

Consolidated Financial Statements

AS OF MARCH 31, 2015 AND 2016

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2016	2016
ASSETS			
Current Assets:			
Cash and bank deposits (Notes 5, 10 and 15)	¥134,187	¥152,752	\$1,355,627
Notes and accounts receivable, trade (Notes 5 and 10)	104,975	130,271	1,156,115
Costs on uncompleted construction contracts (Note 10)	6,790	9,985	88,614
Inventories (Notes 7, 10 and 13)	112,596	137,014	1,215,957
Deferred tax assets (Note 18)	9,386	6,379	56,612
Other current assets (Note 10)	13,001	11,926	105,838
Allowance for doubtful accounts (Note 5)	(94)	(187)	(1,660)
Total current assets	<u>380,841</u>	<u>448,140</u>	<u>3,977,103</u>
 Property and Equipment (Notes 8 and 10)	 55,548	 100,660	 893,326
 Intangible Assets (Notes 8 and 10)	 10,652	 10,940	 97,089
 Investments and Other Assets:			
Investment securities (Notes 5, 6 and 10)	15,458	15,556	138,055
Long-term loans receivable (Note 5)	1,397	2,853	25,319
Net defined benefit asset (Note 17)	2,585	194	1,722
Long-term deferred tax assets (Note 18)	920	—	—
Other assets	10,610	12,454	110,526
Allowance for doubtful accounts (Note 5)	(1,097)	(804)	(7,135)
Total investments and other assets	<u>29,873</u>	<u>30,253</u>	<u>268,487</u>
Total assets	<u>¥476,914</u>	<u>¥589,993</u>	<u>\$5,236,005</u>

See notes to consolidated financial statements.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2015 AND 2016 LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2016	2016
LIABILITIES			
Current Liabilities:			
Short-term borrowings (Notes 5 and 9)	¥ 300	¥ —	\$ —
Current portion of long-term debt (Notes 5, 9 and 10)	56,574	48,289	428,550
Lease obligations (Notes 5 and 9)	865	1,251	11,102
Notes and accounts payable (Note 5)	127,082	100,937	895,785
Electronically recorded obligations (Note 5)	—	34,415	305,422
Income taxes payable (Notes 5 and 18)	2,562	9,427	83,662
Advances received on uncompleted construction contracts	15,239	10,278	91,214
Advances received for real estate sales	8,031	11,898	105,591
Warranty	3,253	4,750	42,155
Allowance for losses on construction contracts	328	71	630
Accrued bonuses for employees	2,946	3,702	32,854
Accrued bonuses for directors	187	171	1,518
Other current liabilities	31,219	34,771	308,581
Total current liabilities	248,586	259,960	2,307,064
Long-term Liabilities:			
Straight bonds (Notes 5 and 9)	10,000	20,000	177,494
Long-term debt (Notes 5, 9, 10 and 16)	56,296	99,027	878,834
Lease obligations (Notes 5 and 9)	4,210	6,153	54,606
Liability for retirement benefits (Note 17)	562	3,765	33,413
Long-term deferred tax liabilities (Note 18)	—	1,032	9,159
Other long-term liabilities	13,171	14,681	130,289
Total long-term liabilities	84,239	144,658	1,283,795
Total liabilities	332,825	404,618	3,590,859
Commitments and Contingent Liabilities (Notes 11 and 12)			
NET ASSETS (Notes 14 and 19):			
Shareholders' Equity:			
Capital stock	57,500	57,500	510,295
Capital surplus	7,500	7,500	66,560
Retained earnings	78,495	126,726	1,124,654
Treasury stock, at cost — 182,686 shares in 2015 — 188,240 shares in 2016	(139)	(146)	(1,296)
Total shareholders' equity	143,356	191,580	1,700,213
Accumulated Other Comprehensive Income:			
Net unrealized gain on other securities	3,371	1,786	15,850
Translation adjustments	(2,546)	(2,416)	(21,441)
Retirement benefits liability adjustments	(353)	(6,013)	(53,364)
Total accumulated other comprehensive income (loss)	472	(6,643)	(58,955)
Non-controlling interests	261	438	3,888
Total net assets	144,089	185,375	1,645,146
Total liabilities and net assets	¥476,914	¥589,993	\$5,236,005

See notes to consolidated financial statements.

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED MARCH 31, 2015 AND 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2016	2016
Net Sales (Note 13)	¥642,167	¥787,354	\$6,987,522
Cost of Sales (Note 13)	563,230	674,007	5,981,603
Gross profit	78,937	113,347	1,005,919
Selling, General and Administrative Expenses (Note 13)	36,239	44,585	395,678
Operating Income	42,698	68,762	610,241
Other Income (Expenses):			
Interest and dividend income	685	697	6,186
Equity in earnings of affiliates	470	428	3,798
Interest expense	(2,379)	(1,885)	(16,729)
Incidental expense for loan	(773)	(1,354)	(12,016)
Gain on adjustment of account payable	—	288	2,556
Other, net	1,188	391	3,470
	(809)	(1,435)	(12,735)
Ordinary income	41,889	67,327	597,506
Special Income (Losses):			
Gain (loss) on disposal or sales of property and equipment, net (Note 8)	604	19	169
Impairment loss on fixed assets (Note 8)	(187)	(3,863)	(34,283)
Gain on negative goodwill	—	4,489	39,838
Other, net	—	878	7,792
	417	1,523	13,516
Income before Income Taxes	42,306	68,850	611,022
Income Taxes (Note 18):			
Current	4,278	10,939	97,080
Deferred	9,426	6,537	58,014
	13,704	17,476	155,094
Net income	28,602	51,374	455,928
Net income attributable to non-controlling interests	60	148	1,313
Net income attributable to owners of parent (Note 19)	¥ 28,542	¥ 51,226	\$ 454,615

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED MARCH 31, 2015 AND 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2016	2016
Net Income	¥28,602	¥51,374	\$455,928
Other Comprehensive Income			
Net unrealized gain (loss) on other securities	694	(1,557)	(13,818)
Translation adjustments	4,620	131	1,163
Retirement benefits liability adjustments	4,504	(5,661)	(50,240)
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	20	(28)	(248)
Total other comprehensive income (loss)	9,838	(7,115)	(63,143)
Comprehensive Income (Note 21)	38,440	44,259	392,785
Total Comprehensive Income Attributable to:			
Comprehensive income attributable to owners of parent	38,380	44,111	391,471
Comprehensive income attributable to non-controlling interests	60	148	1,314

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGE IN NET ASSETS

FOR THE YEARS ENDED MARCH 31, 2015 AND 2016

For the year ended March 31, 2015

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Treasury stock
	(Millions of yen)			
Balance at April 1, 2014	¥57,500	¥7,500	¥63,764	¥(132)
Cumulative effects of changes in accounting policies	—	—	2,383	—
Restated balance at April 1, 2014	¥57,500	¥7,500	¥66,147	¥(132)
Net income attributable to owners of parent for the year ended March 31, 2015	—	—	28,542	—
Cash dividend	—	—	(1,103)	—
Purchase of treasury stock	—	—	—	(15,098)
Disposal of treasury stock	—	0	—	0
Retirement of treasury stock	—	(15,091)	—	15,091
Appropriation of retained earnings for capital surplus	—	15,091	(15,091)	—
Net changes in items other than those in shareholders' equity	—	—	—	—
Total changes during the year	—	—	12,348	(7)
Balance at March 31, 2015	¥57,500	¥7,500	¥78,495	¥(139)

	Accumulated other comprehensive income				
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests
	(Millions of yen)				
Balance at April 1, 2014	¥2,657	¥(7,167)	¥(4,857)	¥(9,367)	¥207
Cumulative effects of changes in accounting policies	—	—	—	—	0
Restated balance at April 1, 2014	¥2,657	¥(7,167)	¥(4,857)	¥(9,367)	¥207
Net income attributable to owners of parent for the year ended March 31, 2015	—	—	—	—	—
Cash dividend	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—
Disposal of treasury stock	—	—	—	—	—
Retirement of treasury stock	—	—	—	—	—
Appropriation of retained earnings for capital surplus	—	—	—	—	—
Net changes in items other than those in shareholders' equity	714	4,621	4,504	9,839	54
Total changes during the year	714	4,621	4,504	9,839	54
Balance at March 31, 2015	¥3,371	¥(2,546)	¥ (353)	¥ 472	¥261

See notes to consolidated financial statements.

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For the year ended March 31, 2016

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2015	¥57,500	¥7,500	¥ 78,495	¥(139)	¥143,356
Cumulative effects of changes in accounting policies	—	—	—	—	—
Restated balance at April 1, 2015	¥57,500	¥7,500	¥ 78,495	¥(139)	¥143,356
Net income attributable to owners of parent for the year ended March 31, 2016	—	—	51,226	—	51,226
Cash dividend	—	—	(3,006)	—	(3,006)
Purchase of treasury stock	—	—	—	(7)	(7)
Disposal of treasury stock	—	0	—	0	0
Retirement of treasury stock	—	—	—	—	—
Increased due to merger	—	—	11	—	11
Appropriation of retained earnings for capital surplus	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Total changes during the year	—	0	48,231	(7)	48,224
Balance at March 31, 2016	¥57,500	¥7,500	¥126,726	¥(146)	¥191,580

	Accumulated other comprehensive income					
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
	(Millions of yen)					
Balance at April 1, 2015	¥3,371	¥(2,546)	¥ (353)	¥ 472	¥261	¥144,089
Cumulative effects of changes in accounting policies	—	—	—	—	—	—
Restated balance at April 1, 2015	¥3,371	¥(2,546)	¥ (353)	¥ 472	¥261	¥144,089
Net income attributable to owners of parent for the year ended March 31, 2016	—	—	—	—	—	51,226
Cash dividend	—	—	—	—	—	(3,006)
Purchase of treasury stock	—	—	—	—	—	(7)
Disposal of treasury stock	—	—	—	—	—	0
Retirement of treasury stock	—	—	—	—	—	—
Increased due to merger	—	—	—	—	—	11
Appropriation of retained earnings for capital surplus	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	(1,585)	130	(5,660)	(7,115)	177	(6,938)
Total changes during the year	(1,585)	130	(5,660)	(7,115)	177	41,286
Balance at March 31, 2016	¥1,786	¥(2,416)	¥(6,013)	¥(6,643)	¥438	¥185,375

See notes to consolidated financial statements.

