

# FACT BOOK

# 2017

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## Financial Information

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## 1 | Introduction

We are an integrated trading company (*sogo shosha*) engaged in a wide range of business activities on a global basis. Our business foundation consists of trust, global relations with over 100,000 business partners around the world, a global network with offices and subsidiaries worldwide, intellectual capital and advanced functions in business development, logistic solutions, financial services, IT solutions, risk management and intelligence gathering and analysis. Through integration of these elements, we provide a diverse array of value to our customers. Based on this business foundation and these functions, we engage in general trading of a wide range of goods and commodities and in various business activities. We act as both a principal and an agent in these trading transactions. We also provide a range of services for a variety of industries, such as: financing for customers and suppliers; planning, coordination and operation of urban and industrial infrastructure projects; consulting in areas such as system integration and technology development; and transportation and logistics. In addition, we engage in other diverse business activities, including investing in a variety of industries ranging from photovoltaic power generation to communications; developing natural resources; manufacturing and processing products such as steel products and textiles; developing and managing real estate; and operating retail stores.

We conduct our business through five industry-based business segments and overseas regional operations. Our industry-based business segments are:

- Metal Products
- Transportation & Construction Systems
- Environment & Infrastructure
- Media, ICT, Lifestyle Related Goods & Services
- Mineral Resources, Energy, Chemical & Electronics

Each business segment operates with a degree of autonomy in pursuing its strategic goals, managing operations, and ensuring accountability. Each business unit also has its own Planning & Coordination Departments to strengthen the function of strategy design and its implementation support. In today's increasingly global business environment, our worldwide network of offices, subsidiaries and associated companies, and our global relationships with customers, suppliers and business partners have allowed us to conduct and expand our operations around the world. Our five industry-based business units and overseas operations regularly collaborate with one another to leverage their combined strengths to conduct their respective businesses more effectively as well as to meet our corporate targets and goals. We have designed our infrastructure to centralize and consolidate information from all of our business units and overseas operations to facilitate proper integration and risk control.

Note: As used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," "the Company" is used to refer to Sumitomo Corporation, and "the Companies" is used to refer to the Company and its subsidiaries, unless otherwise indicated.

## 2 | Our Medium-Term Targets

*The following discussion of our medium-term targets contains forward-looking statements and measures that have been calculated based on a number of judgments, estimates, and assumptions. Unless otherwise stated, the forward-looking statements reflect management's current assumptions and expectations of future events as of March 31, 2017. Accordingly, they are inherently susceptible to uncertainties and changes in circumstances and are not guarantees of future performance.*

### **Promoting the medium-term management plan, "Be the Best, Be the One 2017"**

In its medium-term management plan "Be the Best, Be the One 2017 (BBBO2017)," Sumitomo Corporation has been pursuing measures including promotion of managerial reforms and growth strategies based on the theme of making group-wide efforts in overcoming issues and outlining a path toward the

realization of "What We Aim to Be in 2019, Our Centennial Year," in light of changes in the environments that surround our businesses as well as managerial issues that manifested in large-scale impairment losses in fiscal 2014. In May 2016, we revised the "BBBO2017" targets to reflect changes in our business environment, setting a new target of 220 billion yen or more for consolidated net income\*<sup>1</sup> in fiscal 2017 and a target of securing a total of 500 billion yen in post-dividend free cash flow over the three years. The funds recovered will be used to repay interest-bearing liabilities.

(\*<sup>1</sup> "Consolidated net income" is equivalent to the "profit attributable to owners of the parent" set out in the International Financial Reporting Standards (IFRS).)

The major progress made in fiscal 2016 is described below:

### **(i) Promoting managerial reforms**

We instituted various internal systems to further reinforce our corporate governance, revise the decision-making process, and radically strengthen and revamp our risk management. We changed the Management Council from the President and CEO's advisory body to the highest decision-making body at the operational execution level, putting in place a system to incorporate multilateral discussions into the process for making decisions on key matters. In the Board of Directors, we have increased the number of Outside Directors and amended the standards for matters to be discussed by the Board of Directors so that the Board can concentrate on the deliberation of important matters regarding company-wide management such as the business policy and management plan. At the same time, we have increased the matters to be reported to the Board of Directors to strengthen the Board's supervisory function over the execution of operations. Meanwhile, to make the processes for deciding on the nomination and remuneration of Directors more transparent and objective, we established the Nomination and Remuneration Advisory Committee to serve as an advisory body to the Board of Directors. The committee is chaired by an Outside Director and Outside Directors comprise the majority of its members. With regard to the risk management system, Loan and Investment Committee meetings were held at the business unit and Company-wide levels and a framework established whereby discussions can be conducted from a variety of angles both when considering investments and when executing them, and we revised our hurdle rate for investments and our post-investment monitoring system.

