

1. Develop an environment in which shareholders can exercise their rights appropriately and strive to ensure equal treatment of shareholders.
2. Respect the rights and positions of stakeholders including employees, customers, business partners, creditors, and local communities and endeavor to appropriately cooperate with these stakeholders.
3. Appropriately make information disclosure in compliance with the relevant laws and regulations. Also strive to actively provide information beyond that required by law to ensure transparency.
4. Engage in fair, transparent, and flexible decision-making and endeavor to appropriately execute the roles and responsibilities of the Board of Directors.
5. Endeavor to engage in constructive dialogue with shareholders to contribute to sustained growth and enhancement of corporate value.

(2) Business execution and oversight structure

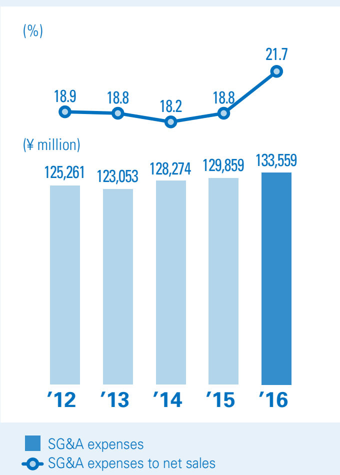
• Board of Directors

The Board of Directors, the Company's business decision-making and oversight body, consists of 17 directors (including two outside directors). The Board of Directors engages in appropriate, prompt decision-making and oversight on the basis of full and active discussion. In particular, the outside directors enhance the function of the Board of Directors by strengthening and enhancing transparency in decision-making and oversight effectiveness through a wealth of experience and extensive knowledge concerning corporate governance from a position independent from management.

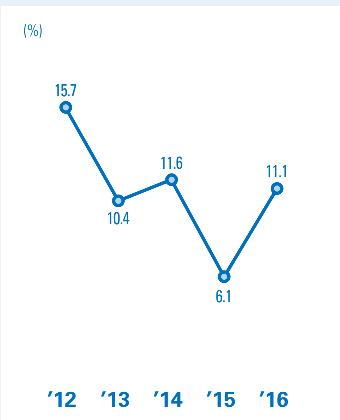
• Management Committee

The Management Committee, consisting of directors at the executive director level and above, meets twice monthly to deliberate on matters to be submitted for resolution by the Board of Directors and important matters related to business execution and to promote information sharing and communication.

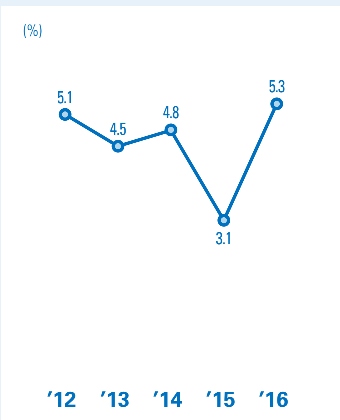
SG&A Expenses



ROE (Net Income to Net Assets)



ROA (Ordinary Income to Total Assets)



• Executive Officer System
The Company has introduced an executive officer system and is undertaking to invigorate the Board of Directors to increase the speed of decision-making and promote delegation of authority.

(3) Audit structure
The Company has adopted the audit and supervisory board system. The Audit & Supervisory Board consists of four Audit & Supervisory Board members (including two outside Audit & Supervisory Board members). The full-time Audit & Supervisory Board members attend all meetings of the Board of Directors and Management Committee, and the outside Audit & Supervisory Board members also attend meetings of the Board of Directors. The result is a system that enables sufficient monitoring of the directors' execution of duties. When electing Audit & Supervisory Board members, the Company places importance on specialized expertise in finance and accounting or the law and on knowledge and experience of the Company's business. The outside Audit & Supervisory Board members, in particular, satisfy the requirements concerning independent corporate officers stipulated by financial instruments exchanges. In this way, the Company has established an audit structure based on more diversified points of view.

The Company has established the Audit Department as an organization directly under the control of the president. The Audit Department periodically conducts necessary internal audits, maintaining a close relationship and collaboration with the Audit & Supervisory Board members, and conducts audits to determine whether the Company's business activities are being conducted appropriately and efficiently.

(4) Risk management system
To comprehensively manage group-wide risks, the Group established the Risk Management Committee as an organization under the direct control of the president. Eight subcommittees formed under the Committee comprehensively respond to latent and manifest corporate risks.

In addition, the Outline of Iwatani Corporate Ethics was established in 1998 to prevent the occurrence of corporate misconduct or scandals, and we are working to ensure awareness of this document throughout the Company and the Group. The Outline consists of ethical standards to be observed throughout every phase of our business activities and is based on management principles, ethical standards, and values shared by Group managers and employees.

4. Business Risks
The following are some risks to the Group's business that may have a significant influence on investor decisions. Any forward-looking statements contained herein reflect the judgment of the Group as of March 31, 2016.

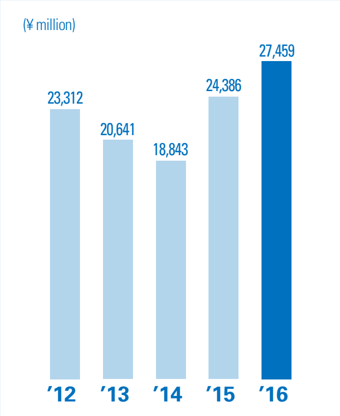
(1) Seasonal factors and weather fluctuations
Since consumption of LPG, the Group's mainstay product, is affected by air and water temperatures, LPG sales volumes tend to decrease in warm seasons and increase in cool seasons. For this reason, the Group's earnings structure is weighted toward income in the second half of the fiscal year. Additionally, unseasonable weather patterns may affect the Group's LPG sales volumes.

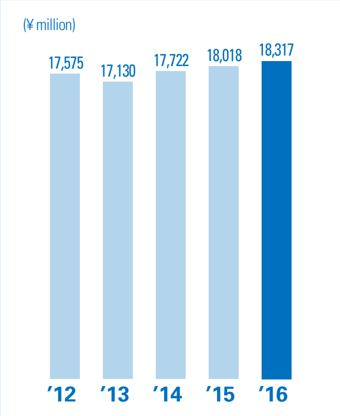
(2) The impact of LPG import prices
With regard to LPG import prices, the contract price (CP) announced monthly by Saudi Arabian Oil Company (Saudi Aramco) has a significant influence on pricing decisions in the international market. Accordingly, sudden fluctuations in the CP are a factor that affects the Group's LPG purchase prices. The Group also procures LPG produced in the U.S. and is affected by fluctuations in the Mont Belvieu (MB) price, the LPG benchmark price in the U.S.

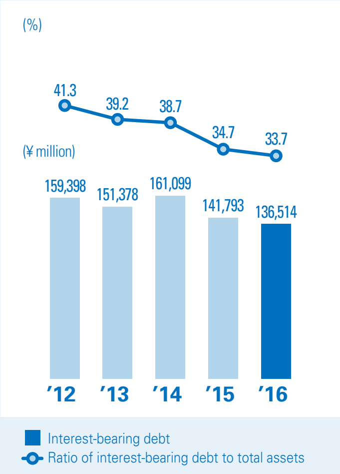
(3) Impact of currency rate fluctuations
The Group uses forward exchange contracts in order to avoid risks from exchange rate fluctuations in currency markets, which the Group is exposed to in its trade transactions. However, if exchange rates fluctuate rapidly, it is difficult to completely eliminate the risks, meaning that such conditions could impact on the Group's financial performance.

(4) Impact of interest rate fluctuations
The Group has financing needs for its strategic investments, including capital expenditures for increasing the number of LPG customer households through M&A, as well as for expanding the industrial gas business. This means that interest rate fluctuations could impact on the Group's financial performance. However, since most of the Group's interest-bearing debt has been procured at a fixed rate, such fluctuations have limited impact.

(5) Impact of credit risk
The Group has made it a practice to grant credit to business partners in various ways, meaning that the Group is exposed to credit risk in the event of non-performance by the partners. In order to avoid such credit risk, the Group takes appropriate safeguard measures depending on the partners' credit standing, such as setting credit limits and obtaining the necessary collateral and guarantees. However, in the event that we are unable to recover credit because of deterioration in credit standing, bankruptcies or other conditions affecting our business partners, the financial performance of the Group could possibly be affected.

Capital Expenditure


Depreciation and Amortization


Interest-bearing Debt


(6) Intensified competition resulting from deregulation

Currently, legal reforms and deregulation are under way to extensively liberalize the electric power and gas retail businesses. Such movements could result in significant transformation of the business environment toward severer competition within the same industry and/or among the various energy businesses, and the financial performance of the Group could be negatively affected.

(7) Impact of country risk

The Group not only has vast foreign trade transactions, but also has established business operations overseas, especially in Asia. The Group's financial performance may be affected if changes should occur in the countries and regions where the Group operates, such as deterioration in political and/or economic climate, unexpected revision of laws, regulations and tax schemes, and deterioration of public security.

(8) Risk from price fluctuations in marketable securities

In addition to holding shares in the Group companies, the Group holds marketable securities, primarily in business partners, for the purpose of creating closer business relationships. Accordingly, future fluctuations in the stock markets may impact on the Group's financial performance.

(9) Defects in products and services

The products and services of the Group are produced and provided under an appropriate quality control system. However, if compensation was claimed for product liability, or if the Group must recall certain products, the social credibility and public image of the Group could be tarnished, in addition to a considerable amount of monetary expenses being directly required. Such a situation may impact the financial performance of the Group.

(10) Disasters

The Group handles LPG, industrial gases and other products in compliance with the High-Pressure Gas Safety Law. The Group therefore conducts regular inspections as mandated by the Law, as well as voluntary inspections and checks. However, the stable supply of these products may conceivably be interrupted if the Group's supply sites or the customers' facilities were to be damaged due to a large earthquake or other natural disasters.