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	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 4)				
Balance at April 1, 2015	\$510,295	\$66,560	\$ 696,619	\$(1,234)	\$1,272,240
Cumulative effects of changes in accounting policies	—	—	—	—	—
Restated balance at April 1, 2015	\$510,295	\$66,560	\$ 696,619	\$(1,234)	\$1,272,240
Net income attributable to owners of parent for the year ended March 31, 2016	—	—	454,615	—	454,615
Cash dividend	—	—	(26,676)	—	(26,676)
Purchase of treasury stock	—	—	—	(62)	(62)
Disposal of treasury stock	—	0	—	0	0
Retirement of treasury stock	—	—	—	—	—
Increased due to merger	—	—	96	—	96
Appropriation of retained earnings for capital surplus	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—
Total changes during the year	—	0	428,035	(62)	427,973
Balance at March 31, 2016	\$510,295	\$66,560	\$1,124,654	\$(1,296)	\$1,700,213

	Accumulated other comprehensive income				
	Net unrealized gain (loss) on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income (loss)	Non-controlling interests
	(Thousands of U.S. dollars) (Note 4)				
Balance at April 1, 2015	\$29,917	\$(22,595)	\$ (3,133)	\$ 4,189	\$2,316
Cumulative effects of changes in accounting policies	—	—	—	—	—
Restated balance at April 1, 2015	\$29,917	\$(22,595)	\$ (3,133)	\$ 4,189	\$2,316
Net income attributable to owners of parent for the year ended March 31, 2016	—	—	—	—	454,615
Cash dividend	—	—	—	—	(26,676)
Purchase of treasury stock	—	—	—	—	(62)
Disposal of treasury stock	—	—	—	—	0
Retirement of treasury stock	—	—	—	—	—
Increased due to merger	—	—	—	—	96
Appropriation of retained earnings for capital surplus	—	—	—	—	—
Net changes in items other than those in shareholders' equity	(14,067)	1,154	(50,231)	(63,144)	(61,572)
Total changes during the year	(14,067)	1,154	(50,231)	(63,144)	366,401
Balance at March 31, 2016	\$15,850	\$(21,441)	\$(53,364)	\$(58,955)	\$1,645,146

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 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	¥ 42,306	¥ 68,850	\$ 611,022
Depreciation	2,180	2,752	24,423
Impairment loss on fixed assets	187	3,863	34,283
Amortization of goodwill	939	1,820	16,152
Gain on negative goodwill	—	(4,489)	(39,838)
(Reversal of) provision for allowance for doubtful accounts	(24)	(406)	(3,603)
Interest and dividend income	(685)	(697)	(6,186)
Interest expense	2,379	1,885	16,729
Equity in earnings of affiliates	(470)	(428)	(3,798)
Valuation loss on investment securities	—	(682)	(6,053)
Loss (gain) on disposal or sale of property and equipment, net	(605)	(19)	(169)
Gain on adjustment of account payable	—	(288)	(2,556)
Valuation loss on inventories	3,637	11,114	98,633
Changes in operating assets and liabilities			
Notes and accounts receivable	(15,287)	(26,656)	(236,564)
Costs on uncompleted construction contracts	(1,078)	(3,188)	(28,293)
Inventories	(9,261)	8,004	71,033
Notes, accounts payable and accrued expenses	18,822	7,077	62,806
Amounts received for uncompleted construction contracts	958	(4,920)	(43,663)
Other	1,311	7,438	66,011
Subtotal	45,309	71,030	630,369
Interest and dividends received	745	757	6,718
Interest paid	(2,275)	(1,756)	(15,584)
Income taxes paid	(3,795)	(4,441)	(39,412)
Net Cash Provided by Operating Activities	39,984	65,590	582,091
Cash Flows from Investing Activities:			
Proceeds from withdrawal of time deposits	—	7,000	62,123
Purchases of property and equipment and intangible assets	(3,880)	(18,870)	(167,465)
Proceeds from sales of property and equipment and intangible assets	4,614	234	2,077
Payment for purchase of investment securities	(4,723)	(1,269)	(11,262)
Proceeds from sale of investment in securities	5	1,107	9,824
Payment for acquisition of subsidiaries' shares resulting in change in the scope of consolidation (Note 15)	—	(18,085)	(160,499)
Proceeds from acquisition of subsidiaries' shares resulting in change in the scope of consolidation (Note 15)	—	1,675	14,865
Payment for loans receivable	(1,742)	(3,222)	(28,594)
Collection of loans receivable	1,667	1,737	15,415
Payment for lease deposits	(741)	(1,540)	(13,667)
Refund of lease deposits	847	514	4,562
Other	(114)	(82)	(728)
Net Cash Used in Investing Activities	(4,067)	(30,801)	(273,349)
Cash Flows from Financing Activities:			
Decrease in short-term borrowings, net (Note 15)	—	(22,950)	(203,674)
Increase in long-term debt	30,054	77,923	691,542
Repayment of long-term debt (Note 15)	(62,678)	(75,496)	(670,004)
Proceeds from issuance of straight bonds	10,000	10,000	88,747
Redemption of treasury stock	(15,091)	—	—
Purchase of treasury stock	(7)	(8)	(71)
Incidental expenses for loan	(932)	(1,339)	(11,883)
Cash dividends paid	(1,103)	(3,006)	(26,677)
Cash dividends paid to non-controlling shareholders	(6)	(6)	(53)
Repayment of lease obligations	(413)	(684)	(6,070)
Other	(59)	(720)	(6,390)
Net Cash Used in Financing Activities	(40,235)	(16,286)	(144,533)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	192	6	52
Net Increase (Decrease) in Cash and Cash Equivalents	(4,126)	18,509	164,261
Cash and Cash Equivalents at Beginning of the Year	137,689	133,563	1,185,330
Increase in Cash and Cash Equivalents Resulting from Merger of Unconsolidated Subsidiaries	—	43	382
Cash and Cash Equivalents at End of the Year (Note 15)	¥133,563	¥152,115	\$1,349,973

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Haseko Corporation and Consolidated Subsidiaries
For the years ended March 31, 2015 and 2016

1. Basis of Presentation

Haseko Corporation (the "Company") and its consolidated domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and Haseko America Inc. and its subsidiaries ("Haseko America") maintain their books of account in conformity with the financial accounting standards of the United States of America.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Certain reclassifications or summaries of accounts have been made to present the consolidated financial statements in a form which is more familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. As of March 31, 2016, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 56 and 2 (46 and 2 in 2015), respectively. Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less.

The fiscal year of Haseko America and its subsidiaries ends on December 31, and they are included in the consolidation as of that date. The necessary adjustments for significant transactions that occur during the period from January 1 to March 31 are made in the preparation of the consolidated financial statements.

The fiscal year of the three silent partnerships operated by RS1 LLC, JMC1, LLC, and JMC2, LLC, respectively, ends on February 29, and they are included in the consolidation as of that date. The necessary adjustments for significant transactions that occur during the period from March 1 to March 31 are made in the preparation of the consolidated financial statements.

The fiscal year of SOL Hoshigaoka Co., Ltd. ends on February 29. It is included in the consolidation as of March 31 by the provisional closing made in conformity with the fiscal year end closing process.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits that may be withdrawn on demand and time deposits that can be easily withdrawn and bear no risk of value fluctuation.

(3) Investment securities

Marketable securities classified as other securities are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of accumulated other comprehensive income at a net-of-tax amount. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving-average method.

(4) Inventories

Costs on uncompleted construction contracts and real estate for sale are stated at cost determined by the individual cost method. Raw materials are stated at cost determined by the average method. Supplies are stated at cost determined by the individual cost method. The book value of inventories on the balance sheets is written down based on the fall in profitability. Real estate for lease included in inventories is depreciated in a similar manner as property and equipment.

Some consolidated subsidiaries have incorporated the interest paid on funds used for the real-estate development business into the costs of real estate for sale.

(5) Property and equipment

Depreciation of property and equipment is principally computed by declining-balance method while the straight-line method is applied to buildings (excluding structures attached to buildings) acquired on or after April 1, 1998. Certain consolidated subsidiaries depreciate property and equipment by the straight-line method.

(6) Intangible assets

Intangible assets are amortized by the straight-line method over the period estimated to be effective at the time of occurrence, except for land leasehold rights, which are not amortized.

Computer software for internal use is amortized by the straight-line method over the estimated useful period of five years.

(7) Leases

Depreciation of leased assets capitalized in finance lease transactions is computed by the straight line method over the lease term, as useful life, with assuming no residual value, unless a guaranteed residual value is provided under corresponding lease contract.

Finance leases, except for those that transfer the ownership of the leased assets to the lessees, which had been entered into on or before March 31, 2008, as stated in the "Accounting Standard for Lease Transactions" [Accounting Standards Board of Japan (ASBJ) Statement No. 13], have been recorded in accordance with the accounting method for operating lease transactions.

(8) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for the estimated future loss on bad debt. It is estimated using the Company's experience of the loss ratio and a specific estimate of known doubtful accounts.

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(9) Warranty

Warranty is provided for the estimated repair expense owed by the Company in the event of defects found in the completed constructions after handover.

(10) Allowance for losses on construction contracts

In order to prepare for future losses from construction orders, estimated amounts of losses have been recorded for construction projects prior to delivery as of the end of fiscal year for those that are expected to generate losses and losses can be evaluated rationally.

(11) Accrued bonuses for employees

Accrued bonuses for employees are provided for the estimated amount of bonuses to be paid to employees for the services rendered by the balance sheet date.

(12) Accrued bonuses for directors

Accrued bonuses for directors are provided for the estimated amount of bonuses to be paid to directors for the services rendered by the balance sheet date.

(13) Retirement benefits

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Prior service costs are amortized by the straight-line method over the average remaining service period of the employees (13-16 years) at the time of occurrence.

Actuarial differences are amortized from the next year in which the difference arises by the straight-line method over the average remaining service period of the employees (5-22 years).

Some consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expense by adopting the simplified method, which assumes their retirement benefit obligation to be equal to the benefits payable as if all eligible employees voluntarily terminated their employment at fiscal year end.

(14) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the foreign exchange rates prevailing at the respective balance sheet dates and a net exchange loss/gain is included in net income. Furthermore, the assets/liabilities and earnings/expenses of overseas consolidated subsidiaries are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting translation adjustments are reported as "Translation adjustments" in net assets.