In fiscal 2017 we are further improving the soundness and efficiency of our management by seeking to increase the separation between management execution and supervision. To that end, we are clearly defining the respective roles of the Board of Directors, which makes decisions on important management matters and supervises operational execution, and the Executive Officers, who undertake operational execution. Specifically, we are planning to increase the ratio of Outside Directors within the Board of Directors and to clearly stipulate that the President and CEO is an Executive Officer.

### **(ii) Promoting growth strategies**

In promoting Company-wide growth strategies, we are focusing on three fields in which the Company enjoys advantages: automobiles, infrastructure, and lifestyle and information services. In the automotive field we are investing in parts manufacturing and

other businesses, as well as working on next-generation mobility services such as shared parking. In the infrastructure field we are focusing on electric power businesses in Japan and overseas, including power generation using renewable energy sources. In the lifestyle and information services field we are investing primarily in real estate businesses in Japan and overseas, ICT businesses in Japan, and mobile communications-related businesses overseas. We also undertook cross-organizational collaboration to become better at handling businesses in the energy-related field, the IoT and AI-related field, and other fields with high growth potential as Company-wide projects. We will continue to actively promote growth strategies as a means of enhancing the value of existing businesses and creating new value throughout the Company.

### **(iii) Quantitative targets**

#### **Fiscal 2016 results**

With regard to fiscal 2016 results, while the impairment loss for Copper and molybdenum mining business in Chile was posted and tubular products business decreased due to slow recovery of the demand affected by lower oil price, mineral resources businesses increased due to commodity prices increase, cost reduction and sales volume increase. In addition, domestic major group companies of Media, ICT, Lifestyle Related Goods & Services Business Unit, real estate business and leasing business maintained their strong performance. Consequently, consolidated net income came to 170.9 billion yen vis-à-vis our target of 130 billion yen.

#### **Forecasts for fiscal 2017**

With regard to our forecasts for fiscal 2017, we expect recovery in profitability of tubular products business after the second half of fiscal 2017 and increase in the profit of mineral resources businesses due to commodity prices increase comparing with the previous fiscal year. In addition, in our non-mineral resources businesses, robust performance of major group companies of Media, ICT, Lifestyle Related Goods & Services Business segment is expected to continue. In addition to these elements, we are factoring in approximately 20 billion yen in cost needs for steady asset replacements and improvement of our financial structure. As a result, a consolidated net income of 230 billion yen is forecast for fiscal 2017.

#### **Securing financial soundness**

Under "BBBO2017," we are aiming to generate 500 billion yen in post-dividend free cash flow as the basis for progressing steadily with efforts to reinforce financial soundness through

the reduction of interest-bearing liabilities. By these means we are also aiming to regain the balance between the core risk buffer and risk-adjusted assets\*<sup>2</sup> by the end of fiscal 2017, which is the final year of “BBBO2017.”

(\*<sup>2</sup> Our core risk buffer represents the sum of “common stock,” “additional paid-in capital,” “retained earnings” and “exchange difference on translating foreign operations” minus “treasury stock, at cost.” Our basic management policy is to keep risk-adjusted assets, which are our maximum possible losses, within our core risk buffer.)

The present quantitative targets for “BBBO2017” reflecting above-mentioned matters are as follows:

		Fiscal year/period	Initial plan	Revised plan (May 2017)
Profit targets	Consolidated net income	Fiscal 2015	¥230 billion	¥74.5 billion (actual results)
		Fiscal 2016		¥170.9 billion (actual results)
		Fiscal 2017	¥300 billion or more	¥230 billion
	ROA	Fiscal 2017	3% or more	2.5% or more
	Risk-adjusted return ratio	Fiscal 2017	10% or more	9.0% or more
	ROE	Fiscal 2017	Around 10%	Around 9.0%
Financial policies	Balance between the core risk buffer and risk-adjusted assets	By the end of Fiscal 2017	Regain balance	Regain balance
	Free cash flow	3-year total	¥200 billion	¥700 billion
	Post-dividend free cash flow	3-year total	Positive	¥500 billion
Investment plan		3-year total	¥1.2 trillion	¥1.0 trillion

In Fiscal 2017 we will steadily execute the growth strategies for each business set out in “BBBO2017” and strive to improve our financial structure to return to a growth track.