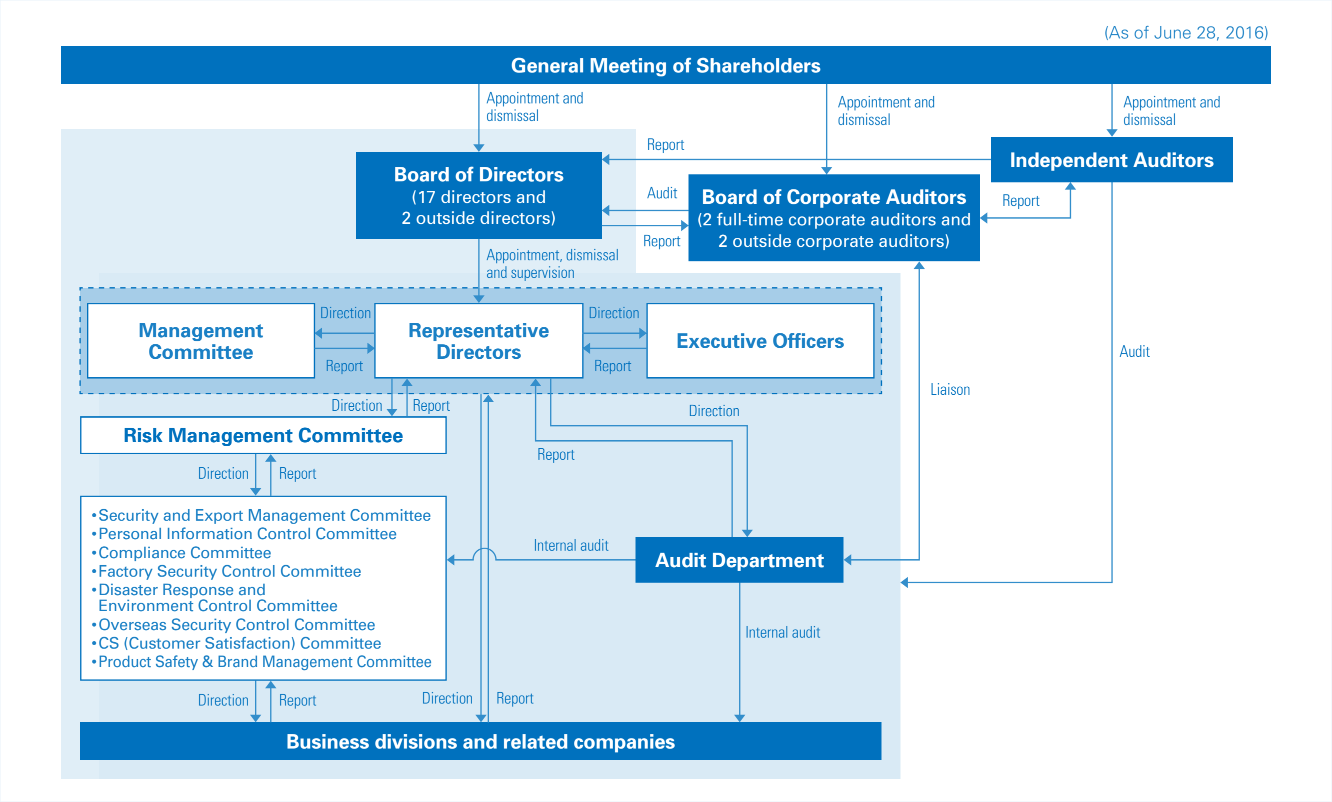
(11) Handling of personal information

In running the LPG business and other business operations, the Group handles a considerable amount of personal information. As business operators handling personal information covered by the Law on the Protection of Personal Information, we do our utmost to comply with the Law by always working to ensure that such information is managed properly. However, if any of the personal information the Group handles were to be leaked outside of the Group despite our efforts to prevent such events, the Group's reputation in society could be tarnished and/or customers could claim for damages. Such events could negatively affect the financial performance of the Group.

(12) Risk relating to legal compliance

The Group, which develops its businesses at home and abroad under various laws, regulations and social norms, has established the Compliance Committee and been striving to reinforce the corporate structure for legal compliance. In addition, the Group has also established the Outline of Iwatani Corporate Ethics, and widely publicized it to all members of the Group as the norm they should comply with. However, if infringement of laws and regulations occurred despite our efforts for thorough legal compliance as described above, the financial performance of the Group could be adversely affected through such consequences as administrative dispositions made by the authorities, lawsuits raised by stakeholders and tarnished social credibility of the Group.

Corporate Governance Structure



Consolidated Balance Sheets

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2015	**2016**	**2016**
Current assets:			
Cash and cash equivalents (Note 7)	¥ 21,804	**¥ 22,833**	**$ 202,635**
Time deposits (Note 7)	432	**475**	**4,215**
Notes and accounts receivable (Note 7)			
Trade	106,792	**103,624**	**919,630**
Other	4,953	**3,778**	**33,528**
Allowance for doubtful accounts	(732)	**(701)**	**(6,221)**
Inventories (Note 9)	37,592	**33,660**	**298,722**
Deferred tax assets (Note 11)	3,462	**3,008**	**26,695**
Other	7,504	**9,198**	**81,629**
Total current assets	181,809	**175,878**	**1,560,862**
Property, plant and equipment:			
Land (Notes 10 and 15)	57,368	**57,161**	**507,286**
Buildings and structures (Notes 10 and 15)	106,510	**111,303**	**987,779**
Machinery, vehicles, equipment and tools (Notes 10 and 15)	149,591	**152,993**	**1,357,765**
Lease assets	6,136	**8,048**	**71,423**
Construction in progress	3,764	**4,715**	**41,844**
	323,371	**334,222**	**2,966,116**
Accumulated depreciation	(186,392)	**(189,218)**	**(1,679,250)**
Net property, plant and equipment	136,979	**145,003**	**1,286,856**
Intangible assets:			
Goodwill	14,157	**14,087**	**125,017**
Other	2,854	**2,788**	**24,742**
Total intangible assets	17,012	**16,876**	**149,769**
Investments and other assets:			
Investments in securities (Notes 7, 8 and 10)	40,078	**35,828**	**317,962**
Investments in nonconsolidated subsidiaries and affiliates (Note 7)	19,407	**17,695**	**157,037**
Net defined benefit asset (Note 12)	2,346	**2,267**	**20,118**
Deferred tax assets (Note 11)	3,023	**2,689**	**23,864**
Other	8,999	**9,053**	**80,342**
Allowance for doubtful accounts	(831)	**(813)**	**(7,215)**
Total investments and other assets	73,023	**66,721**	**592,128**
Total assets	¥ 408,824	**¥ 404,479**	**$ 3,589,625**

See the accompanying Notes to the Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2015	Millions of yen 2016	Thousands of U.S. dollars (Note 4) 2016
Current liabilities:			
Short-term borrowings (Notes 7 and 10)	¥ 37,654	**¥ 23,430**	**$ 207,933**
Current portion of long-term debt (Notes 7 and 10)	24,704	**22,467**	**199,387**
Notes and accounts payable–trade (Note 7)	97,987	**76,464**	**678,594**
Electronically recorded obligations–operating (Note 7)	—	**14,487**	**128,567**
Income taxes payable	3,347	**3,567**	**31,656**
Accrued bonuses	4,364	**4,491**	**39,856**
Other	24,620	**27,579**	**244,755**
Total current liabilities	192,678	**172,489**	**1,530,786**
Long-term liabilities:			
Long-term debt (Notes 7 and 10)	75,899	**85,735**	**760,871**
Deferred tax liabilities (Note 11)	5,483	**4,146**	**36,794**
Net defined benefit liability (Note 12)	5,732	**5,811**	**51,570**
Allowance for retirement benefits for directors and statutory auditors	1,174	**1,291**	**11,457**
Other	9,913	**10,422**	**92,492**
Total long-term liabilities	98,203	**107,406**	**953,194**
Total liabilities	290,882	**279,895**	**2,483,981**
Contingent liabilities (Note 13)			
Net assets (Note 18)			
Shareholders' equity:			
Common stock Authorized–600,000,000 shares in 2016 and 2015 Issued–251,365,028 shares in 2016 and 2015	20,096	**20,096**	**178,345**
Capital surplus	18,118	**18,137**	**160,960**
Retained earnings	55,534	**66,174**	**587,273**
Treasury stock, at cost 5,282,495 shares in 2016 5,279,790 shares in 2015	(1,454)	**(1,463)**	**(12,983)**
Total shareholders' equity	92,294	**102,945**	**913,604**
Accumulated other comprehensive income:			
Unrealized gains (losses) on securities	12,865	**9,939**	**88,205**
Deferred gains (losses) on hedges	127	**(221)**	**(1,961)**
Foreign currency translation adjustments	3,759	**1,966**	**17,447**
Remeasurements of defined benefit plans	(40)	**152**	**1,348**
Total accumulated other comprehensive income	16,712	**11,836**	**105,040**
Non-controlling interests	8,935	**9,802**	**86,989**
Total net assets	117,942	**124,583**	**1,105,635**
Total liabilities and net assets	¥ 408,824	**¥ 404,479**	**$ 3,589,625**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2016	2016
Net sales	¥ 691,902	**¥ 616,201**	**$ 5,468,592**
Cost of sales	550,868	**462,145**	**4,101,393**
Gross profit	141,034	**154,055**	**1,367,190**
Selling, general and administrative expenses (Note 19)	129,859	**133,559**	**1,185,294**
Operating income	11,174	**20,496**	**181,895**
Other income (expenses):			
Interest and dividend income	806	**1,055**	**9,362**
Interest expense	(1,843)	**(1,598)**	**(14,181)**
Equity in earnings of nonconsolidated subsidiaries and affiliates	968	**602**	**5,342**
Impairment loss on fixed assets (Note 15)	(355)	**(340)**	**(3,017)**
Other, net (Note 20)	1,718	**565**	**5,014**
	1,293	**285**	**2,529**
Income before income taxes	12,468	**20,781**	**184,424**
Income taxes (Note 11):			
Current	5,433	**6,261**	**55,564**
Deferred	114	**1,185**	**10,516**
	5,548	**7,447**	**66,089**
Net income	6,919	**13,334**	**118,335**
Net income attributable to non-controlling interests	719	**969**	**8,599**
Net income attributable to owners of parent	¥ 6,199	**¥ 12,365**	**$ 109,735**