(15) Hedge accounting

The Company and its consolidated subsidiaries use interest rate swap contracts to hedge interest rate fluctuation risk on long-term debt with variable interest rates. Certain interest rate swap contracts which meet certain criteria as qualified hedges are not measured at fair value. The differences between paid and received amounts under such swap agreements are recognized in interest expenses as incurred.

The assessment of hedge effectiveness is omitted when the notional amounts, interest rates and contract periods of the hedging instruments and the hedged items are the same.

(16) Amortization of goodwill

Goodwill is amortized on a straight-line basis over the period economic benefits are expected. However, immaterial amounts of goodwill are charged to income as incurred.

(17) Recognition on sales and costs of construction contracts

The Company and its consolidated subsidiaries recognize revenues and costs on construction contracts on a percentage-of-completion basis for construction projects and on a completed-contract basis for other construction contracts.

(18) Income taxes

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

(19) Consumption taxes

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

(20) Deferred assets

Issuance costs for straight bonds are charged to income.

(21) Standard issued but not yet effective

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

a) Overview

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

(Requirements for classification and reviewing of treatment of amounts recorded as deferred tax assets)

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

b) Scheduled date of adoption

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

c) Impact of adopting revised implementation guidance

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

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3. Supplemental Information

Accounting Change

Application of the Accounting Standards for Business Combinations

Effective the year ended March 31, 2016, the Company has applied the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, issued on September 13, 2013), the Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22, issued on September 13, 2013), and the Revised Accounting Standard for Business Divestitures (ASBJ Statement No.7, issued on September 13, 2013). As a result of adopting these standards, any changes in a parent's ownership interest in a subsidiary, in which the parent retains control over the subsidiary, are recognized in capital surplus, and acquisition-related costs are recognized as expenses for the fiscal period in which the relevant costs are incurred. In regard to the business combinations executed from the beginning of the fiscal year ended March 31, 2016, the Company has changed the method of adjusting provisional allocation of acquisition costs, to reflect any adjustments in the fiscal year in which the relevant business combinations are executed. The Company has also changed the method of presenting annual net income, etc., and has reclassified the minority interests to be presented as non-controlling interests. In order to reflect these changes, the consolidated financial statements for the previous fiscal year have been reclassified.

The accounting standards for business combinations have been applied in accordance with the transitional treatment provided in Paragraph 58-2(4) of the Accounting Standard for Business Combinations, Paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. These standards were applied prospectively from the beginning of the fiscal year ended March 31, 2016.

As a result, operating income and ordinary income decreased by ¥25 million (\$222 thousand), respectively, for the year ended March 31, 2016.

There was no impact on net assets per share, net income attributable to owners of parent per share for the fiscal year ended March, 31, 2016.

Changes in presentation

(Notes to Consolidated statement of income)

"Amortization," which was included "other" in "selling, general and administrative expenses" in the footnote "Supplementary Profit and Loss information" in the previous fiscal year, has increased in materiality, and thus has been presented separately from this current fiscal year.

In addition, ¥8 million of "provision for doubtful accounts," which was stated as a main item in "selling, general and administrative expenses" and in the footnote "Supplementary Profit and Loss information" in the previous fiscal year, has been omitted from current fiscal year as its materiality has decreased.

In order to reflect these changes in presentation, ¥939 million presented under "other" in "selling, general and administrative expense" in the previous fiscal year has been reclassified as ¥939 million in "amortization" and ¥15,179 million in "other,"

(Consolidated statements of cash flows)

"Proceeds from sale of investment securities," which were included in "other" in "cash flows from investing activities" in the previous fiscal year, have increased in materiality, and thus have been presented separately listed from the current fiscal year. In order to reflect this change in presentation, the consolidated statement of cash flows of the previous fiscal year has been reclassified.

As a result, ¥(110) million presented under "other" of "cash flows from investing activities" in the previous fiscal year's consolidated statement of cash flows has been classified as ¥5 million for "proceeds from sale of investment securities" and ¥(114) million for "other."

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience of readers outside Japan, at the prevailing exchange rate on March 31, 2016, which was ¥112.68=U.S.\$1. The above translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

5. Financial Instruments

Overview

(1) Policy for financial instruments

The Company and its consolidated subsidiaries manage surplus funds only through deposits and procure funds through issuance of straight bond and borrowings from financial institutions. The Company and its consolidated subsidiaries use derivative instruments in order to hedge against interest rate fluctuations and do not enter into derivative transactions for trading or speculative purposes, in accordance with internal policy.

(2) Nature and extent of risks arising from financial instruments

Notes and accounts receivable, trade, which are trade receivables of the Company and its consolidated subsidiaries, are exposed to credit risks of customers. As for investment securities, which are primarily stocks of companies with which the Company has business relationships, listed securities are exposed to market risks, and non-listed securities are exposed to risks of fluctuations in the financial conditions of the issuers. In addition, the Company provides loans to its subsidiaries and affiliates.

Notes and accounts payable and electronically recorded obligations, which are trade payables, are mostly due within a year. Straight bonds, borrowings and debt are means of fund procurement primarily in connection with business activities, and the Company uses derivative instruments (interest rate swap transactions) for a certain portion of these liabilities as hedging instruments to mitigate interest rate fluctuation risks and to fix its interest payments. With regard to the method of evaluation of hedge effectiveness, the Company omitted the evaluation of the effectiveness as the requirements for the special treatment of interest-rate swaps are satisfied. In addition, financial covenants have been applied to major borrowings and debt. Lease obligations relating to financial leases are primarily used for capital investment.

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(3) Risk management for financial instruments

Management of credit risks (risks associated with business partners' default etc.)

With regard to trade receivables, in accordance with its internal rules, the Company checks the creditworthiness of its business partners, manages the balance of accounts receivable and monitors the status of any delay in collection, and works to obtain collateral when it is necessary to protect accounts receivable, in an endeavor to identify and mitigate risks on collections. Credit risk is also managed by its consolidated subsidiaries in accordance with its internal rules. Loans receivable are managed by the Company by conducting credit investigations on a regular basis in accordance with its internal provisions and working to obtain collateral, if necessary. When the Company conducts derivative transactions, it deals exclusively with Japanese financial institutions that have high creditworthiness.

Management of market risks (interest rate fluctuation risks, etc.)

With regard to investment securities, the Company determines their fair values and evaluates the financial position of the issuers regularly. For derivative transactions, the Company operates a system that separates execution and management functions based on the internal rules that stipulate policies, usage/and the range of derivatives, and so forth. Under the system, the balance of derivative transactions and the gains or loss from valuation are regularly reported to the director in charge of finance. Furthermore, derivative transactions by the Company and its consolidated subsidiaries are conducted, in principle, as a means to hedge risks, and should work to reduce market risks that might arise between the targeted assets and the liabilities. As such, the Company believes that market risks are fairly limited.

Management of liquidity risks (risks that the Company may not be able to meet its obligation on scheduled due dates) associated with funds procurement

The Company endeavors to secure liquidity as the finance division prepares funding plans appropriately based on reports from each division and other information and implements fund procurement by utilizing commitment lines in coordination with the scheduled due dates. In addition, the Company confirms the funding status of its consolidated subsidiaries to appropriately manage the funds of the Company and its consolidated subsidiaries as a whole.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional amounts of derivatives in Note 16. Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Fair values of financial instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2015 and 2016, and estimated fair value are shown in the following tables. The following tables do not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below).

Millions of yen			
2015			
	Carrying value	Fair value	Difference
Cash and bank deposits	¥134,187	¥134,187	¥ —
Notes and account receivable, trade	104,975	105,252	277
Investment securities	11,412	11,686	274
Long-term loans receivable	1,396		
Allowance for doubtful accounts	(18)		
Sub-total	1,378	1,378	(0)
Total	¥251,952	¥252,503	¥551
Notes and accounts payable	127,082	127,076	(6)
Short-term borrowings	300	300	—
Current portion of long-term debt	56,574	56,782	208
Income taxes payable	2,562	2,562	—
Straight bonds	10,000	9,991	(9)
Long-term debt	56,297	56,587	290
Lease obligations	5,074	5,063	(11)
Total	¥257,889	¥258,361	¥472
Derivatives	¥ —	¥ —	¥ —

Millions of yen			
2016			
	Carrying value	Fair value	Difference
Cash and bank deposits	¥152,752	¥152,752	¥ —
Notes and account receivable, trade	130,271	130,584	313
Investment securities	10,633	10,623	(10)
Long-term loans receivable	2,853		
Allowance for doubtful accounts	(23)		
Sub-total	2,830	3,023	193
Total	¥296,486	¥296,982	¥496
Notes and accounts payable	100,937	100,934	(3)
Electronically recorded obligations	34,415	34,415	—
Short-term borrowings	—	—	—
Current portion of long-term debt	48,289	48,389	100
Income taxes payable	9,427	9,427	—
Straight bonds	20,000	20,138	138
Long-term debt	99,027	99,211	184
Lease obligations	7,404	7,404	0
Total	¥319,499	¥319,918	¥419
Derivatives	¥ —	¥ —	¥ —

Thousands of U.S. dollars			
2016			
	Carrying value	Fair value	Difference
Cash and bank deposits	\$1,355,627	\$1,355,627	\$ —
Notes and account receivable, trade	1,156,115	1,158,892	2,777
Investment securities	94,364	94,276	(88)
Long-term loans receivable	25,319		
Allowance for doubtful accounts	(204)		
Sub-total	25,115	26,828	1,713
Total	\$2,631,221	\$2,635,623	4,402
Notes and accounts payable	895,785	895,758	(27)
Electronically recorded obligations	305,422	305,422	—
Short-term borrowings	—	—	—
Current portion of long-term debt	428,550	429,437	887
Income taxes payable	83,662	83,662	—
Straight bonds	177,494	178,718	1,224
Long-term debt	878,834	880,467	1,633
Lease obligations	65,708	65,708	0
Total	\$2,835,455	\$2,839,172	\$3,717
Derivatives	\$ —	\$ —	\$ —

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Notes:

1) Methods to determine the fair value of financial instruments and other matters related to investment securities and derivative transactions

Cash and bank deposits

Since these items are settled in a short period of time, their carrying value approximates fair value.