### 3 | Economic Environment

During the period under review (fiscal 2016, i.e., April 1, 2016 through March 31, 2017), on the global economic front, economic growth rates generally showed some hint of recovery although economic growth remained low in some countries. Among developed economies, economic activities, particularly investment, in the United States were weaker than initially expected while Europe and Japan maintained their strong performance. Slowdown continued in emerging economies, but Chinese financial policy underpinned the economy, resulting in a

continued recovery trend. However, policy changes resulting from Brexit and the administration change in the United States increased uncertainty about the outlook for the global economy. In the Japanese economy, the improvement of the employment and income environment and the increase in the number of foreign travelers visiting Japan stabilized consumption activity. As for investment, housing investment was strong due to the low interest rates but capital investment became sluggish as the cycle of capital investment ended by the previous fiscal year.

### 4 | Certain Line Items in Our Consolidated Statement of Comprehensive Income

The following is a description of certain line items in our Consolidated statement of comprehensive income:

**Revenues.** We categorize our revenues into sales of tangible products and sales of services and others. We generate revenues from sales of tangible products:

- in connection with our wholesale, retail, manufacturing and processing operations;
- in connection with our real estate operations; and
- under long-term construction contracts, etc.

We generate revenues from the sale of services and others in connection with:

- services related to customized software development;
- loans, finance leases and operating leases of commercial real estate, automobiles, vessels and aircrafts; and
- other service arrangements, such as arranging finance and coordinating logistics for suppliers and buyers in connection with trading activities.

The Companies enter into transactions that include multiple-element software and non-software related revenue

arrangements, which may include any combination of products, equipment, software, installation services and/or financing. A multiple-element arrangement is separated into more than one unit of accounting if certain criteria are met.

**Gross Profit.** Gross profit primarily consists of:

- gross profit on transactions for which we act as a principal; and
- fees and commissions received on transactions for which we act as an agent.

To the extent revenues are recorded on a gross basis, any expenses or commissions or other payments to third parties that are directly attributable to the sales are recorded as cost of sales. Gross profit reflects the net amount of gross revenues after cost of sales. As part of sales of services and others, we recognize revenues from fees and commissions on a net basis. As a result, sales of services and others contribute a larger portion of our gross profit than they do of our revenues. For the year ended March 31, 2017, sales of services and others accounted for 12.3% of our total revenues, and the gross profit from sales of services and others accounted for 34.4% of our gross profit.

**Impairment Losses on Long-Lived Assets.** At the end of each reporting period, the carrying amounts of non-financial assets, excluding inventories, deferred tax assets, and biological assets are assessed whether there is any indication of impairment. If any such indication exists, the recoverable amount of the non-financial asset is estimated. Regarding goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, the recoverable amount is estimated at the same time every year. If the carrying amount of an asset or a cash-generating unit (“CGU”) exceeds the recoverable amount of it, an impairment loss is recognized in profit or loss. Impairment losses on long-lived assets include reversals of impairment losses when applicable.

**Gain (Loss) on Sale of Long-Lived Assets, Net.** As a result of strategic and active replacement of our asset portfolio, we may, at times, recognize gains and losses on sales of some of our real estate assets.

**Dividends.** Dividends reflect dividends declared by companies in which we hold interests other than our consolidated subsidiaries or equity-accounted investees.

**Gain (Loss) on Securities and Other Investments, Net.** We maintain a significant level of investments in order to supplement our trading activities. Among those investments, financial assets measured at fair value through profit and loss (“FVTPL”) are initially measured at fair value. Subsequently, they are measured at fair value, and gains and losses arising from changes in fair value are recognized in profit or loss. Financial assets

measured at amortized cost are initially measured at fair value (including directly attributable transaction costs). Subsequently, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, less impairment losses when necessary.