	Yen		U.S. dollars (Note 4)
	2015	2016	2016
Per share (Note 17):			
Basic: net income	¥ 25.19	**¥ 50.24**	**$ 0.44**
Diluted: net income	—	**46.79**	**0.41**
Cash dividends applicable to the period	7.00	**8.00**	**0.07**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2016	2016
Net income	¥ 6,919	**¥ 13,334**	**$ 118,335**
Other comprehensive income:			
Unrealized gains (losses) on securities	6,320	**(2,942)**	**(26,109)**
Deferred gains (losses) on hedges	64	**(339)**	**(3,008)**
Foreign currency translation adjustments	2,470	**(1,704)**	**(15,122)**
Remeasurements of defined benefit plans, net of tax	(3)	**241**	**2,138**
Share of other comprehensive income of associates accounted for using equity method	328	**(307)**	**(2,724)**
Total other comprehensive income	9,181	**(5,053)**	**(44,843)**
Comprehensive income	¥ 16,100	**¥ 8,281**	**$ 73,491**
Comprehensive income attributable to:			
Owners of the parent	15,212	**7,488**	**66,453**
Non-controlling interests	¥ 888	**¥ 792**	**$ 7,028**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Number of shares of common stock (thousands)	Millions of yen									
		Shareholders' equity				Accumulated other comprehensive income					
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance as of April 1, 2014	251,365	¥ 20,096	¥ 18,042	¥ 52,339	¥ (1,452)	¥ 6,492	¥ 55	¥ 1,207	¥ (55)	¥ 8,332	¥ 105,058
Cumulative effects of changes in accounting policies	—	—	—	(1,280)	—	—	—	—	—	—	(1,280)
Restated balance as of April 1, 2014	251,365	20,096	18,042	51,058	(1,452)	6,492	55	1,207	(55)	8,332	103,778
Net income attributable to owners of parent for the year	—	—	—	6,199	—	—	—	—	—	—	6,199
Cash dividends	—	—	—	(1,724)	—	—	—	—	—	—	(1,724)
Purchase of treasury stock	—	—	—	—	(29)	—	—	—	—	—	(29)
Disposal of treasury stock	—	—	76	—	27	—	—	—	—	—	103
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Net changes in items other than shareholders' equity	—	—	—	—	—	6,372	72	2,552	15	603	9,615
Balance as of April 1, 2015	251,365	¥ 20,096	¥ 18,118	¥ 55,534	¥ (1,454)	¥ 12,865	¥ 127	¥ 3,759	¥ (40)	¥ 8,935	¥ 117,942
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restated balance as of April 1, 2015	251,365	20,096	18,118	55,534	(1,454)	12,865	127	3,759	(40)	8,935	117,942
Net income attributable to owners of parent for the year	—	—	—	12,365	—	—	—	—	—	—	12,365
Cash dividends	—	—	—	(1,724)	—	—	—	—	—	—	(1,724)
Purchase of treasury stock	—	—	—	—	(20)	—	—	—	—	—	(20)
Disposal of treasury stock	—	—	6	—	11	—	—	—	—	—	18
Purchase of shares of consolidated subsidiaries	—	—	12	—	—	—	—	—	—	—	12
Net changes in items other than shareholders' equity	—	—	—	—	—	(2,925)	(349)	(1,793)	192	866	(4,009)
Balance as of March 31, 2016	**251,365**	**¥ 20,096**	**¥ 18,137**	**¥ 66,174**	**¥ (1,463)**	**¥ 9,939**	**¥ (221)**	**¥ 1,966**	**¥ 152**	**¥ 9,802**	**¥ 124,583**

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 4)									
		Shareholders' equity				Accumulated other comprehensive income					
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance as of April 1, 2015	251,365	$ 178,345	$ 160,791	$ 492,847	$ (12,903)	$ 114,172	$ 1,127	$ 33,359	$ (354)	$ 79,295	$ 1,046,698
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—
Restated balance as of April 1, 2015	251,365	178,345	160,791	492,847	(12,903)	114,172	1,127	33,359	(354)	79,295	1,046,698
Net income attributable to owners of parent for the year	—	—	—	109,735	—	—	—	—	—	—	109,735
Cash dividends	—	—	—	(15,299)	—	—	—	—	—	—	(15,299)
Purchase of treasury stock	—	—	—	—	(177)	—	—	—	—	—	(177)
Disposal of treasury stock	—	—	53	—	97	—	—	—	—	—	159
Purchase of shares of consolidated subsidiaries	—	—	106	—	—	—	—	—	—	—	106
Net changes in items other than shareholders' equity	—	—	—	—	—	(25,958)	(3,097)	(15,912)	1,703	7,685	(35,578)
Balance as of March 31, 2016	**251,365**	**$ 178,345**	**$ 160,960**	**$ 587,273**	**$ (12,983)**	**$ 88,205**	**$ (1,961)**	**$ 17,447**	**$ 1,348**	**$ 86,989**	**$ 1,105,635**

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	**2016**	**2016**
Cash flows from operating activities:			
Income before income taxes	¥ 12,468	**¥ 20,781**	**$ 184,424**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	18,018	**18,317**	**162,557**
Impairment loss on fixed assets	355	**340**	**3,017**
Gain on negative goodwill	(30)	**—**	**—**
Subsidy income	(872)	**(2,390)**	**(21,210)**
Loss on reduction of noncurrent assets	873	**2,378**	**21,104**
Increase (decrease) in allowance for doubtful accounts	(90)	**(26)**	**(230)**
Increase (decrease) in allowance for employees' bonuses	(124)	**93**	**825**
Increase (decrease) in net defined benefit liability	49	**78**	**692**
Decrease (increase) in net defined benefit asset	634	**79**	**701**
Increase (decrease) in allowance for retirement benefits to directors and statutory auditors	(16)	**28**	**248**
Interest and dividend income	(806)	**(1,055)**	**(9,362)**
Interest expense	1,843	**1,598**	**14,181**
Foreign exchange (gains) losses	157	**140**	**1,242**
Equity in earnings of nonconsolidated subsidiaries and affiliates	(968)	**(602)**	**(5,342)**
Loss (gain) on sales and disposal of fixed assets	269	**342**	**3,035**
Loss (gain) on sales of investments in securities	(287)	**(44)**	**(390)**
Loss on valuation of investments in securities	21	**309**	**2,742**
Loss (gain) on liquidation of subsidiaries and affiliates	—	**(14)**	**(124)**
Loss on valuation of investments in capital	—	**47**	**417**
Loss (gain) on step acquisitions	(38)	**—**	**—**
Changes in assets and liabilities			
Decrease (increase) in notes and accounts receivable–trade	15,866	**2,848**	**25,275**
Decrease (increase) in inventories	8,426	**3,459**	**30,697**
Increase (decrease) in notes and accounts payable–trade	(6,585)	**(6,962)**	**(61,785)**
Other, net	4,253	**2,221**	**19,710**
Subtotal	¥ 53,417	**¥ 41,968**	**$ 372,452**
Interest and dividend received	760	**1,282**	**11,377**
Dividends received from equity method subsidiaries and affiliates	184	**233**	**2,067**
Interest paid	(1,792)	**(1,539)**	**(13,658)**
Income taxes paid	(9,561)	**(5,844)**	**(51,863)**
Net cash provided by (used in) operating activities	¥ 43,008	**¥ 36,101**	**$ 320,385**
Cash flows from investing activities:			
Payments for purchase of investments in securities	(1,241)	**(1,154)**	**(10,241)**
Proceeds from sales and redemption of investments in securities	1,393	**162**	**1,437**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	**(84)**	**(745)**
Proceeds from sales of investments in capital	5	**3**	**26**
Payments for purchase of fixed assets	(20,146)	**(25,239)**	**(223,988)**
Proceeds from sales of fixed assets	570	**1,133**	**10,055**
Investments in loans receivable	(3,397)	**(589)**	**(5,227)**
Collection of loans receivable	2,801	**1,094**	**9,708**
Other, net	(463)	**(414)**	**(3,674)**
Net cash provided by (used in) investing activities	¥ (20,476)	**¥ (25,088)**	**$ (222,648)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(8,520)	**(13,836)**	**(122,790)**
Proceeds from long-term debt	15,543	**33,160**	**294,284**
Repayment of long-term debt	(26,358)	**(26,209)**	**(232,596)**
Cash dividends paid	(1,723)	**(1,720)**	**(15,264)**
Other, net	(1,276)	**(1,363)**	**(12,096)**
Net cash provided by (used in) financing activities	¥ (22,335)	**¥ (9,969)**	**$ (88,471)**
Effect of exchange rate changes on cash and cash equivalents	960	**(941)**	**(8,351)**
Net increase (decrease) in cash and cash equivalents	1,157	**101**	**896**
Cash and cash equivalents at beginning of year	20,440	**21,804**	**193,503**
Increase (decrease) in cash and cash equivalents due to changes in scope of consolidation	—	**915**	**8,120**
Increase (decrease) in cash and cash equivalents resulting from merger with nonconsolidated subsidiaries	206	**11**	**97**
Cash and cash equivalents at end of period	¥ 21,804	**¥ 22,833**	**$ 202,635**

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Iwatani Corporation and its Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Iwatani Corporation ("the Company") and its consolidated subsidiaries (together, "the Companies") 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 accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some 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.

As permitted, amounts of less than one million yen are omitted in the presentation for 2015 and 2016. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

2. Summary of Major Accounting Policies

(1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 111 of its subsidiaries for the year ended March 31, 2016. Certain subsidiaries have fiscal years ending on December 31 and on February 29. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the fiscal year-end of those subsidiaries and the fiscal year-end of the Company.

(2) Equity method of accounting for investments in nonconsolidated subsidiaries and affiliates

As of March 31, 2016, the Company had 61 nonconsolidated subsidiaries and 88 affiliates (Companies over which the Company exercises significant influence over operating and financial policies). The equity method has been applied to the investments in 60 of the subsidiaries and 43 of the affiliates. Since the investments in the remaining affiliates do not have a material effect on consolidated net income and retained earnings, the investments in these affiliates are carried at cost and are not accounted for by the equity method.

(3) Translation of foreign currencies

Foreign currency transactions are translated at the applicable rate of exchange prevailing at the transaction date. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the applicable rate of exchange prevailing at that date. Exchange differences are charged or credited to income. Assets and liabilities of foreign consolidated subsidiaries and affiliates accounted for by the equity method are translated into Japanese yen at applicable year-end rates of exchange, and all income and expense accounts are translated at the average rate of exchange prevailing during the year. The resulting translation adjustments are accumulated and included in "Foreign currency translation adjustments" classified as part of net assets.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally, with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value because of a change in interest rates.

(5) Securities

Securities are classified into four categories: trading securities, held-to-maturity debt securities, equity securities of nonconsolidated subsidiaries and affiliates and other securities.

As of March 31, 2015 and 2016, the Companies did not hold any trading securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities of nonconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to materiality, using the equity method of accounting. Other securities whose fair market values are readily determinable are carried at fair value with unrealized gains and losses included as a component of net assets, net of related taxes. Other securities for which it is not practicable to estimate fair value are stated at cost. In cases in which a significant decline in the value of net assets is assessed to be other than temporary, the cost of other securities is written-down by the impaired amount and charged to income. Realized gains and losses are determined by the moving average cost method and are reflected in the consolidated statement of income.

(6) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in an amount based on past experience with bad debts generally and an evaluation of the collectibility of specific receivables with the possibility of default.

(7) Inventories

Inventories are stated mainly at the lower of first-in, first-out cost or net realizable value.