Notes and accounts receivable, trade

The carrying values of notes and accounts receivable that are settled in the short term are used to determine their fair value, as their fair values approximate their carrying values. With regard to notes and accounts receivable that are settled in the long term, they are classified by period and their fair values are then calculated based on the present values discounted by the interest rates determined taking into account the collection periods and credit risks.

Investment securities

Quoted market prices on the stock exchanges are used to determine the fair values of these instruments.

For information on securities classified by holding purposes, please refer to Note 6. Investment Securities.

Long-term loans receivable

Long-term loans receivable are classified by period, and their fair values are calculated based on the present values discounted by the interest rates determined taking into account credit spreads and appropriate market data such as yields of government bonds.

In addition, fair values of doubtful accounts are estimated based on collectable amounts.

Notes and accounts payable, Electronically recorded obligations

The carrying values of notes and accounts payable and electronically recorded obligations that are settled in the short term are used to determine their fair values, as the fair values approximate the carrying values. With regard to notes and accounts payable that are settled in the long term, they are classified by period and their fair values are calculated based on the present values discounted by the interest rates determined taking into account the payment periods and credit risks.

Short-term borrowings and income taxes payable

As these are settled in the short term, their fair values approximate carrying values.

Straight bonds

Fair value is calculated based on available market value. If a market value is not available, fair value is calculated based on the present value of the total amount of principal and interest discounted by an interest rate reflecting the remaining maturity and credit risk of the straight bonds.

Long-term debt including current portion

Fair values are calculated based on the present value of the total amount of principal and interest discounted by the interest rates to be applied if similar new borrowings were entered into.

The fair values of long-term debt with floating interest rates hedged by interest rate swap transactions subject to the special treatment are calculated based on the present value of the total amount of principal and interest, accounted for together with the interest rate swap transactions, discounted by the interest rates to be applied if similar new borrowings were entered into.

Lease obligations

Fair value of lease obligations is calculated based on the present value of, the total amount of principal and interest on the lease obligations discounted by the interest rates to be applied if similar new lease transactions were entered into.

Derivatives

Please refer to Note 16. Derivative Transactions.

2) Financial instruments whose fair values are extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Equity securities of affiliates	¥2,831	¥3,587	\$31,834
Unlisted securities	625	723	6,416
Preferred subscription certificates	0	0	0
Others	588	613	5,440

The above instruments have not been included in the preceding table, "Fair values of financial instruments, Investment securities," as there are no quoted market prices available and it is extremely difficult to determine their fair values.

3) Redemption schedule for monetary receivables and securities with maturity dates at March 31, 2015 and 2016

	Millions of yen				
	2015				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	¥134,187	¥ —	¥ —	¥ —	¥134,187
Notes and accounts receivable, trade	95,674	9,299	2	0	104,975
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	10	115	—	—	125
Long-term loans receivable	842	341	195	18	1,396
Total	¥230,713	¥9,755	¥197	¥18	¥240,683

	Millions of yen				
	2016				
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	¥152,752	¥ —	¥ —	¥ —	¥152,752
Notes and accounts receivable, trade	107,398	20,801	2,072	0	130,271
Investment securities:					
Other securities with maturity dates					
Japanese government bonds, etc.	70	50	—	—	120
Long-term loans receivable	700	615	1,382	155	2,852
Total	¥260,920	¥21,466	¥3,454	¥155	¥285,995

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Thousands of U.S. dollars					
2016					
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Total
Cash and bank deposits	\$1,355,627	\$ –	\$ –	\$ –	\$1,355,627
Notes and accounts receivable, trade	953,124	184,602	18,388	0	1,156,114
Investment securities:					
Other securities with maturity dates	621	444	–	–	1,065
Japanese government bonds, etc.	6,212	5,458	12,265	1,376	25,311
Long-term loans receivable					
Total	\$2,315,584	\$190,504	\$30,653	\$1,376	\$2,538,117

4) Repayment schedule for short-term borrowings, straight bonds, long-term debt, and lease obligations at March 31, 2015 and 2016

Millions of yen					Millions of yen			
2015					2016			
	Short-term borrowings	Straight bonds	Long-term debt	Lease obligations	Short-term borrowings	Straight bonds	Long-term debt	Lease obligations
Due within 1 year	¥300	¥ –	¥56,574	¥ 514	¥–	¥ –	¥48,289	¥ 803
Due after 1 year through 2 years	–	–	24,846	500	–	–	26,827	763
Due after 2 years through 3 years	–	–	13,170	467	–	–	28,226	685
Due after 3 years through 4 years	–	–	13,570	405	–	10,000	15,239	620
Due after 4 years through 5 years	–	10,000	1,570	352	–	10,000	3,435	548
Due after 5 years	–	–	3,140	2,837	–	–	25,300	3,985

Thousands of U.S. dollars				
2016				
	Short-term borrowings	Straight bonds	Long-term debt	Lease obligations
Due within 1 year	\$–	\$ –	\$428,550	\$ 7,126
Due after 1 year through 2 years	–	–	238,081	6,771
Due after 2 years through 3 years	–	–	250,497	6,079
Due after 3 years through 4 years	–	88,747	135,241	5,502
Due after 4 years through 5 years	–	88,747	30,485	4,863
Due after 5 years	–	–	224,530	35,367

6. Investment Securities

(1) Other securities whose fair value is available as of March 31, 2015 and 2016 consisted of the following:

Millions of yen					
2015			2016		
Carrying value	Acquisition cost	Unrealized gain	Carrying value	Acquisition cost	Unrealized gain
(Securities whose carrying value exceeds their acquisition cost)					
Equity securities	¥9,637	¥5,203	¥4,434	¥8,502	¥6,308
Japanese government bonds	125	123	2	120	119
Total	¥9,762	¥5,326	¥4,436	¥8,622	¥6,427

Thousands of U.S. dollars		
2016		
Carrying value	Acquisition cost	Unrealized gain
(Securities whose carrying value exceeds their acquisition cost)		
Equity securities	\$75,453	\$55,982
Japanese government bonds	1,065	1,056
Total	\$76,518	\$57,038

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- (2) Other securities sold for the year ended March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Equity securities:		
Proceeds from sales	¥ 96	\$ 852
Gain on sales	67	595
Loss on sales	—	—
Japanese government bonds:		
Proceeds from sales	¥1,001	\$8,884
Gain on sales	615	5,458
Loss on sales	—	—

Note: There were no sales transactions of other securities for the year ended March 31, 2015.

7. Inventories

Inventories as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2015	2016
Real estate for sale	¥ 31,146	¥ 39,931
Costs and advances for real estate operations	40,438	70,330
Real estate for development projects	41,012	26,753
	¥112,596	¥137,014

8. Property and Equipment and Intangible Assets

- (1) Property and equipment as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2015	2016
Buildings and structures	¥ 33,864	¥ 48,064
Machinery, vehicles, equipment and furniture	5,784	7,115
Land	30,227	61,281
Leased assets	5,338	7,789
Construction in progress	732	450
Sub-total	75,945	124,699
Accumulated depreciation	(20,397)	(24,039)
	¥ 55,548	¥100,660

- (2) Intangible assets as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2015	2016
Land leasehold rights	¥ 689	¥ 1,607
Goodwill	8,931	8,031
Other	1,032	1,302
	¥10,652	¥10,940

- (3) Net gain (loss) on disposal or sales of property and equipment and intangible assets for the years ended March 31, 2015 and 2016 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2015	2016
Buildings and structures	¥372	¥ (2)
Machinery, vehicles, equipment and furniture	21	(8)
Land	214	33
Land leasehold rights	—	—
Leased assets	(2)	(4)
Other	—	—
	¥605	¥19

- (4) Impairment loss on fixed assets

The Company and its consolidated domestic subsidiaries recognized impairment losses on the following fixed assets for the years ended March 31, 2015 and 2016:

2015	Use	Type	Location	No. of Cases
	Real estate for construction related business	Structures	Chino-shi, Nagano	1
	Real estate for service related business	Buildings and fixtures, etc.	Minami-ku, Saitama-shi, etc.	6
	Assets for service related business	Leased assets	Sagamihara-shi, Kanagawa etc.	23

2016	Use	Type	Location	No. of Cases
	Real estate for construction related business	Land and buildings	Koshigaya-shi, Saitama, etc.	2
	Real estate for service related business	Land and buildings	Ota-ku, Tokyo, etc.	9
	Assets for service related business	Leased assets	Chikusa-ku Nagoya-shi etc.	32

The Company and its consolidated domestic subsidiaries recognized impairment loss on certain real estate for construction business, service related business, and assets for service related business, which are grouped separately for the assessment of impairment.

The expected retirements as part of the relocation plans, the lowered economic performance, the planned dispositions during the year ended March 2016 triggered impairment, and the carrying values of the those assets have been written down to their recoverable amounts, resulting in the impairment losses on fixed assets of ¥187 million and ¥3,863 million (\$34,283 thousand) for the years ended March 31, 2015 and 2016, respectively, which were presented as "Special Losses." on the consolidated income statement. The details of impairment losses on fixed assets were as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2016
Buildings and structures	¥ 21	¥ 815
Equipment and furniture	5	14
Land	—	2,784
Land leasehold rights	—	67
Leased assets	161	183
	¥187	¥3,863

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The recoverable amount was the higher of the net selling price or value in use. The net selling price for real estate is the appraisal value less the cost of disposal, and the comparison approach value for other assets. Value in use is the sum of the net future cash flows discounted at a rate of 5.0% for the years ended March 31, 2015 and 2016.

(5) Rental Properties

The Company and some of its consolidated subsidiaries own residential properties for lease, office buildings for lease (including land), commercial facilities for lease, etc. mainly in the Tokyo metropolitan area and the Kinki area. Income/expenses of the leasing business related to the rental properties for the year ended March 31, 2016 were ¥1,151 million (\$10,215 thousand). Income from the leasing business is recorded as leasing and management revenue and expenses for the leasing business are recorded as leasing and management expenses.