We recognize gains and losses on sales of our financial assets measured at amortized cost and investments in our consolidated subsidiaries or equity-accounted investees when we elect to sell investment holdings.

**Share of Profit (Loss) of Investments Accounted for Using the Equity Method.** In connection with our investment strategy and the development of business opportunities, we may, from time to time, acquire or make investments in newly established or existing companies, enter into joint ventures with other entities or form strategic business alliances with industry participants, in each case in a variety of business segments. In general, we account for the profits or losses of any such investee under the equity method when the level of the investment is between 20% and 50% of the total voting equity of the investee.

**Financial Assets Measured at Fair Value Through Other Comprehensive Income.** Financial assets measured at fair value through other comprehensive income (“FVTOCI”) are initially measured at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value, and changes in fair value are recognized in other comprehensive income.

**Remeasurements of Defined Benefit Pension Plans.** The Companies recognize remeasurements of the net defined benefit liability (asset) in other comprehensive income.

**Exchange Differences on Translating Foreign Operations.** Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average spot exchange rates for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income. These differences are presented as “Exchange differences on translating foreign operations” in Other components of equity after the date of transition to IFRSs.

**Cash-Flow Hedges.** When derivatives are designated as hedging instruments to hedge the exposure to variability in cash flows that are attributable to particular risks associated with recognized assets or liabilities or highly probable forecast transactions which could affect profit or loss, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income.

## 5 | Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, which are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions. For a summary of our significant accounting policies, including the critical accounting policies discussed below, see Note 3 to our consolidated financial statements.

The followings are the critical accounting policies that are important to our financial condition and results of operations and require significant management judgments and estimates:

### Revenue Recognition

Most of our revenues are the result (i) of the sale of tangible products in connection with wholesale, retail, manufacturing, and processing operations from which revenue is recognized based on the transfer of title, delivery or shipment, or the attainment of customer acceptance and (ii) from the provision of services and other sales, from which revenue is recognized based on the delivery of the services. Revenue recognition in these situations does not involve difficult, subjective or complex judgments or estimations.

Recognition of revenue using the percentage-of-completion method for certain long-term construction contracts, etc., is based on the ratio of costs incurred to total estimated project costs and is dependent on our ability to estimate these costs reliably. The impact of revisions of profit estimates on fixed price contracts is recognized in the period in which the revisions are made; anticipated losses on fixed price contracts are charged to profit or loss when losses can be estimated; and provisions are recognized when a present obligation is identified and the amount can be estimated reliably.

### Revenue Presentation – Gross Versus Net

Acting as an intermediary in executing transactions with third parties is a distinctive role of an integrated trading company (*sogo shosha*). In recognizing revenue from transactions, we must determine whether we are acting as a “principal” in the transaction, and should report revenue on a gross basis based on the sales amount of the transaction, or acting as an “agent” in the transaction, and should recognize net fees or commissions earned. The evaluation of the relevant factors in making this determination is subject to significant subjective judgments. In certain situations, others might make a different determination. Similarly, if our risks and obligations in a certain type of transaction change, the determination of whether revenue should be recognized on a net or gross basis for that type of transaction may also change. The amounts of gross profit and profit for the year attributable to owners of the parent are not affected by whether revenue is reported on a gross or net basis.

Factors that indicate that we are acting as a principal, and thus should recognize revenue on a gross basis include:

- the Companies have the primary responsibility for providing the goods or services to the customer or for fulfilling the orders;
- the Companies have inventory risk before or after the customer order, during shipping or on return;
- the Companies have latitude in establishing prices, either directly or indirectly; and
- the Companies bear the customer’s credit risk for the amount receivable from the customer.

Factors that indicate that we are acting as an agent, and thus should recognize revenue on a net basis relative to the service offered include:

- the consideration of services rendered (commission or fee) is fixed; and
- the consideration is determined by multiplying the amount of goods and services provided to customers by a stated percentage.

### **Impairment of Financial Assets Measured at Amortized Cost**

We engage in a variety of businesses and carry financial assets measured at amortized cost. To ascertain whether these financial assets are impaired, we regularly assess them for objective evidence of impairment, which includes default or delinquency of the borrower. The fair value of these assets for which impairment losses are recognized is determined based on estimated future cash flows discounted at the effective interest rate.