(8) Property, plant and equipment and depreciation

Fixed assets, including significant renewals and additions, are carried at cost. When these assets are retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts, and the net difference less any amount realized on disposal is reflected in earnings.

Principal estimated useful lives are as follows:

Buildings and structures ·································3 to 50 years
Machinery, vehicles, equipment and tools ···2 to 20 years

Depreciation is calculated by the declining balance method over the useful life of the asset, except that the straight-line method is applied to the Sakai LPG Plant, hydrogen stations, certain fixed assets for lease, certain gas generators and buildings purchased since April 1, 1998.

Lease assets are depreciated using the straight-line method over the lease term as the useful life, with zero residual value. However, finance lease transactions that do not transfer ownership of the lease assets and commenced prior to April 1, 2008 or have total lease payments of not more than ¥3 million ($26 thousand) under a single lease contract are accounted for as operating leases. Maintenance and repairs, including minor renewals and improvements are charged to income as incurred.

(9) Intangible assets

Computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years. Other intangible assets are amortized by the straight-line method over the estimated useful life of the respective asset.

(10) Income taxes

The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income taxes are measured by applying currently enacted tax laws. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(11) Accrued bonuses

Accrued bonuses are calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees as of the date of the balance sheet.

(12) Retirement benefits

(i) Employees' severance and retirement benefits

To provide for retirement benefit payments to employees, net defined benefit asset and liability are recorded at the amounts deemed to be incurred at the fiscal year-end, based on the amount of projected benefit obligations and the fair value of plan assets at the fiscal year-end. The retirement benefit obligations are attributed to periods on a benefit formula basis.

Prior service cost is amortized by the straight-line method over a period of 12 to 14 years, which is within the average remaining years of service of employees. Actuarial differences are amortized by the straight-line method over a period of 12 to 14 years, which is within the average remaining years of service of employees, commencing with the following period.

Unrecognized actuarial differences and unrecognized prior service cost are accrued as remeasurements of defined benefit plans, net of tax, in accumulated other comprehensive income in net assets.

(ii) Retirement benefits for directors and statutory auditors

To provide for the payment of lump-sum retirement benefits to directors and statutory auditors, certain consolidated subsidiaries provide an allowance for retirement benefits to directors and statutory auditors at an amount that would be required by their internal regulations if all directors and statutory auditors retired on the balance sheet date.

(13) Goodwill and negative goodwill

Goodwill and negative goodwill generated on or before March 31, 2010 are amortized on a straight-line basis over a period not to exceed 10 years.

(14) Derivative financial instruments

Derivative financial instruments are used by the Companies principally to reduce interest rate and foreign exchange rate risks.

Derivative financial instruments are measured at fair value. Hedging transactions which meet the criteria for hedge accounting are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as a liability or asset until the loss or gain on the related hedged item is recognized. In addition, certain forward exchange contracts and certain interest rate swap transactions are accounted for using the allocation method and the special method. The allocation method requires that recognized foreign currency receivables and payables covered by forward exchange contracts be translated at contract rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to the underlying borrowings and bonds.

(15) Expenses for research and development

Expenses for research and development are charged to income when incurred.

3. Changes in Accounting Policies

Previous fiscal year (April 1, 2014 to March 31, 2015)

Adoption of accounting standard for retirement benefits

The Company and its consolidated domestic subsidiaries adopted Article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2012 (hereinafter, "Guidance No. 25")) from the year ended March 31, 2015 and have changed the determination of retirement benefit obligations and current service cost.

In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis along with changing the method of determining discount rate to a method that uses a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, rather than a discount rate based on the term of the relevant bonds approximate to the expected average remaining service years of employees.

In accordance with Article 37 of Statement No. 26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the year ended March 31, 2015. As a result of the application, net defined benefit asset decreased by ¥1,553 million, net defined benefit liability increased by ¥434 million and retained earnings decreased by ¥1,280 million at the beginning of the year ended March 31, 2015. There was immaterial impact on operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2015, respectively.

Current fiscal year (April 1, 2015 to March 31, 2016)

Adoption of accounting standards for business combinations

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the year ended March 31, 2016, prospectively.

As a result, there was immaterial impact on operating income, ordinary income, income before income taxes for the year ended March 31, 2016, and capital surplus as of March 31, 2016.

Unapplied accounting standards

– "Revised Implementation Guidance on Recoverability of Deferred Tax Assets"
(ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")

(1) Summary

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

① Treatment for an entity that does not meet any of the criteria in types 1 to 5
② Criteria for types 2 and 3
③ Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule
④ Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year
⑤ Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3

(2) Effective dates

Effective from the beginning of the year ended March 31, 2017.

(3) Effects of application of the standards

The Company is currently in the process of determining the effects of these new standards on the consolidated financial statements.

4. U.S. Dollar Amounts

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2016, which was ¥112.68 to U.S.$1.00. The 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.

5. Accounting Standards for Presentation of Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	2015	2016	2016
Unrealized gains (losses) on securities			
Increase (decrease) during the year	¥ 8,929	¥ (4,859)	$ (43,122)
Reclassification adjustments	(88)	152	1,348
Subtotal, before tax	8,841	(4,707)	(41,773)
Tax (expense) or benefit	(2,520)	1,764	15,654
Subtotal, net of tax	6,320	(2,942)	(26,109)
Deferred gains (losses) on hedges			
Increase (decrease) during the year	79	(496)	(4,401)
Subtotal, before tax	79	(496)	(4,401)
Tax (expense) or benefit	(14)	157	1,393
Subtotal, net of tax	64	(339)	(3,008)
Foreign currency translation adjustments			
Increase (decrease) during the year	2,470	(1,704)	(15,122)
Subtotal, before tax	2,470	(1,704)	(15,122)
Subtotal, net of tax	2,470	(1,704)	(15,122)
Remeasurements of defined benefit plans, net of tax			
Increase (decrease) during the year	(106)	285	2,529
Reclassification adjustments	108	66	585
Subtotal, before tax	2	351	3,115
Tax (expense) or benefit	(5)	(109)	(967)
Subtotal, net of tax	(3)	241	2,138
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	328	(292)	(2,591)
Reclassification adjustments	—	(14)	(124)
Subtotal, net of tax	328	(307)	(2,724)
Total other comprehensive income	¥ 9,181	¥ (5,053)	$ (44,843)

6. Supplemental Information on the Consolidated Statements of Cash Flows

There were no significant non-cash transactions to report for the years ended March 31, 2015 and 2016.

7. Financial Instruments

Information on Financial instruments as of March 31, 2015 and 2016 was as follows:

1. Status of financial instruments

(1) Policies for financial instruments

The Group primarily obtains funds through borrowing from banks and the issuance of corporate bonds for funding of its capital expenditures plan. After adequate liquidity has been ensured, the Companies invest temporary excess funds in deposits with low risk. Additionally, the Companies obtain short-term funds through bank borrowings, etc. The Companies utilize derivative transactions only for hedging purposes and not for speculative or dealing purposes.

(2) Description and risks of financial instruments

Notes and accounts receivable are exposed to customer credit risk. Additionally, some notes and accounts receivable are denominated in foreign currencies and are exposed to exchange rate fluctuation risk. If necessary, the Companies utilize foreign exchange forward contracts to reduce foreign currency risk.

Investments in securities are composed primarily of held-to-maturity debt securities and stocks in companies with which the Companies have business alliances and are exposed to credit risk in relation to issuers and market price fluctuation risk.

Notes, accounts payable such as accounts payable–trade, and electronically recorded obligations–operating are generally payable within six months. Some notes and accounts payable are denominated in foreign currencies. If necessary, the

Tables show ¥ in millions and US$ in thousands.

Companies utilize foreign exchange forward contracts to reduce foreign currency risk.

Borrowings and bonds are mainly for capital expenditures. The longest redemption period is fourteen years after the fiscal year closing date. Because some of these instruments have a variable interest rate, they are exposed to interest rate fluctuation risk.

Derivative transactions consist of the use of foreign exchange forward contracts for the purpose of hedging exchange rate fluctuation risk related to notes and accounts receivable and notes and accounts payable. Hedging instruments and hedged items, hedging policy, assessment of hedge effectiveness and hedge accounting are discussed in Note 2(15), "Summary of Major Accounting Policies–Derivative financial instruments."

(3) Risk management of financial instruments

(i) Management of credit risk (risk of default by customers and counterparties)

In accordance with the internal policies of the Companies for managing credit risk arising from receivables and long-term loan receivables, each related sales management section monitors the credit worthiness of their main customers and counterparties on a regular basis and monitors due dates and outstanding balances by individual customer. In addition, the Companies are making efforts to quickly identify and mitigate risks of bad debts of customers who are having financial difficulties. In investments in securities, the Companies monitor the financial condition, etc., of the issuing companies on a regular basis. The Companies believe that the credit risk of the derivatives themselves is insignificant as they enter into derivatives only with financial institutions which have a high credit rating.

(ii) Management of market risk (risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Companies utilize foreign exchange forward contracts within the requirements of their business activities in respect to part of their trade receivables and trade liabilities denominated in foreign currencies to mitigate exchange rate fluctuation risk. In investments in securities, the Companies review the fair value of these securities and the financial condition of the issuing companies on a quarterly basis. For investments in securities, except held-to-maturity debt securities, the Companies monitor the market price and financial condition of the issuers and regularly evaluate the investment in each company, taking into account the relationship with the counterparty.

The accounting department enters into and manages derivative transactions within the requirements of the Companies' business activities and regulations established by the internal policies of the Companies. Based on policies approved by the Board of Directors, the issuance of bonds and the borrowing of large amounts, etc., are decided only by the Board of Directors. Therefore, foreign exchange forward contracts and interest rate swap contracts in respect to the aforementioned transactions are decided by the Board of Directors at the same time.

(iii) Management of liquidity risk (risk that the Companies may not be able to meet their obligations on scheduled due dates)

The Companies prepare cash flow projections and monitor funding requirements in the accounting department based on reports from each section and maintain fund liquidity.

(4) Supplementary explanation of fair value of financial instruments

The fair value of financial instruments is based on market price, but in cases in which the market price is not available, the fair value is reasonably estimated. As variable factors are incorporated in the estimation of values, values may vary depending on the assumptions used. The contract amount related to derivative transactions under "Note 16, Derivative Transactions," does not express the market risk related to the derivative transactions themselves.

2. Fair values of financial instruments

For financial instruments, amounts recorded on the consolidated balance sheet, the fair values as of March 31, 2015 and 2016 and the difference between the two are set forth in the table below. It should be noted that financial instruments for which it was considered extremely difficult to assess the fair value were not included in the table.