The recorded amount of the rental properties, etc. in the consolidated balance sheets, have increased/decreased during the year and fair value as of the end of the fiscal year are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Book value:			
Balance at the beginning of the year	¥-	¥11,519	\$102,228
Increase/decrease	-	46,699	396,690
Balance at the end of the year	¥-	¥56,218	\$498,917
Fair value	¥-	¥57,189	\$507,535

Notes:

- 1) The rental properties are recorded on the consolidated balance sheet at their acquisition costs net of accumulated depreciation and impairment losses.
- 2) The book value increased mainly due to the acquisition of new properties (¥16,230 million, \$144,036 thousand) and the consolidation of Sohgo Real Estate Co., Ltd., its two subsidiaries, and Joint Corporation and its four subsidiaries which owns the rental properties (¥28,180 million, \$250,089 thousand), net of the depreciation expenses (¥285 million, \$2,529 thousand)
- 3) The fair value at the end of the current fiscal year is the appraisal value taken from the real estate appraisal reports for major properties; and the calculations by the Company in accordance with the "Real Estate Appraisal Standards" for others. However, for certain properties the value at the time of acquisition or value obtained using a general fair value calculation formula is stated as the fair value at the end of the current fiscal year when there has been no significant fluctuation in the index which is deemed to be a kind of appraised value or appropriately reflect market value since they were acquired or most recently appraised.
- 4) Disclosure was omitted for the previous fiscal year as the total amount of the rental properties was immaterial.

9. Short-term Borrowings, Long-term Debt and Lease Obligations

- (1) The following is a summary of the interest bearing debt as of March 31, 2015 and 2016:

	Average interest rate	Millions of yen		Thousands of U.S. dollars
		2015	2016	2016
Short-term borrowings	-	¥ 300	¥ -	\$ -
Current portion of long-term debt	1.11%	56,574	48,289	428,550
Current portion of lease obligations	2.72%	514	803	7,126
Straight bond due Nov. 5, 2019	0.44%	10,000	10,000	88,747
Straight bond due Jul. 22, 2020	0.41%	-	10,000	88,747
Long-term debt due from 2017 to 2023	0.79%	56,296	99,027	878,834
Lease obligations due from 2017 to 2026	2.79%	4,561	6,601	58,582
Total		¥128,245	¥174,720	\$1,550,586

Note: The weighted average interest rate for the end-of-year balance of outstanding debt is shown as the "average interest rate."

The weighted average interest rate for the end-of-year balance of outstanding lease obligations, whose interests are calculated based on the effective interest method, is shown as the "Average interest rate" of lease obligation.

- (2) The annual maturities of straight bonds, long-term debt and lease obligations (excluding the current portion) as of March 31, 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars	
Year ending March, 31	Straight bonds	Long-term debt	Lease obligations	Total	Total
2018	¥ -	¥26,827	¥ 763	¥ 27,590	\$ 244,853
2019	-	28,226	685	28,911	256,576
2020	10,000	15,239	620	25,859	229,491
2021	10,000	3,435	548	13,983	124,095
2022 and thereafter	-	25,300	3,985	29,285	259,895
Total	¥20,000	¥99,027	¥6,601	¥125,628	\$1,114,910

- (3) The Company has committed lines of credit available for immediate and stable borrowings with certain five financial institutions as of March 31, 2015 and 2016. The lines of credit and unused lines of credit as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Line of credit	¥63,000	¥63,000	\$559,105
Amount utilized	-	-	-
Unused line of credit	¥63,000	¥63,000	\$559,105

- (4) One consolidated subsidiary has concluded an overdraft agreement with a financial institution in order to secure stable and flexible procurement of operating funds. The balance of the unexecuted portion as of March 31, 2015 and 2016 based on this agreement were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Overdraft limit	¥1,300	¥1,300	\$11,537
Amount utilized	-	-	-
Amount unused	¥1,300	¥1,300	\$11,537

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10. Collateral

(1) Assets provided as collateral as of March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and bank deposits	¥ 1,837	¥ 5,577	\$ 49,494
Notes and accounts receivable, trade	581	11	98
Costs on uncompleted construction contracts	361	—	—
Real estate for development projects	39,574	26,754	237,433
Other current assets	46	38	337
Buildings and structures	1	1,355	12,025
Machinery, vehicles, equipment and furniture	28	18	160
Land	—	2,631	23,349
Intangible assets	0	1	9
Investment securities	10	13	116
	<u>¥42,438</u>	<u>¥36,398</u>	<u>\$323,021</u>

Other than the above assets provided as collateral, other current assets of ¥458 million and ¥458 million (\$4,065 thousand) as of March 31, 2015 and 2016, respectively, in the consolidated subsidiaries of Haseko America, Inc., which have been eliminated on the consolidated balance sheets, have been provided as collateral for the borrowings related to the real estate development and sale business in Hawaii, U.S.A.

Liabilities with collateral as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Long-term debt	¥1,992	¥3,267	\$28,994
Guaranteed obligation	516	463	4,109
	<u>¥2,508</u>	<u>¥3,730</u>	<u>\$33,103</u>

(2) The following assets have been provided as collateral for borrowings by HC Ayasegawa Jutaku, Inc., HC Koganei Jutaku, Inc., and HC Katsushimacho Jutaku, Inc., related to PFI projects:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Notes and accounts receivable, trade	¥6,885	¥10,980	\$97,444
Buildings and structures	20	19	169
Other current assets	—	1	9
	<u>¥6,905</u>	<u>¥11,000</u>	<u>\$97,622</u>

Liabilities with collateral as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current portion of long-term debt	¥3,232	¥7,682	\$68,175
Long-term debt	4,412	—	—
	<u>¥7,644</u>	<u>¥7,682</u>	<u>\$68,175</u>

In addition to the above, the following assets have been provided as collateral, all of which have been eliminated on the consolidated balance sheets:

(2015)

Shares of HC Ayasegawa Jutaku, Inc., HC Koganei Jutaku, Inc., and HC Katsushimacho Jutaku, Inc. (¥27 million) owned by Haseko Corporation and Haseko Community, Inc.

Loans receivable (¥443 million) lent by Haseko Corporation to HC Ayasegawa Jutaku, Inc., HC Koganei Jutaku, Inc., and HC Koganei Jutaku, Inc.

(2016)

Shares of HC Ayasegawa Jutaku, Inc., HC Koganei Jutaku, Inc., and HC Katsushimacho Jutaku, Inc. (¥27 million, \$240 thousand) owned by Haseko Corporation and Haseko Community, Inc.

Loans receivable (¥408 million, \$3,621 thousand) lent by Haseko Corporation to HC Ayasegawa Jutaku, Inc., HC Koganei Jutaku, Inc., and HC Katsushimacho Jutaku, Inc.

11. Contingent Liabilities

The Company was contingently liable for guarantees on bank loans and other guarantees as of March 31, 2015 and 2016 as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Customers using housing loans and other loans to purchase real estate	¥31,526	¥26,879	\$238,543

12. Lease Transactions

(1) Finance lease transactions

(a) Details of leased assets

Leased assets are mainly high voltage power collective receiving facilities in the "Service-related Business."

(b) Depreciation method of leased assets

Please refer to Note 2 (7) Summary of Significant Accounting Policies relating depreciations of leased assets.

Finance lease transactions that do not transfer the ownership of leased assets to the lessee as of and for the years ended March 31, 2015 and 2016 were as follows. Finance leases that do not transfer the ownership of the leased assets to the lessees, entered into on or before March 31, 2008, are accounted for as operating leases:

(As lessor)

The acquisition cost, accumulated depreciation and net book value of the rental assets (machinery and equipment, buildings and structures) as of March 31, 2015 and 2016 were summarized as follows. Finance lease transactions entered into on or before March 31, 2008, except for those that transfer ownership of the leased assets to the lessees, continue to be accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Acquisition cost	¥4	¥—	\$—
Accumulated depreciation	3	—	—
Net book value	<u>¥1</u>	<u>¥—</u>	<u>\$—</u>

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Outstanding future lease income as of March 31, 2015 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Within one year	¥1	¥-	\$-
Over one year	-	-	-
Total	¥1	¥-	\$-

Note: The above amounts include future lease income from sub-leases.

Outstanding future lease income includes the interest portion because the total amount of future lease income is not significant compared with the total amount of accounts receivable, trade.

Lease income and depreciation for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Lease income	¥3	¥1	\$9
Depreciation	2	0	0

(2) Operating lease transactions

(As lessee)

Outstanding future minimum lease payments under noncancelable operating leases as of March 31, 2015 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Within one year	¥1,606	¥ 2,614	\$23,198
Over one year	3,965	8,582	76,163
Total	¥5,571	¥11,196	\$99,361

(As lessor)

Outstanding future minimum lease income under noncancelable operating leases as of March 31, 2015 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Within one year	¥ 281	¥ 872	\$ 7,739
Over one year	763	11,221	99,583
Total	¥1,044	¥12,093	\$107,322

13. Supplementary Profit and Loss Information

(1) Sales from construction contracts calculated according to the percentage-of-completion method were ¥400,460 million and ¥455,521 million (\$4,042,607 thousand) for the years ended March 31, 2015 and 2016, respectively.

(2) Allowance for losses on construction contracts that was included in cost of sales for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Construction contract	¥167	¥4	\$35
Design and supervision	14	5	44

(3) Valuation losses on inventories that were included in cost of sales for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Real estate	¥ 3,637	¥11,114	\$98,633

(4) Selling, general and administrative expenses for the years ended March 31, 2015 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Salaries and allowances	¥15,259	¥17,812	\$158,076
Provision for bonuses for employees	1,117	1,585	14,066
Provision for bonuses for directors	187	171	1,518
Retirement benefit expenses	674	591	5,245
Rent	2,217	2,514	22,311
Depreciation	667	824	7,313
Amortization	939	1,820	16,152
Other	15,179	19,268	170,997
	¥36,239	¥44,585	\$395,678

(5) Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Research and development costs	¥804	¥1,020	\$9,052

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14. Net Assets

(1) Shares issued and treasury stock

Changes in number of shares issued and treasury stock for the year ended March 31, 2015 were as follows:

	Number of shares			2015
	2014	Increase	Decrease	
Shares issued:				
Common stock	300,794,397	—	—	300,794,397
Preferred stock:				
Class B I (Note 1)	6,000,000	—	6,000,000	—
Total	306,794,397	—	6,000,000	300,794,397
Treasury stock:				
Common stock (Notes 2 and 3)	174,971	7,991	276	182,686
Preferred stock:				
Class B I (Note 4)	—	6,000,000	6,000,000	—
Total	174,971	6,007,991	6,000,276	182,686

Notes:

- 1) Decrease in preferred stock of 6,000,000 shares due to retirement.
- 2) Increase in treasury stock (common stock) due to the request by shareholders for purchase of shares less than one standard unit.
- 3) Decrease in treasury stock due to the request by shareholders for sale of shares less than one standard unit.