	2015		
	Amounts on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	¥ 22,237	¥ 22,237	¥ —
(2) Notes and accounts receivable–trade	106,792	106,792	—
(3) Investments in securities			
Other securities	38,463	38,463	—
Subsidiaries and affiliates	4,501	3,813	(687)
Total assets	171,994	171,306	(687)
(1) Notes and accounts payable–trade	97,987	97,987	—
(2) Short-term borrowings	37,654	37,654	—
(3) Bonds	8,000	8,075	75
(4) Long-term borrowings	92,603	92,926	323
Total liabilities	236,245	236,644	398
Derivative transactions*			
Transactions to which hedge accounting is not applied	(20)	(20)	—
Transactions to which hedge accounting is applied	180	169	(10)
Total derivative transactions	¥ 160	¥ 149	¥ (10)

	2016		
	Amounts on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	**¥ 23,309**	**¥ 23,309**	**¥ —**
(2) Notes and accounts receivable–trade	**103,624**	**103,624**	**—**
(3) Investments in securities			
Other securities	**33,724**	**33,724**	**—**
Subsidiaries and affiliates	**4,458**	**3,715**	**(743)**
Total assets	**165,117**	**164,373**	**(743)**
(1) Notes and accounts payable–trade	**76,464**	**76,464**	**—**
(2) Electronically recorded obligations–operating	**14,487**	**14,487**	**—**
(3) Short-term borrowings	**23,430**	**23,430**	**—**
(4) Bonds	**38,136**	**40,286**	**2,149**
(5) Long-term borrowings	**70,066**	**70,530**	**463**
Total liabilities	**222,585**	**225,199**	**2,613**
Derivative transactions*			
Transactions to which hedge accounting is not applied	**(7)**	**(7)**	**—**
Transactions to which hedge accounting is applied	**(316)**	**(316)**	**—**
Total derivative transactions	**¥ (323)**	**¥ (323)**	**¥ —**

	2016		
	Amounts on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	**$ 206,860**	**$ 206,860**	**$ —**
(2) Notes and accounts receivable–trade	**919,630**	**919,630**	**—**
(3) Investments in securities			
Other securities	**299,290**	**299,290**	**—**
Subsidiaries and affiliates	**39,563**	**32,969**	**(6,593)**
Total assets	**1,465,362**	**1,458,759**	**(6,593)**
(1) Notes and accounts payable–trade	**678,594**	**678,594**	**—**
(2) Electronically recorded obligations–operating	**128,567**	**128,567**	**—**
(3) Short-term borrowings	**207,933**	**207,933**	**—**
(4) Bonds	**338,445**	**357,525**	**19,071**
(5) Long-term borrowings	**621,813**	**625,931**	**4,108**
Total liabilities	**1,975,372**	**1,998,571**	**23,189**
Derivative transactions*			
Transactions to which hedge accounting is not applied	**(62)**	**(62)**	**—**
Transactions to which hedge accounting is applied	**(2,804)**	**(2,804)**	**—**
Total derivative transactions	**$ (2,866)**	**$ (2,866)**	**$ —**

*The amounts for derivative transactions shown above are net of assets and liabilities. When the net amount results in a liability, it is shown in parentheses.

Tables show ¥ in millions and US$ in thousands.

(Note 1) The calculation method used to determine fair value of financial instruments and matters related to securities and derivative transactions

Assets

(1) Cash and deposits

(2) Notes and accounts receivable–trade

The book value is used as the fair value for these items as fair value approximates book value due to the short maturity of these instruments.

(3) Investments in securities

The fair value of equity securities is based on market price on securities exchanges. Refer to Note 8, "Investments in Securities," for notes on securities categorized by holding purposes.

Liabilities

(1) Notes and accounts payable–trade

(2) Electronically recorded obligations–operating

(3) Short-term borrowings

The book value is used as the fair value for these items as the fair value approximates book value due to the short maturity of these instruments.

(4) Bonds

The fair values of bonds that have market prices are based on the market prices. The fair values of bonds that do not have market prices are based on present values calculated by discounting the sum of the future principal and interest payments at rates that would be applied if similar borrowings were to be carried out at the present time.

(5) Long-term borrowings

The fair value of long-term borrowings is based on present value calculated by discounting the sum of future principal and interest payments at rates that would be applied to similar borrowings at the present time.

(Note 2) Financial instruments with no fair value as of March 31, 2015 and 2016 were as follows:

	2015	**2016**	**2016**
Held-to-maturity debt securities	¥ —	**¥ 180**	**$ 1,597**
Unlisted securities	1,615	**1,923**	**17,066**
Investments in subsidiaries and affiliates	12,986	**11,389**	**101,073**
Investments in capital of subsidiaries and affiliates	1,918	**1,847**	**16,391**

(Note 3) The maturity profile of the anticipated future contractual cash flows in relation to the Companies' financial assets as of March 31, 2015 and 2016 was as follows:

	2015			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	¥ 22,237	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	106,792	—	—	—
Total	¥ 129,029	¥ —	¥ —	¥ —

	2016			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	**¥ 23,309**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable–trade	**103,624**	**—**	**—**	**—**
Total	**¥ 126,933**	**¥ —**	**¥ —**	**¥ —**

	2016			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	**$ 206,860**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable–trade	**919,630**	**—**	**—**	**—**
Total	**$ 1,126,490**	**$ —**	**$ —**	**$ —**

Tables show ¥ in millions and US$ in thousands.

(Note 4) The aggregate annual maturities of bonds and long-term borrowings as of March 31, 2015 and 2016 were as follows:

	2015					
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	¥ 37,654	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	3,000	—	5,000
Long-term borrowings	24,704	22,572	21,575	12,114	9,541	2,096
Total	¥ 62,358	¥ 22,572	¥ 21,575	¥ 15,114	¥ 9,541	¥ 7,096

	2016					
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	**¥ 23,430**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Bonds	**—**	**—**	**3,000**	**—**	**35,000**	**—**
Long-term borrowings	**22,467**	**22,017**	**12,557**	**9,959**	**1,998**	**1,066**
Total	**¥ 45,897**	**¥ 22,017**	**¥ 15,557**	**¥ 9,959**	**¥ 36,998**	**¥ 1,066**

	2016					
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	**$ 207,933**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Bonds	**—**	**—**	**26,624**	**—**	**310,614**	**—**
Long-term borrowings	**199,387**	**195,394**	**111,439**	**88,383**	**17,731**	**9,460**
Total	**$ 407,321**	**$ 195,394**	**$ 138,063**	**$ 88,383**	**$ 328,345**	**$ 9,460**

8. Investments in Securities

Investments in other securities with fair value as of March 31, 2015 and 2016 consisted of the following:

	2015		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost			
Securities	¥ 37,894	¥ 18,567	¥ 19,326
Securities with book value not exceeding acquisition cost			
Securities	569	657	(87)
Total	¥ 38,463	¥ 19,225	¥ 19,238

	2016					
	Book value	Acquisition cost	Unrealized gains (losses)	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost						
Securities	**¥ 27,732**	**¥ 12,800**	**¥ 14,932**	**$ 246,112**	**$ 113,596**	**$ 132,516**
Securities with book value not exceeding acquisition cost						
Securities	**5,992**	**6,392**	**(400)**	**53,117**	**56,727**	**(3,549)**
Total	**¥ 33,724**	**¥ 19,193**	**¥ 14,531**	**$ 299,290**	**$ 170,331**	**$ 128,958**

Total sale of held-to-maturity debt securities as of March 31, 2015 and 2016 consisted of the following:

	2015	**2016**	**2016**
Book value sold	¥ 1,000	**—**	**—**
Amount sold	1,000	**—**	**—**
Total gain or loss on sales	—	**—**	**—**

Tables show ¥ in millions and US$ in thousands.

Total sale of other securities as of March 31, 2015 and 2016 consisted of the following:

	2015	2016	2016
Amount sold	¥ 393	**¥ 47**	**$ 417**
Total gain on sales	288	**30**	**266**
Total loss on sales	¥ 1	**¥ 2**	**$ 17**

The impairment loss on investments in securities was ¥21 million and ¥309 million ($2,742 thousand) for the years ended March 31, 2015 and 2016, respectively.

9. Inventories

Inventories as of March 31, 2015 and 2016 were as follows:

	2015	2016	2016
Merchandise and finished goods	¥ 29,478	**¥ 26,886**	**$ 238,604**
Work-in-process	3,424	**2,715**	**24,094**
Raw materials and supplies	4,689	**4,059**	**36,022**
Total	¥ 37,592	**¥ 33,660**	**$ 298,722**

10. Short-term Borrowings and Long-term Debt

The weighted average interest rate of short-term bank borrowings outstanding as of March 31, 2015 and 2016 was 0.9% and 0.9%, respectively.

Short-term borrowings as of March 31, 2015 and 2016 consisted of the following:

	2015	2016	2016
Secured	¥ 1,246	**¥ 305**	**$ 2,706**
Unsecured	36,408	**23,125**	**205,227**
Total	¥ 37,654	**¥ 23,430**	**$ 207,933**

Long-term debt as of March 31, 2015 and 2016 consisted of the following:

	2015	2016	2016
Loans, principally from banks and maturing serially through 2028 with interest ranging from 0.2% to 11.5%			
Secured	¥ 5,327	**¥ 2,877**	**$ 25,532**
Unsecured	87,276	**67,188**	**596,272**
Unsecured bonds			
0.590% bonds, due September 2018	3,000	**3,000**	**26,624**
0.690% bonds, due September 2021	5,000	**5,000**	**44,373**
Zero Coupon Convertible Bonds due 2020	-	**30,136**	**267,447**
Subtotal	100,603	**108,203**	**960,268**
Current portion of long-term debt	(24,704)	**(22,467)**	**(199,387)**
Total	¥ 75,899	**¥ 85,735**	**$ 760,871**

As of March 31, 2015 and 2016, the following assets were pledged as security for short-term borrowings and long-term debt:

Net book value	2015	2016	2016
Land	¥ 6,091	**¥ 3,974**	**$ 35,268**
Buildings and structures	3,381	**2,143**	**19,018**
Machinery, vehicles, equipment and tools	1,281	**766**	**6,798**
Investments in securities	679	**935**	**8,297**
Total	¥ 11,434	**¥ 7,820**	**$ 69,400**

Tables show ¥ in millions and US$ in thousands.

The aggregate annual maturities of long-term debt as of March 31, 2016 were as follows:

Year ended March 31,		
2018	**¥ 22,017**	**$ 195,394**
2019	**15,557**	**138,063**
2020	**9,959**	**88,383**
2021	**36,998**	**328,345**
2022 and thereafter	**1,066**	**9,460**
Total	**¥ 85,598**	**$ 759,655**

The Company entered into commitment line contracts with three banks for the efficient management of financial liabilities. The maximum aggregate credit facility available to the Company as of March 31, 2015 and 2016 was ¥10,000 million and ¥10,000 million ($88,746 thousand), respectively. The credit facility has not been used as of March 31, 2015 and 2016.

11. Deferred Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in a statutory rate of approximately 35.6% and 33.0% for the years ended March 31, 2015 and 2016, respectively. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

Deferred taxes consisted of the following:

	2015	**2016**	**2016**
Deferred tax assets			
Tax loss carryforwards	¥ 1,748	**¥ 989**	**$ 8,777**
Allowance for doubtful accounts	268	**289**	**2,564**
Accrued bonuses	1,434	**1,383**	**12,273**
Net defined benefit liability	1,359	**1,155**	**10,250**
Accrued enterprise taxes	251	**299**	**2,653**
Intercompany profits and write-downs (inventories, investments in securities and fixed assets)	1,477	**1,555**	**13,800**
Loss on valuation of securities	327	**325**	**2,884**
Loss on cancellation of real estate trust	347	**328**	**2,910**
Impairment loss	779	**632**	**5,608**
Other	3,993	**3,435**	**30,484**
Valuation allowance	(2,340)	**(2,234)**	**(19,826)**
Total deferred tax assets	¥ 9,645	**¥ 8,161**	**$ 72,426**
Deferred tax liabilities			
Reserve for advanced depreciation of noncurrent assets	(262)	**(155)**	**(1,375)**
Unrealized gains on securities	(6,076)	**(4,370)**	**(38,782)**
Valuation of assets and liabilities of consolidated subsidiaries on acquisition	(973)	**(946)**	**(8,395)**
Deferred gains on hedges	(67)	**—**	**—**
Other	(1,263)	**(1,136)**	**(10,081)**
Total deferred tax liabilities	(8,643)	**(6,609)**	**(58,652)**
Net deferred tax assets	¥ 1,001	**¥ 1,551**	**$ 13,764**

Tables show ¥ in millions and US$ in thousands.

Reconciliation of the differences between the statutory tax rate and the effective tax rate was as follows:

	2015	2016
Statutory tax rate	35.6%	**33.0%**
Permanently nondeductible expenses	5.2	**3.3**
Permanently nontaxable gain	(0.7)	**(0.3)**
Change in valuation allowance	(0.6)	**0.1**
Taxation on per capital basis	1.6	**0.9**
Equity in earnings of nonconsolidated subsidiaries and affiliates	(2.8)	**(1.0)**
Retained earnings of foreign consolidated subsidiaries	1.3	**(0.2)**
Adjustment of deferred tax assets due to changes in tax rate	2.7	**0.7**
Other	2.3	**(0.7)**
Effective tax rate	44.5%	**35.8%**

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

On March 29, 2016, amendments to the Japanese tax regulations were enacted. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.2% for the year ended March 31, 2016 to 30.8% and 30.5%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax liabilities (after deducting the deferred tax assets) decreased by ¥81 million ($718 thousand) as of March 31, 2016, deferred income tax expense recognized for the year ended March 31, 2016 increased by ¥150 million ($1,331 thousand), unrealized gains on securities increased by ¥240 million ($2,129 thousand), remeasurements of defined benefit plans decreased by ¥3 million ($26 thousand) and deferred gains on hedges decreased by ¥4 million ($35 thousand).

12. Employees' Severance and Retirement Benefits

The Company and some domestic consolidated subsidiaries have contributory funded defined benefit pension plans and lump-sum benefit plans, and some domestic consolidated subsidiaries have defined contribution plans.

1. Defined benefit plans

(1) Movement in retirement benefit obligations

	2015	2016	2016
Balance as of April 1,	¥ 18,308	**¥ 20,929**	**$ 185,738**
Cumulative effects of changes in accounting policies	1,987	**—**	**—**
Restated balance as of April 1,	20,296	**20,929**	**185,738**
Service cost	1,674	**1,443**	**12,806**
Interest cost	190	**169**	**1,499**
Actuarial loss (gain)	175	**(86)**	**(763)**
Benefits paid	(1,331)	**(1,306)**	**(11,590)**
Other	(76)	**(5)**	**(44)**
Balance as of March 31,	¥ 20,929	**¥ 21,144**	**$ 187,646**

(2) Movements in plan assets

	2015	2016	2016
Balance as of April 1,	¥ 17,501	**¥ 17,543**	**$ 155,688**
Expected return on plan assets	214	**266**	**2,360**
Actuarial loss (gain)	94	**198**	**1,757**
Contributions paid by the employer	377	**335**	**2,973**
Benefits paid	(741)	**(749)**	**(6,647)**
Other	98	**5**	**44**
Balance as of March 31,	¥ 17,543	**¥ 17,600**	**$ 156,194**

Tables show ¥ in millions and US$ in thousands.

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	2015	**2016**	**2016**
Funded retirement benefit obligations	¥ 16,561	**¥ 16,617**	**$ 147,470**
Plan assets	(17,543)	**(17,600)**	**(156,194)**
	(982)	**(982)**	**(8,714)**
Unfunded retirement benefit obligations	4,367	**4,526**	**40,166**
Total net defined benefit liability (asset) as of March 31,	¥ 3,385	**¥ 3,543**	**$ 31,443**
Net defined benefit liability	¥ 5,732	**¥ 5,811**	**$ 51,570**
Net defined benefit asset	(2,346)	**(2,267)**	**(20,118)**
Total net defined benefit liability (asset) as of March 31,	¥ 3,385	**¥ 3,543**	**$ 31,443**

(4) Retirement benefit costs

	2015	**2016**	**2016**
Service cost	¥ 1,674	**¥ 1,443**	**$ 12,806**
Interest cost	190	**169**	**1,499**
Expected return on plan assets	(214)	**(266)**	**(2,360)**
Amortization of actuarial differences	(15)	**(57)**	**(505)**
Amortization of prior service cost	124	**124**	**1,100**
Other	(68)	**32**	**283**
Total retirement benefit costs for the year ended March 31,	¥ 1,691	**¥ 1,446**	**$ 12,832**

(5) Remeasurements of defined benefit plans

	2015	**2016**	**2016**
Prior service cost	¥ 98	**¥ 124**	**$ 1,100**
Actuarial differences	(96)	**227**	**2,014**
Total balance as of March 31,	¥ 2	**¥ 351**	**$ 3,115**

(6) Accumulated remeasurements of defined benefit plans

	2015	**2016**	**2016**
Unrecognized prior service cost	¥ 674	**¥ 550**	**$ 4,881**
Unrecognized actuarial differences	(530)	**(757)**	**(6,718)**
Total balance as of March 31,	¥ 143	**¥ (207)**	**$ (1,837)**

(7) Plan assets

(i) Plan assets comprise

	2015	**2016**
Bonds	41.1%	**46.9%**
Equity securities	20.5%	**19.9%**
Cash and cash equivalents	18.1%	**9.9%**
General account	20.1%	**22.8%**
Other	0.2%	**0.5%**
Total	100.0%	**100.0%**

(ii) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions are set forth below:

	2015	**2016**
Discount rate	1.0%	**1.0%**
Expected return on plan assets	0.0–2.2%	**0.0–2.2%**
Expected rate of salary increase	4.7–7.9%	**4.7–8.0%**

Tables show ¥ in millions and US$ in thousands.

2. Defined contribution plans

Some domestic consolidated subsidiaries expended ¥269 million and ¥275 million ($2,440 thousand) on contributions for defined contribution plans for the year ended March 31, 2015 and 2016, respectively.

3. Multi-employer pension plans

The funded status of the multi-employer pension plans as of March 31, 2014 and 2015 (based on information available as of March 31, 2015 and 2016) to which contributions were recorded as net periodic retirement benefit costs was as follows:

	2015	2016	2016
Fair value of plan assets	¥ 800,473	**¥ 919,566**	**$ 8,160,862**
Total of actuarial liabilities and minimum reserves in the calculation of pension financing	830,612	**937,599**	**8,320,899**
Difference	¥ (30,138)	**¥ (18,032)**	**$ (160,028)**

The contribution ratio of the Companies to the multi-employer pension plans from April 1, 2013 to March 31, 2014 and from April 1, 2014 to March 31, 2015 was 4.1% and 3.4%, respectively. Some domestic consolidated subsidiaries expended ¥189 million and ¥160 million ($1,419 thousand) on contributions for the multi-employer pension plans for the years ended March 31, 2015 and 2016, respectively.

13. Contingent Liabilities

Contingent liabilities as of March 31, 2015 and 2016 were as follows:

	2015	2016	2016
Notes receivable endorsed	¥ 14	**¥ 17**	**$ 150**
Recourse obligation for notes receivable sold	764	**—**	**—**

	2015	2016	2016
Guarantees of loans made by:			
Nonconsolidated subsidiaries and affiliates	¥ 670	**¥ 116**	**$ 1,029**
Other	5	**4**	**35**
Total	¥ 675	**¥ 120**	**$ 1,064**

14. Leases

As Lessee

As of March 31, 2015 and 2016, lease payments for finance lease transactions that did not transfer ownership of the lease assets and commenced prior to April 1, 2008 were as follows:

	2015	2016	2016
Lease payments	¥ 279	**¥ 255**	**$ 2,263**

The amounts of outstanding future minimum lease payments due as of March 31, 2015 and 2016, including the portion of interest thereon, were as follows:

	2015	2016	2016
Future minimum lease payments			
Due within one year	¥ 255	**¥ 158**	**$ 1,402**
Due over one year	338	**180**	**1,597**
Total	¥ 593	**¥ 338**	**$ 2,999**

Assumed acquisition cost, accumulated depreciation, net book value and depreciation of lease assets as of March 31, 2015 and 2016, including the portion of interest thereon, were as follows:

	2015	2016	2016
Acquisition cost	¥ 3,027	**¥ 2,994**	**$ 26,570**
Buildings and structures	60	**60**	**532**
Machinery, vehicles, equipment and tools	2,966	**2,934**	**26,038**
Accumulated depreciation	2,433	**2,656**	**23,571**
Buildings and structures	41	**43**	**381**
Machinery, vehicles, equipment and tools	2,391	**2,612**	**23,180**
Net book value	593	**338**	**2,999**
Buildings and structures	19	**16**	**141**
Machinery, vehicles, equipment and tools	574	**321**	**2,848**
Depreciation	279	**255**	**2,263**

Depreciation is computed by the straight-line method over the lease term as the useful life with the assumption of no residual value.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2015 and 2016 were as follows:

	2015	2016	2016
Future minimum lease payments			
Due within one year	¥ 1,791	**¥ 1,751**	**$ 15,539**
Due over one year	6,344	**4,914**	**43,610**
Total	¥ 8,136	**¥ 6,666**	**$ 59,158**

As Lessor

Lease investment assets as of March 31, 2015 and 2016 were as follows:

	2015	2016	2016
Amount of lease payments receivable	¥ 1,029	**¥ 949**	**$ 8,422**
Estimated residual value	6	**6**	**53**
Amount equivalent to interest receivable	(94)	**(88)**	**(780)**
Lease investment assets	¥ 941	**¥ 867**	**$ 7,694**

Tables show ¥ in millions and US$ in thousands.