- 4) Increase in and decrease in treasury stock (Class B I preferred stock) of 6,000,000 shares due to repurchase and retirement.

Details on repurchase and retirement of a portion of Class B I preferred stock during the year ended March 31, 2015 was as follows:

Date of repurchase: July 14, 2014
 Date of retirement: July 14, 2014
 Number of shares: 6,000,000 shares
 Redemption price per share: ¥2,515.14
 Aggregate amount: ¥15,090,840,000

Changes in number of shares issued and treasury stock for the year ended March 31, 2016 were as follows:

	Number of shares			2016
	2015	Increase	Decrease	
Shares issued:				
Common stock	300,794,397	—	—	300,794,397
Treasury stock:				
Common stock (Notes 1 and 2)	182,686	5,808	254	188,240

Notes:

- 1) Increase in treasury stock (common stock) due to the request by shareholders for purchase of shares less than one standard unit.
- 2) Decrease in treasury stock due to the request by shareholders for sale of shares less than one standard unit.

(2) Dividends

(a) Dividends paid

In the year ended March 31, 2016

Resolution	Type of shares	Total amount of dividend (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual meeting of shareholders on June 26, 2015	Common stock	¥3,006	¥10.00	March 31, 2015	June 29, 2015

(b) Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ending March 31, 2017

Resolution	Type of shares	Total amount of dividend (Millions of yen)	(Thousands of U.S. dollars)	Dividend per share (Yen)	(U.S. dollars)	Record date	Effective date
Annual meeting of shareholders on June 24, 2016	Common stock	¥4,509	\$37,537	¥15.00	\$0.12	March 31, 2016	June 27, 2016

15. Cash and Cash Equivalents

- (1) A reconciliation between cash and cash equivalents on the consolidated statements of cash flows and the cash and bank deposits on the consolidated balance sheets as of March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and bank deposits	¥134,187	¥152,752	\$1,355,627
Time deposits pledged as collateral	(202)	(202)	(1,793)
Saving accounts for insurance agency	(422)	(435)	(3,861)
Cash and cash equivalents	¥133,563	¥152,115	\$1,349,973

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- (2) Newly recognized assets and liabilities relating to finance lease transactions, which are considered significant non-cash transactions, as of March 31, 2015 and 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2016
Assets	¥2,707	¥2,620
Liabilities	2,880	2,775

- (3) Major breakdown of assets and liabilities of companies which newly became consolidated subsidiaries through share acquisition.

A breakdown of assets and liabilities at the time of consolidation in line with the acquisition of shares of Sohgo Real Estate Co., Ltd., and its two subsidiaries; and the reconciliation between the acquisition price of the company's shares and proceeds (net amount) due to acquisition of subsidiaries' shares resulting in change in the scope of consolidation are as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Current assets	¥ 34,366	\$ 304,988
Fixed assets	15,840	140,575
Goodwill	919	8,156
Current liabilities	(40,441)	(358,901)
Long-term liabilities	(10,674)	(94,728)
Acquisition price of Sohgo Real Estate Co., Ltd. shares	¥ 10	\$ 90
Cash and cash equivalents of Sohgo Real Estate Co., Ltd.	(1,685)	(14,954)
Difference: Proceeds from acquisition of subsidiaries' shares accompanying change in the scope of consolidation	¥ (1,675)	\$ (14,864)

A breakdown of assets and liabilities at the time of consolidation in line with the share acquisition of Joint Corporation and its four subsidiaries; and the reconciliation between the acquisition price of the company's shares and payment (net amount) due to the acquisition of the subsidiaries' shares resulting in a change in the scope of consolidation are as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Current assets	¥ 37,905	\$ 336,395
Fixed assets	16,275	144,436
Current liabilities	(3,447)	(30,591)
Long-term liabilities	(11,595)	(102,902)
Negative goodwill	(4,073)	(36,147)
Non-controlling interests	(35)	(311)
Acquisition price of Joint Corporation's shares	35,030	310,880
Cash and cash equivalents of Joint Corporation	(17,112)	(151,864)
Difference: Net payment for acquisition of subsidiaries' shares resulting in a change in the scope of consolidation	¥ 17,918	\$ 159,016

- (4) The increase/decrease in short-term borrowings, net and repayment of long-term debt in the current fiscal year include amounts the Company loaned to Sohgo Real Estate Co., Ltd., and Sohgo Real Estate Co., Ltd., repaid part of existing borrowings during the period between the acquisition date and the deemed acquisition date for acquiring Sohgo Real Estate Co., Ltd., and its two subsidiaries, which newly become consolidated subsidiaries. Such amounts were ¥13,379 million (\$118,734 thousand) for increase/decrease in short-term borrowings, net, and ¥7,976 million (\$70,785 thousand) for repayment of long-term debt.

16. Derivative Transactions

Derivative transactions for which hedge accounting is applied are as follows:

			As of March 31, 2015		
Hedge accounting method	Hedging instrument	Hedged item	Notional amount	Of which, maturing after one year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction	Long-term debt	(Millions of yen)		
	Pay fixed / Receive floating		¥53,297	¥25,721	(Note)
As of March 31, 2016					
Hedge accounting method	Hedging instrument	Hedged item	Notional amount	Of which, maturing after one year	Fair value
Special treatment of interest rate swaps	Interest rate swap transaction	Long-term debt	(Millions of yen)		
	Pay fixed / Receive floating		¥57,726	¥42,690	(Note)
(Thousands of U.S. dollars)					
			\$512,300	\$378,860	

Note: The fair value of interest rate swaps accounted for by special treatment is included in the fair value of the applicable long-term debt as such swaps are accounted for together with the hedged long-term debt.

There were no derivative transactions for which hedge accounting was not applied as of March 31, 2015 and 2016.

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17. Retirement Benefit Plans

The Company and its consolidated subsidiaries have established a lump-sum retirement allowance plan, funded defined benefit plan, multi-employer pension plan or smaller enterprise retirement allowance plan, and defined contribution pension plans.

Certain consolidated subsidiaries participate in the multi-employer pension plan. When the pension assets held by the multi-employer pension plan corresponding to the subsidiaries' contribution cannot be reliably determined, the accounting treatment applied is the same as that for a defined contribution plan.

- (1) The changes in the retirement benefit obligation during the year ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥48,703	¥41,930	\$372,116
Cumulative effect of change in accounting principle	(3,642)	—	—
Restated balance at the beginning of the year	45,061	41,930	372,116
Service cost	2,439	2,451	21,752
Interest cost	442	410	3,639
Actuarial (gain) loss	(3,821)	6,251	55,476
Retirement benefit paid	(2,191)	(2,165)	(19,214)
Other	—	836	7,418
Balance at the end of the year	¥41,930	¥49,713	\$441,187

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥39,452	¥43,953	\$390,069
Expected return on plan assets	1,168	1,083	9,611
Actuarial (gain) loss	2,805	(1,702)	(15,105)
Contributions by the Company	2,167	3,821	33,910
Retirement benefits paid	(2,171)	(2,114)	(18,761)
Other	532	1,101	9,772
Balance at the end of the year	¥43,953	¥46,142	\$409,496

- (3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligation	¥ 41,368	¥ 49,068	\$ 435,463
Plan assets at fair value	(43,953)	(46,142)	(409,496)
	(2,585)	2,926	25,967
Unfunded retirement benefit obligation	562	645	5,724
Net liability for retirement benefits in the balance sheets	(2,023)	3,571	31,691
Liability for retirement benefits	562	3,765	33,413
Asset for retirement benefits	(2,585)	(194)	(1,722)
Net liability for retirement benefits in the balance sheets	¥ (2,023)	¥ 3,571	\$ 31,691

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥ 1,991	¥ 2,143	\$19,018
Interest cost	442	410	3,639
Expected return on plan assets	(1,168)	(1,083)	(9,611)
Amortization of actuarial loss	624	248	2,201
Amortization of prior service cost	(441)	(440)	(3,905)
Amortization of transition amount	215	—	—
Retirement benefit expense	¥ 1,663	¥ 1,278	\$11,342

Notes:

- Service cost does not include the amounts contributed by employees with respect to welfare pension fund plans.
- Retirement benefit expenses for consolidated subsidiaries adopting the simplified method which assumes retirement benefit obligation to be equal to the benefits payable as if all eligible employees voluntarily terminated their employment at fiscal year-end are included in "Service cost."

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Actuarial loss	¥ (441)	¥ (441)	\$ (3,914)
Prior service cost	7,250	(7,705)	(68,379)
Transition amount	216	—	—
Total	¥7,025	¥(8,146)	\$ (72,293)

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized prior service cost	¥(2,221)	¥(1,780)	\$ (15,797)
Unrecognized actuarial loss	2,743	10,448	92,723
Total	¥ 522	¥ 8,668	\$ 76,926

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

	2015	2016
Bonds	45%	48%
Stocks	28%	26%
Alternative investments (Note)	21%	20%
Life insurance general accounts, etc.	6%	6%
Total	100%	100%

Note: Alternative investment are mainly investments in hedge funds.

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

- (8) The assumptions used in accounting for the above plans were as follows:

	2015	2016
Discount rates	0.4% - 1.0%	0.2% - 0.4%
Expected rates of return on plan assets	3.0%	2.5%

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(9) Defined Contribution Plan

The required contributions to the defined contribution plans of consolidated subsidiaries for the year ended March 31, 2016 were ¥5 million (\$44 thousand).

(10) Multi-employer pension plan

The required contributions, which were accounted in the same way as the defined contribution plan for the years ended March 31, 2015 and 2016 were ¥58 million and ¥55 million, respectively. The most recent funded status was as follows:

	Millions of yen	
	2014	2015
Pension assets	¥46,497	¥50,884
Total of the amount of actuarial obligations under pension funding program and minimum policy reserves	56,038	58,698
Difference	¥ (9,541)	¥ (7,814)

The average contribution ratios to total contributions made to all plans for the years ended March 31, 2015 and 2016 were 2.70% and 2.95%, respectively. This ratio does not accord with the actual contribution ratio of the Company group.

The differences of ¥9,541 million and ¥7,814 million as described above was due to prior service cost under pension funding programs (¥10,965 million and ¥10,603 million, respectively) and special reserve fund (¥1,424 million and ¥2,789 million, respectively).

Prior service costs under this program are amortized using the straight-line method (20 years)

18. Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets:			
Allowance for doubtful accounts	¥ 322	¥ 281	\$ 2,494
Warranty	1,074	1,433	12,717
Accrued bonuses for employees	1,117	1,194	10,596
Liability for retirement benefits	118	2,896	25,701
Valuation loss on real estate for sale	14,072	6,347	56,328
Impairment loss on fixed assets	1,024	2,775	24,627
Valuation loss on investment securities	2,798	2,917	25,887
Tax loss carry forwards	16,863	37,064	328,931
Other	2,396	3,002	26,643
Sub-total	39,784	57,909	513,924
Loss: Valuation allowance	(27,132)	(47,528)	(421,796)
Total deferred tax assets	12,652	10,381	92,128
Deferred tax liabilities:			
Unrealized gain on other securities	(1,132)	(451)	(4,002)
Prepaid pension cost	(932)	(1,787)	(15,859)
Revaluation of assets on consolidation	(149)	(1,955)	(17,350)
Other	(133)	(841)	(7,464)
Total deferred tax liabilities	(2,346)	(5,034)	(44,675)
Net deferred tax assets	¥ 10,306	¥ 5,347	\$ 47,453

Notes:

1) Valuation loss on real estate for sale includes ¥2,904 million and ¥2,451 million (\$21,752 thousand) for the years ended March 31, 2015 and 2016, respectively, for properties that were reclassified from "Current Assets" to "Property and Equipment" following a change in holding purpose.

2) The net deferred taxes as of March 31, 2015 and 2016 were classified as follows in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current assets – Deferred tax assets	¥9,386	¥ 6,379	\$56,612
Fixed assets – Deferred tax assets	920	–	–
Current liabilities – Deferred tax liabilities	–	(1,032)	(9,159)

(Change in presentation)

"Prepaid pension cost" and "Revaluation of assets on consolidation," which were included in "Other" in the previous fiscal year, have increased in materiality, and thus have been presented separately from the current fiscal year. In order to reflect this change in presentation, the foot-notes of the previous fiscal year have been reclassified.

As a result, ¥(1,214) million presented under "Other" in the previous fiscal year has been reclassified as ¥(932) million in "prepaid pension cost," ¥(149) million in "revaluation of assets on consolidation," and ¥(133) million in "other."

(2) The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2015 and 2016 were as follows:

	2015	2016
Statutory tax rate	35.6%	33.1%
(Adjustment)		
Non-deductible expenses	0.9	0.5
Permanent non-taxable items	(0.8)	(0.2)
Per capita inhabitant tax	0.3	0.2
Change in valuation allowances	(4.7)	(6.3)
Change in tax rates	3.4	0.8
Tax credit for salary growth	(0.9)	(1.3)
Consolidation goodwill	–	(0.7)
Other	(1.4)	(0.7)
Effective income tax rate	32.4%	25.4%

Corporate income tax rate change and its effects on deferred tax assets and deferred tax liabilities

The Act on Partial Amendment of the Income Tax Act, etc. (Act No.15, 2016) and the Act on Partial Amendment of the Local Tax Act, etc. (Act No.13, 2016) enacted by the Japanese Diet on March 29, 2016 resulted in a reduction of the rates of corporate and other taxes from the fiscal year beginning on April 1, 2016. In conjunction with these changes, the statutory effective tax rate used to calculate deferred tax assets and liabilities will be changed from the current 32.3% to 30.9% for temporary differences expected to be realized or settled from the fiscal years beginning on April 1, 2016 and 2017, and to 30.6% for temporary differences expected to be realized or settled from the fiscal year beginning on April 1, 2018.

As a result, deferred tax assets (the amount after offsetting deferred tax liabilities) decrease ¥470 million (\$4,171 thousand), and deferred income tax expense and unrealized gain on other securities increased by ¥493 million (\$4,375 thousand) and ¥23 million (\$204 thousand), respectively, as of and for the fiscal year ended March 31, 2016.

The maximum limit of tax loss carry forwards was also changed to 60% of taxable income before application loss carried forward from the year beginning April 1, 2016, 55% of taxable income before application loss carried forward from the year beginning April 1, 2017, and 50% of taxable income before application of loss carried from the year beginning April 1, 2018. This change had no impact on the consolidated financial statements.

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19. Per Share Information

(1) Per share information as of and for the years ended March 31, 2015 and 2016 were as follows:

	Yen		U.S. dollars
	2015	2016	2016
Net assets per share	¥478.45	¥615.21	\$5.46
Net income per share			
Basic	94.64	170.41	1.51
Diluted	92.90	—	—

(2) The following is the basis for calculating the basic and diluted net income per share:

(a) Basic net income per share

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net income	¥28,542	¥51,226	\$454,615
Net income not attributable to owners of parent			
Difference between the redemption amount and the issued amount of preferred stock	91	—	—
Net income attributable to owners of parent	¥28,451	¥51,226	\$454,615
Weighted average number of shares outstanding (thousands of shares)	300,615	300,608	

(b) Diluted net income per share

Diluted net income per share is computed assuming preferred dividend and full dilution of the following common stock equivalents:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Difference between redemption amount and issued amount of preferred stock			
Preferred stock (Class B I)	91	¥—	\$—
Diluted net income	¥91	¥—	\$—
Increase in common stock: (thousands of shares)			
Preferred stock (Class B I)	6,616	—	—

(3) The following is the basis for calculating the net assets per share:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net assets	¥144,089	¥185,375	\$1,645,146
Amount not attributable to common shareholders:			
Preferential distribution of residual property	—	—	—
Preferred dividend	—	—	—
Non-controlling interests	261	438	3,888
Net assets attributable to common shareholders	¥143,828	¥184,937	\$1,641,258

20. Segment Information

Overview of segment information

The reportable segments of the Company are components for which discrete financial information is available and which are subject to periodic review in order for the Board of Directors to decide on resource allocation and to assess performance.

The Company group operates its business with any housing related business being at the core. An organizational unit comprises of several business groups with common business/operation targets and responsibilities in certain business domain. The Company has “Construction-Related Business,” which primarily targets the market for new housing supply, etc., “Service Related Business”, which primarily deals with existing residences and “Overseas-Related Business” which engages in the development and sales of real estate overseas as reportable segments.

The accounting policies of the segments are substantially the same as those described in Note 2, “Summary of Significant Accounting Policies.” Segment performance is evaluated based on operating income or loss. Intersegment sales amounts are determined based on market price.

1. Reportable segment information for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen					
	2015					
	Reportable segments					
	Construction-related business	Service-related business	Overseas-related business	Total	Adjustments and eliminations (Note)	Consolidated
Sales, income or loss and assets by reportable segments						
Sales to third parties	¥487,706	¥134,612	¥19,849	¥642,167	¥ —	¥642,167
Inter-segment sales and transfers	1,503	5,138	—	6,641	(6,641)	—
Net sales	489,209	139,750	19,849	648,808	(6,641)	642,167
Segment income (loss)	36,532	7,664	(687)	43,509	(811)	42,698
Segment assets	¥224,861	¥127,159	¥43,960	¥395,980	¥80,934	¥476,914
Other items						
Depreciation and amortization	¥ 515	¥1,599	¥83	¥2,197	¥(17)	¥2,180
Investment in equity-method affiliates	1,651	—	9	1,660	—	1,660
Capital expenditures	3,408	3,484	92	6,984	(1)	6,983

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Millions of yen

2016						
	Reportable segments				Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments						
Sales to third parties	¥589,054	¥181,043	¥17,257	¥787,354	¥ –	¥787,354
Inter-segment sales and transfers	7,156	4,936	–	12,092	(12,092)	–
Net sales	596,210	185,979	17,257	799,446	(12,092)	787,354
Segment income (loss)	71,339	8,799	(9,750)	70,388	(1,626)	68,762
Segment assets	¥254,967	¥217,438	¥35,455	¥507,860	¥ 82,133	¥589,993
Other items						
Depreciation and amortization	¥ 707	¥ 2,044	¥ 9	¥ 2,760	¥ (8)	¥ 2,752
Investment in equity-method affiliates	2,012	–	12	2,024	–	2,024
Capital expenditures	14,783	5,962	14	20,759	64	20,823

Thousands of U.S. dollars

2016						
	Reportable segments				Adjustments and eliminations (Note)	Consolidated
	Construction-related business	Service-related business	Overseas-related business	Total		
Sales, income or loss and assets by reportable segments						
Sales to third parties	\$5,227,671	\$1,606,700	\$153,151	\$6,987,522	\$ –	\$6,987,522
Inter-segment sales and transfers	63,508	43,805	–	107,313	(107,313)	–
Net sales	5,291,179	1,650,505	153,151	7,094,835	(107,313)	6,987,522
Segment income (loss)	633,111	78,088	(86,528)	624,671	(14,430)	610,241
Segment assets	\$2,262,753	\$1,929,695	\$314,652	\$4,507,100	\$ 728,905	\$5,236,005
Other items						
Depreciation and amortization	\$ 6,274	\$ 18,140	\$ 80	\$ 24,494	\$ (71)	\$ 24,423
Investment in equity-method affiliates	17,856	–	106	17,962	–	17,962
Capital expenditures	131,195	52,911	124	184,230	568	184,798

Notes:

1) Adjustments and eliminations are as follows:

(2015)

- (1) Adjustments and eliminations for segment income (loss) include ¥19 million of elimination of inter-segment transactions and ¥792 million of corporate expenses, which are not allocable to the reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.
- (2) Adjustment and eliminations for segment assets include ¥2,536 million of elimination of receivables stemming from inter-segment transactions and ¥83,470 million of corporate assets. Corporate assets are primarily comprised of cash and bank deposits of the Company.

(2016)

- (1) Adjustments and eliminations for segment income (loss) include ¥542 million (\$4,810 thousand) of elimination of inter-segment transactions and ¥1,084 million (\$9,620 thousand) of corporate expenses, which are not allocable to the reportable segments. These corporate expenses mainly consist of general and administrative expenses not attributable to reportable segments.

- (2) Adjustment and eliminations for segment assets include ¥5,325 million (\$47,258 thousand) of elimination of receivables stemming from inter-segment transactions and ¥87,458 million (\$776,163 thousand) of corporate assets. Corporate assets are primarily comprised of cash and bank deposits of the Company.