The collection schedule for lease payments from lease investment assets after March 31, 2016 was as follows:

Year ended March 31,		
2017	**¥ 278**	**$ 2,467**
2018	**230**	**2,041**
2019	**183**	**1,624**
2020	**129**	**1,144**
2021	**77**	**683**
2022 and thereafter	**50**	**443**
Total	**¥ 949**	**$ 8,422**

Future minimum lease receipts from non-cancelable operating lease transactions as of March 31, 2015 and 2016 were as follows:

	2015	**2016**	**2016**
Due within one year	¥ 103	**¥ 119**	**$ 1,056**
Due over one year	177	**206**	**1,828**
Total	¥ 281	**¥ 326**	**$ 2,893**

15. Impairment Loss on Fixed Assets

The Companies reduced the book value of a portion of idle assets and fixed assets for business use for which profitability had declined to net realizable value and recognized the reduced amount as impairment loss.

(Method of grouping)

The Companies grouped assets based on operating segments for which the Companies reviewed performance and profitability regularly. Idle assets not in operation were treated individually.

Impairment loss recognized for the years ended March 31, 2015 and 2016 was as follows:

Year ended March 31, 2015	2015
Land	¥ 192
Buildings and structures	64
Machinery, vehicles, equipment and tools	98
Total	¥ 355

Year ended March 31, 2016	**2016**	**2016**
Land	**¥ 82**	**$ 727**
Buildings and structures	**26**	**230**
Machinery, vehicles, equipment and tools	**224**	**1,987**
Construction in progress	**6**	**53**
Total	**¥ 340**	**$ 3,017**

16. Derivative Transactions

Derivative transactions to which hedge accounting is not applied

Currency related transactions

	2015			
	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)
Foreign exchange forward contracts				
To sell	¥ 890	¥ —	¥ 7	¥ 7
To buy	563	—	(27)	(27)
	¥ 1,454	¥ —	¥ (20)	¥ (20)

	2016							
	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)
Foreign exchange forward contracts								
To sell	**¥ 798**	**¥ —**	**¥ (7)**	**¥ (7)**	**$ 7,082**	**$ —**	**$ (62)**	**$ (62)**
To buy	**333**	**—**	**0**	**0**	**2,955**	**—**	**0**	**0**
	¥ 1,131	**¥ —**	**¥ (7)**	**¥ (7)**	**$ 10,037**	**$ —**	**$ (62)**	**$ (62)**

*Fair values are based on quotes obtained from financial institutions.

Tables show ¥ in millions and US$ in thousands.

Derivative transactions to which hedge accounting is applied

(1) Currency related transactions

	2015			
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value*1
Principle method / Allocation method Foreign exchange forward contracts	Foreign exchange forward transactions			
Foreign exchange forward contracts				
To sell				
U.S. dollars		¥ 1,622	¥ —	¥ (20)
Other currencies		6	—	0
To buy				
U.S. dollars		4,976	29	221
Other currencies		396	—	(20)
Allocation method Foreign exchange forward contracts				
To sell				
U.S. dollars*2	Accounts receivable	2,741	—	—
Other currencies*2	Accounts receivable	675	—	—
To buy				
U.S. dollars*2	Accounts payable	3,667	—	—
Other currencies*2	Accounts payable	23	—	—
		¥ 14,110	¥ 29	¥ 180

	2016							
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value*1	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value*1
Principle method / Allocation method Foreign exchange forward contracts	**Foreign exchange forward transactions**				**Foreign exchange forward transactions**			
Foreign exchange forward contracts								
To sell								
U.S. dollars		**¥ 1,521**	**¥ 12**	**¥ 30**		**$ 13,498**	**$ 106**	**$ 266**
Other currencies		**35**	**—**	**0**		**310**	**—**	**0**
To buy								
U.S. dollars		**8,514**	**53**	**(297)**		**75,559**	**470**	**(2,635)**
Other currencies		**1,044**	**135**	**(50)**		**9,265**	**1,198**	**(443)**
Allocation method Foreign exchange forward contracts								
To sell								
U.S. dollars*2	**Accounts receivable**	**2,017**	**—**	**—**	**Accounts receivable**	**17,900**	**—**	**—**
Other currencies*2	**Accounts receivable**	**1,377**	**—**	**—**	**Accounts receivable**	**12,220**	**—**	**—**
To buy								
U.S. dollars*2	**Accounts payable**	**3,127**	**—**	**—**	**Accounts payable**	**27,751**	**—**	**—**
Other currencies*2	**Accounts payable**	**64**	**—**	**—**	**Accounts payable**	**567**	**—**	**—**
		¥17,702	**¥ 201**	**¥ (316)**		**$ 157,099**	**$ 1,783**	**$ (2,804)**

*1 Fair values are based on quotes obtained from financial institutions.
*2 The hedged foreign currency receivables and payables were recorded using the Japanese yen amounts at the contracted forward rate, and no gains or losses on the foreign exchange forward contracts were recorded. The fair values of foreign exchange forward contracts were included in accounts receivable and accounts payable.

Tables show ¥ in millions and US$ in thousands.

(2) Interest related transactions

	2015			
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value*1
Interest rate swap contracts				
Pay fixed, receive variable*2	Long-term borrowings	¥ 5,072	¥ —	¥ (10)

*1 Fair values are based on quotes obtained from financial institutions.
*2 The net amount to be paid or received under interest rate swap contracts was added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.
*Interest rate swap contracts have not been presented as of March 2016.

17. Earnings Per Share

The basis of calculating net income per share for the years ended March 31, 2015 and 2016 was as follows:

Year ended March 31	2015	**2016**	**2016**
Net income	¥ 6,199	**¥ 12,365**	**$ 109,735**
Net income attributable to common stockholders	6,199	**12,365**	**109,735**
Net income not attributable to common stockholders	—	**—**	**—**
Effect of dilutive bonds*	—	**(8)**	**(70)**
Diluted net income	—	**12,356**	**109,655**

		(Thousands)
Weighted average number of shares outstanding	246,052	**246,081**
Effect of dilutive securities	—	**17,944**
Diluted weighted average number of shares outstanding	—	**264,025**

*Diluted net income per share has not been presented for the year ended March 31, 2015 because the Company had no potentially dilutive shares outstanding as of this balance sheet date.

18. Net Assets

Under the Japanese laws 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 of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("The Law"), in cases in which 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 and additional paid-in capital may not be distributed as dividends. By the resolution of shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the two years ended March 31, 2016 represent dividends paid out during those periods. The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥8 ($0.070) per share, aggregating ¥1,970 million ($17,483 thousand), which was approved at the Company's shareholders' meeting on June 28, 2016, in respect of the year ended March 31, 2016.

19. Expenses for Research and Development

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2015 and 2016 were ¥1,250 million and ¥1,173 million ($10,410 thousand), respectively.

Tables show ¥ in millions and US$ in thousands.

20. Other Income (Expenses)

Other, net consisted of the following:

	2015	2016	2016
Gain (loss) on sales of investments in securities	¥ 287	**¥ 44**	**$ 390**
Loss on valuation of investments in securities	(21)	**(309)**	**(2,742)**
Gain (loss) on sales and disposal of fixed assets	(269)	**(342)**	**(3,035)**
Loss on valuation of investments in capital	—	**(47)**	**(417)**
Gain (loss) on liquidation of subsidiaries and affiliates	8	**14**	**124**
Foreign exchange gains (losses)	568	**333**	**2,955**
Sales discounts	(501)	**(475)**	**(4,215)**
Gain on negative goodwill	30	**—**	**—**
Retirement benefits for directors and statutory auditors	(9)	**(51)**	**(452)**
Gain (loss) on step acquisitions	38	**—**	**—**
Subsidy income	872	**2,390**	**21,210**
Loss on reduction of noncurrent assets	(873)	**(2,378)**	**(21,104)**
Compensation for transfer	—	**216**	**1,916**
Other, net	1,588	**1,170**	**10,383**
Total	¥ 1,718	**¥ 565**	**$ 5,014**

21. Business Combinations

Current fiscal year (April 1, 2015 to March 31, 2016)

(Transactions under common control)

(1) Outline of the business combination

1) Name and main business of the companies under the business combination

Acquired company

Name : Iwatani Carbonix Corporation (subsidiary of the Company, "ICX")

Main business: Manufacture and sales of liquefied carbon dioxide and dry ice

2) Date of combination

April 1, 2015

3) Legal method used for combination

Merger between Iwatani Industrial Gases Corporation (subsidiary of the Company) as a surviving company and ICX as an absorbed company

4) Name of company after combination

Iwatani Industrial Gases Corporation

5) Outline and purpose of transaction

The purpose of the merger is to enhance the business base and to expand the manufacture of carbon dioxide and to supply Dry Ice Beads stably which was ICX's main business.

(2) Outline of accounting policy applied

The Company accounted for the Merger as a transaction under common control based on the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

22. Segment Information

1. General information about reportable segments

The Company's reportable segments are regularly reviewed by the Board of Directors using the financial information available within each segment to determine the allocation of management resources and evaluate business results. The Company maintains commercial divisions classified by merchandise and products. Each commercial division develops comprehensive business strategies for Japan and the world. Therefore, the Company is organized by operating segments which are classified by merchandise, products and sales channels based on commercial divisions.

The main products of the four reportable segments were as follows:

(1) Energy: LPG for household, commercial and industrial use, LPG supply equipment and facilities, LNG, petroleum products, household kitchen appliances, home energy components, daily necessities, portable cooking stoves, gas canisters, mineral water, etc.

(2) Industrial Gases & Machinery: air-separation gases, hydrogen, helium, other specialty gases, gas supply facilities, welding materials, welding and cutting equipment, industrial machinery and facilities, industrial robots, pumps and compressors, facilities for hydrogen stations, disaster prevention equipment, high-pressure gas containers, semiconductor manufacturing equipment, electronic component manufacturing equipment, factory automation systems, medicine and food packing machinery, environmental equipment, etc.