- (3) Since Sohgo Real Estate Co., Ltd., and its two subsidiaries are newly consolidated in the current fiscal year, segment assets in the Service -Related Business increased ¥51,152 million (\$453,958 thousand) compared with the end of the previous fiscal year.

Since Joint Corporation and its four subsidiaries are newly consolidated in the current fiscal year, segment assets in the Service -Related Business increased ¥43,623 million (\$387,141 thousand) compared with the end of the previous fiscal year.

- 2) Segment income has been adjusted with operating income in the consolidated statements of income.

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2. Impairment loss on fixed assets by reportable segments for the years ended March 31, 2015 and 2016 were summarized as follows:

Millions of yen						
2015						
Reportable segments				Adjustments and eliminations	Consolidated	
Construction-related business	Service-related business	Overseas-related business	Total			
Impairment loss on fixed assets	¥2	¥185	¥-	¥187	¥-	¥187
Millions of yen						
2016						
Reportable segments				Adjustments and eliminations	Consolidated	
Construction-related business	Service-related business	Overseas-related business	Total			
Impairment loss on fixed assets	¥1,123	¥2,740	¥-	¥3,863	¥-	¥3,863
Thousands of U.S. dollars						
2016						
Reportable segments				Adjustments and eliminations	Consolidated	
Construction-related business	Service-related business	Overseas-related business	Total			
Impairment loss on fixed assets	\$9,966	\$24,317	\$-	\$34,283	\$-	\$34,283

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

Millions of yen						
2015						
Reportable segments				Adjustments and eliminations	Consolidated	
Construction-related business	Service-related business	Overseas-related business	Total			
Amortization	¥-	¥ 939	¥-	¥ 939	¥-	¥ 939
Balance as of March 31	¥-	¥8,931	¥-	¥8,931	¥-	¥8,931
Millions of yen						
2016						
Reportable segments				Adjustments and eliminations	Consolidated	
Construction-related business	Service-related business	Overseas-related business	Total			
Amortization	¥-	¥1,820	¥-	¥1,820	¥-	¥1,820
Balance as of March 31	¥-	¥8,031	¥-	¥8,031	¥-	¥8,031
Thousands of U.S. dollars						
2016						
Reportable segments				Adjustments and eliminations	Consolidated	
Construction-related business	Service-related business	Overseas-related business	Total			
Amortization	\$-	\$16,152	\$-	\$16,152	\$-	\$16,152
Balance as of March 31	\$-	\$71,273	\$-	\$71,273	\$-	\$71,273

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Starting from the current fiscal year, Joint Corporation and its four subsidiaries in the Service-Related Business are included in the scope of consolidation due to a share acquisition. Gain from negative goodwill caused by bargain purchase of ¥4,073 million (\$36,147 thousand) for the current fiscal year was recognized as a result of this share acquisition.

4. Information by product and service
Information by product and service is omitted as similar information has already been disclosed in this section.

5. Geographical information

(1) Net sales

Net sales information is omitted since net sales to external customers in Japan exceeds 90% of net sales recorded in the consolidated statements of income for the years ended March 31, 2015 and 2016.

(2) Property and equipment

Property and equipment information is omitted, since the amount of property and equipment located in Japan exceeds 90% of the amount of property and equipment recorded in the consolidated balance sheets as of March 31, 2015 and 2016.

6. Information by major customers

Information by major customers is omitted, as net sales to any one specific customer were less than 10% of net sales recorded in the consolidated statements of income for the years ended March 31, 2015 and 2016.

21. Other Comprehensive Income

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net unrealized gain (loss) on other securities:			
Amount arising during the year	¥906	¥(2,197)	\$(19,498)
Reclassification adjustments for gains (losses) recognized in net income	—	(42)	(373)
Amount before tax effect	906	(2,239)	(19,871)
Tax effect	(212)	682	6,053
Net unrealized gain (loss) on other securities	694	(1,557)	(13,818)
Translation adjustments:			
Amount arising during the year	4,620	131	1,163
Retirement benefits liability adjustments:			
Amount arising during the year	6,627	(7,953)	(70,580)
Reclassification adjustments for gains (losses) recognized in net income	398	(193)	(1,713)
Amount before tax effect	7,025	(8,146)	(72,293)
Tax effect	(2,521)	2,485	22,053
Retirement benefit liability adjustments	4,504	(5,661)	(50,240)
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	19	(28)	(248)
Total other comprehensive income (loss)	¥9,838	¥(7,115)	\$(63,143)

22. Business Combination, etc., Business combination through acquisition

1. Overview of business combination

(1) Name of acquired companies and business lines

Name of acquired companies:

Sohgoh Real Estate Co., Ltd., and its two subsidiaries

Business lines:

Real estate sales, real estate solutions, and condominium management business

(2) Main reason for business combination

The Haseko Group conducts a variety of condominium-related businesses, setting the three major metropolitan areas as its main trade areas. In particular, it positions the construction-related business, which primarily targets the market for new housing supply, etc., and the service related business including condominium management business, which is centered on the market related to existing residences, etc., as the two pillars of its businesses and aspires for further expansion.

On the other hand, the Sohgo Real Estate Group has promoted the "Renai Series" brand in its for-sale condominium business in the Tokyo metropolitan area and the Kinki area. Moreover, the Group is engaged in such businesses as real estate solution, rental management, condominium management and asset management. As such, the Group has proprietary know-how in relation to condominium related business.

The Company determined that combining the Haseko Group and the Sohgo Real Estate Group should produce high synergetic effects in a variety of businesses relating to condominiums, and thus acquired their shares.

(3) Date of business combination

May 28, 2015 (Share acquisition date)

June 30, 2015 (Deemed acquisition date)

(4) Legal form of business combination

Share acquisition for cash consideration

(5) Name of the company after combination

There is no change in the name.

(6) Acquired voting rights ratio

Voting rights ratio after acquisition 100%

(7) Main grounds for determining the acquirer

This was a share acquisition for a cash consideration by the Company and Fuji Kensetsu Co., Ltd., a consolidated subsidiary of the Company.

2. Period for which operating results of the acquired companies were included in the consolidated financial statements

From July 1, 2015 to March 31, 2016

Consolidated Financial Statements

3. Acquisition cost of the acquired companies and its breakdown by type of consideration

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash and deposit	¥10	\$89
Acquisition cost		¥10	\$89

4. Detail and amount of main expenses related to the acquisition Advisory expenses, etc. ¥30 million (\$266 thousand)

5. Amount, cause, amortization method and amortization period of goodwill

(1) Amount of goodwill

¥919 million (\$8,156 thousand)

(2) Cause

The is due to the anticipated future excess earning power

(3) Amortization method and amortization period

Treated as gain/loss at the time of accrual

6. Amount of assets assumed and liabilities acquired through the business combination and their major breakdown

	Millions of yen	Thousands of U.S. dollars
Current assets	¥34,366	\$304,988
Fixed assets	15,840	140,575
Total assets	¥50,206	\$445,563
Current liabilities	¥40,441	\$358,901
Long-term liabilities	10,675	94,737
Total liabilities	¥51,116	\$453,639

7. Estimated amount of the effect on the consolidated statement of income for the current fiscal year assuming that the business combination was completed at the beginning of the fiscal year, and the calculation method.

Since the estimated amount of the effect on the consolidated statement of income for the current fiscal year is immaterial, details are omitted. The estimated amount of the effect was unaudited.

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired companies and business lines

Name of acquired companies:

Joint Corporation and its four subsidiaries

Business lines:

Real estate sales, real estate management business

(2) Main reason for business combination

The Haseko Group conducts a variety of condominium-related businesses, setting the three major metropolitan areas as its main trade areas. In particular, it positions the construction-related business, which primarily targets the market for new housing supply, etc., and the service related business including condominium management business, which is centered on the market related to existing residences, etc., as the two pillars of its businesses and aspires for further expansion.

On the other hand, the Joint Corporation Group has promoted the "Adenium Series" brand in its for-sale condominium business in the Tokyo metropolitan area. Moreover, the Group is engaged in such businesses as profitable real estate development and rental management. As such, the Group has proprietary know-how in relation to condominium related business.

The Company determined that combining the Haseko Group and the Joint Corporation Group should produce high synergetic effects in a variety of businesses relating to condominiums, and thus acquired their shares.

(3) Date of business combination

December 17, 2015 (Share acquisition date)

December 31, 2015 (Deemed acquisition date)

(4) Legal form of business combination

Share acquisition for cash consideration

(5) Name of the company after combination

There is no change in the name

(6) Acquired voting rights ratio

Voting rights ratio after acquisition 100%

(7) Main grounds for determining the acquirer

This was a share acquisition for a cash consideration by the Company and Fuji Kensetsu Co., Ltd., a consolidated subsidiary of the Company

2. Period for which opening results of the acquired companies were included in the consolidated financial statements

From January 1, 2016 to March 31, 2016

3. Acquisition cost of the acquired companies and its breakdown by type of consideration

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash and deposit	¥35,030	\$310,880
Acquisition cost		¥35,030	\$310,880

4. Detail and amount of main expenses related to the acquisition Advisory expenses, etc., ¥17million (\$151 thousand)

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5. Amount and cause of negative goodwill

(1) Amount and accrued negative goodwill
¥4,073million (\$36,147 thousand)

(2) Cause

As the net assets at fair value as of the date of business combination exceeded the acquisition costs, the difference was recorded as gain on negative goodwill.

6. Amount of assets acquired and liabilities assumed through the business combination and their major breakdown

	Millions of yen	Thousands of U.S. dollars
Current assets	¥37,905	\$336,395
Fixed assets	16,275	144,436
Total assets	¥54,180	\$480,831
Current liabilities	¥ 3,447	\$ 30,591
Long-term liabilities	11,595	102,902
Total liabilities	¥15,042	\$133,493

7. Estimated amount of the effect on the consolidated statement of income for the current fiscal year assuming that the business combination was completed as of the beginning of the current fiscal year, and the calculation method.

Since the estimated amount of the effect on the consolidated statement of income for the current fiscal year is immaterial, details are omitted. The estimated amount of the effect was un-audited.

Consolidated Financial Statements

Independent Auditor's Report

The Board of Directors
HASEKO Corporation

We have audited the accompanying consolidated financial statements of HASEKO Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HASEKO Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young Shinmiken LLC

June 24, 2016
Tokyo, Japan