(3) Materials: stainless steel, non-ferrous metals, plastic resins, plastic molding, functional film, electronic display materials, electronic materials, mineral sand, ceramics materials, biomass fuel, etc.

Tables show ¥ in millions and US$ in thousands.

(4) Agri-bio & Foods: frozen vegetables and fruits, health foods, livestock related products, agri-bio related goods, food plant sanitation management, etc.

2. Basis of measurement for reported segment profit and loss, segment assets and other material items by reportable segment

Accounting methods for reportable segments are basically the same as the accounting methods described in "Basis of Presenting Consolidated Financial Statements." Income by reportable segment is equivalent to operating income.

Intersegment sales and transfers are based on market values.

As described in "Changes in Accounting Policies," in accordance with the change of recognizing in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and recording acquisition related costs as expenses in the fiscal year in which the costs are incurred from the beginning of the year ended March 31, 2016, the Company also revised these methods of recognizing for each reportable segment in the same way.

There was immaterial impact on segment income.

3. Information related to sales, operating income (loss), assets and other items by reportable segment

2015

	Reportable Segment					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	¥ 365,592	¥ 162,275	¥ 128,034	¥ 27,286	¥ 683,189	¥ 8,712	¥ 691,902	¥ —	¥ 691,902
Intersegment	6,994	7,625	5,066	187	19,874	22,551	42,426	(42,426)	—
Total	372,586	169,901	133,101	27,474	703,063	31,264	734,328	(42,426)	691,902
Segment income	¥ 2,347	¥ 6,324	¥ 2,647	¥ 727	¥ 12,047	¥ 826	¥ 12,873	¥ (1,698)	¥ 11,174
Segment assets	¥ 144,981	¥ 114,563	¥ 58,919	¥ 9,972	¥ 328,436	¥ 40,472	¥ 368,909	¥ 39,915	¥ 408,824
Other items:									
Depreciation and amortization	¥ 5,187	¥ 4,597	¥ 887	¥ 160	¥ 10,832	¥ 3,041	¥ 13,874	¥ 1,186	¥ 15,060
Impairment loss on fixed assets	163	17	80	—	261	22	283	72	355
Amortization of goodwill	2,298	609	22	26	2,957	—	2,957	—	2,957
Increase in fixed assets and intangible assets	8,361	7,648	578	175	16,763	3,404	20,167	4,219	24,386

2016

	Reportable Segment					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	**¥ 289,422**	**¥ 164,459**	**¥ 125,918**	**¥ 28,567**	**¥ 608,369**	**¥ 7,832**	**¥ 616,201**	**¥ —**	**¥ 616,201**
Intersegment	**6,743**	**10,088**	**4,707**	**201**	**21,741**	**20,609**	**42,351**	**(42,351)**	**—**
Total	**296,166**	**174,548**	**130,626**	**28,769**	**630,110**	**28,442**	**658,552**	**(42,351)**	**616,201**
Segment income	**¥ 9,049**	**¥ 7,624**	**¥ 3,846**	**¥ 1,246**	**¥ 21,766**	**¥ 932**	**¥ 22,699**	**¥ (2,202)**	**¥ 20,496**
Segment assets	**¥ 140,127**	**¥ 117,405**	**¥ 52,397**	**¥ 10,342**	**¥ 320,273**	**¥ 42,008**	**¥ 362,281**	**¥ 42,197**	**¥ 404,479**
Other items:									
Depreciation and amortization	**¥ 5,091**	**¥ 5,295**	**¥ 714**	**¥ 169**	**¥ 11,270**	**¥ 2,827**	**¥ 14,097**	**¥ 1,106**	**¥ 15,203**
Impairment loss on fixed assets	**89**	**1**	**221**	**—**	**311**	**—**	**311**	**29**	**340**
Amortization of goodwill	**2,461**	**602**	**22**	**26**	**3,113**	**—**	**3,113**	**—**	**3,113**
Increase in fixed assets and intangible assets	**9,176**	**10,405**	**743**	**450**	**20,775**	**3,347**	**24,123**	**3,336**	**27,459**

Tables show ¥ in millions and US$ in thousands.

	2016								
	Reportable Segment					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	$ 2,568,530	$ 1,459,522	$ 1,117,483	$ 253,523	$ 5,399,085	$ 69,506	$ 5,468,592	$ —	$ 5,468,592
Intersegment	59,842	89,527	41,773	1,783	192,944	182,898	375,851	(375,851)	—
Total	2,628,381	1,549,059	1,159,265	255,315	5,592,030	252,413	5,844,444	(375,851)	5,468,592
Segment income	$ 80,307	$ 67,660	$ 34,132	$ 11,057	$ 193,166	$ 8,271	$ 201,446	$ (19,542)	$ 181,895
Segment assets	$ 1,243,583	$ 1,041,932	$ 465,007	$ 91,782	$ 2,842,323	$ 372,807	$ 3,215,131	$ 374,485	$ 3,589,625
Other items:									
Depreciation and amortization	$ 45,181	$ 46,991	$ 6,336	$ 1,499	$ 100,017	$ 25,088	$ 125,106	$ 9,815	$ 134,921
Impairment loss on fixed assets	789	8	1,961	—	2,760	—	2,760	257	3,017
Amortization of goodwill	21,840	5,342	195	230	27,626	—	27,626	—	27,626
Increase in fixed assets and intangible assets	81,434	92,341	6,593	3,993	184,371	29,703	214,084	29,605	243,690

*1 "Others" is an operating segment not included in reportable segments. "Others" represents financial, insurance, transportation, information processing, etc.
*2 Adjustments are as follows:
(1) Adjustments for segment income include companywide expenses not allocated to each segment and the elimination of intersegment transactions.
(2) Adjustments for segment assets is mainly assets in cash, deposits and investments in securities of the Company along with general and administrative departments of the Company.
(3) Adjustments for depreciation and amortization is mainly depreciation and amortization for general and administrative departments of the Company.
(4) Adjustments for impairment loss on fixed assets is mainly impairment loss within the general and administrative departments of the Company.
(5) Adjustments for increase in fixed assets and intangible assets is increase in fixed assets and intangible assets for general and administrative departments of the Company.
(6) "Depreciation and amortization" and "Increase in fixed assets and intangible assets" include long-term prepaid expenses and its amortization.
*3 Segment income is adjusted with operating income of the consolidated statements of income.

(Related Information)

1. Information about products and services

Since the segments' products and services are the same as those for the reportable segments, information for products and services is omitted.

2. Information about geographic areas

(1) Net sales

2015				
Japan	East Asia	Southeast Asia	Others	Total
¥ 617,910	¥ 47,779	¥ 14,361	¥ 11,851	¥ 691,902

Notes: 1. Net sales are classified by country or region based on customer locations.
2. Main countries and regions outside Japan are grouped as follows:
(1) East Asia.................... China, Taiwan, South Korea
(2) Southeast Asia........... Singapore, Thailand, Malaysia, Indonesia
(3) Others........................ United States, Australia, Germany

2016									
Japan	East Asia	Southeast Asia	Others	Total	Japan	East Asia	Southeast Asia	Others	Total
¥ 536,815	¥ 49,556	¥ 15,799	¥ 14,030	¥ 616,201	$ 4,764,066	$ 439,794	$ 140,211	$ 124,511	$ 5,468,592

Notes: 1. Net sales are classified by country or region based on customer locations.
2. Main countries and regions outside Japan are grouped as follows:
(1) East Asia.................... China, Taiwan, South Korea
(2) Southeast Asia........... Singapore, Thailand, Malaysia, Indonesia
(3) Others........................ United States, Australia, Germany

(2) Tangible fixed assets

Since tangible fixed assets in Japan accounted for over 90% of tangible fixed assets on the consolidated balance sheets, information regarding tangible fixed assets is omitted.

3. Information about major customers

Since sales to no customer accounted for 10% or more of the net sales on the consolidated statements of income, information by major customer is omitted.

Tables show ¥ in millions and US$ in thousands.

(Information on amortization of goodwill and unamortized balance by reportable segment)

	2015							
	Reportable Segment					Others*	Corporate assets and elimination	Total
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
Goodwill								
Amortization	¥ 2,298	¥ 609	¥ 22	¥ 26	¥ 2,957	¥ —	¥ —	¥ 2,957
Balance as of end of year	10,363	3,666	69	58	14,157	—	—	14,157
Negative goodwill								
Amortization	¥ 9	¥ 0	¥ 53	¥ —	¥ 62	¥ —	¥ —	¥ 62
Balance as of end of year	22	—	81	—	103	—	—	103

	2016							
	Reportable Segment					Others*	Corporate assets and elimination	Total
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
Goodwill								
Amortization	**¥ 2,461**	**¥ 602**	**¥ 22**	**¥ 26**	**¥ 3,113**	**¥ —**	**¥ —**	**¥ 3,113**
Balance at end of year	**10,910**	**3,098**	**47**	**31**	**14,087**	**—**	**—**	**14,087**
Negative goodwill								
Amortization	**¥ 9**	**¥ —**	**¥ 27**	**¥ —**	**¥ 36**	**¥ —**	**¥ —**	**¥ 36**
Balance at end of year	**13**	**—**	**54**	**—**	**67**	**—**	**—**	**67**

	2016							
	Reportable Segment					Others*	Corporate assets and elimination	Total
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
Goodwill								
Amortization	**$ 21,840**	**$ 5,342**	**$ 195**	**$ 230**	**$ 27,626**	**$ —**	**$ —**	**$ 27,626**
Balance at end of year	**96,822**	**27,493**	**417**	**275**	**125,017**	**—**	**—**	**125,017**
Negative goodwill								
Amortization	**$ 79**	**$ —**	**$ 239**	**$ —**	**$ 319**	**$ —**	**$ —**	**$ 319**
Balance at end of year	**115**	**—**	**479**	**—**	**594**	**—**	**—**	**594**

*"Others" is an operating segment which is not included in the reportable segments. "Others" represents insurance and transportation.

(Information on gain on negative goodwill by reportable segment)

There was no significant gain on negative goodwill to report.

Tables show ¥ in millions and US$ in thousands.

Independent Auditors' Report

KPMG

Independent Auditor's Report

To the Board of Directors of Iwatani Corporation:

We have audited the accompanying consolidated financial statements of Iwatani Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, 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.

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 judgement, 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 Iwatani Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, 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, 2016 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 4 to the consolidated financial statements.

KPMG AZSA LLC

August 5, 2016
Osaka, Japan

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FSC www.fsc.org MIX Paper from responsible sources FSC® C017928

Printed in Japan