### **Financial Assets Measured at Fair Value**

We carry financial assets measured at fair value such as marketable securities, and other investments. The Companies have decided to classify equity instruments into FVTOCI or FVTPL. Financial assets classified as FVTOCI are held for objective, such as expansion of the medium and long-term revenue through maintenance and reinforcement of relationships with investees. Their changes in fair values are not included in the assessment of business performance. Financial assets classified as FVTPL are held to make profits from the changes in fair values and are included in the assessment of business performance. Fair values of these assets are based on market prices or determined by the discounted future cash flow method, profitability and net assets of the investees, and other valuation approaches.

### **Recoverability of Non-current Assets**

We maintain significant non-current assets in the operation of our global business. We review non-current assets, such as real estate and intangibles subject to amortization, for impairment whenever events or changes in circumstances suggest that the carrying amount of such assets may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including

determining whether cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. We also review goodwill and other intangible assets with indefinite useful lives for impairment at least annually, or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be impairment. In turn, we estimate the recoverable amount at the impairment tests. The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. We derive cash flow estimates from our historical experience and our internal business plans, and discount them by applying an appropriate discount rate. Changes in strategy or in market conditions could significantly affect these estimates.

### **Tax Asset Valuation**

We reduce deferred tax assets when, in management's judgment, it is more likely than not that the deferred tax assets, or a portion thereof, will not be realized. In assessing the realizability of deferred tax assets, we must determine whether we will be able to generate adequate future taxable income in the tax jurisdictions that give rise to the deferred tax assets during the periods in which the underlying temporary differences become deductible or before net operating loss carry forwards expire. We consider all available evidence, both positive and negative, in making this assessment. Determination of the deferred tax assets is based on estimates and judgment. A change in the ability of our operations to generate future taxable income in the tax jurisdictions that give rise to the deferred tax assets could change our assessment as to the realizability of these assets.

## 6 | Results of Operations

### Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

**Total Revenues.** Total revenues totaled ¥3,997.0 billion, representing a decrease of ¥13.8 billion, or 0.3%, from ¥4,010.8 billion in the previous year.

**Gross Profit.** Gross profit totaled ¥842.7 billion, down by ¥51.4 billion, or 5.7%, from ¥894.1 billion in the previous year. This was due to the yen's appreciation and a decrease in profit of tubular products business in North America, despite an increase in profit of silver, zinc and lead business in Bolivia.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses totaled ¥693.8 billion, representing a decrease of ¥69.0 billion, or 9.0%, from ¥762.7 billion in the previous year. This was owing mainly to the yen's appreciation.

**Other, net.** Other, net amounted to ¥20.1 billion of net losses, representing a decrease of ¥36.0 billion from ¥15.8 billion of net gains in the previous year. This was due to realized gains resulting from asset replacements in the previous year in addition to the tax provisions posted in silver, zinc and lead business in Bolivia during this year.

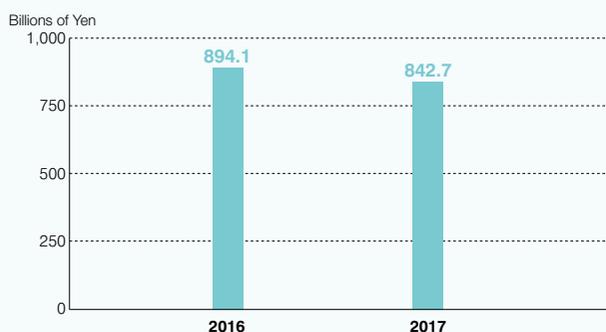
**Gain (loss) on securities and other investments, net.** Gain on securities and other investments totaled ¥12.9 billion, down by ¥59.3 billion, or 82.2%, from ¥72.2 billion in the previous year. This was due to the gain on sale and revaluation of stocks stemming from the business reorganization of the auto mobile financing business in Indonesia in the previous year.

**Share of profit (loss) of investments accounted for using the equity method.** Share of profit (loss) of investments accounted for using the equity method totaled a profit of ¥83.5 billion, an increase of ¥137.3 billion from a loss of ¥53.8 billion in the previous year. While the impairment loss on Copper and molybdenum mining business in Chile was posted in this year, there were larger impairment losses posted in the previous year for several businesses, including Nickel mining and refining business in Madagascar, Iron ore mining project in Brazil and others.

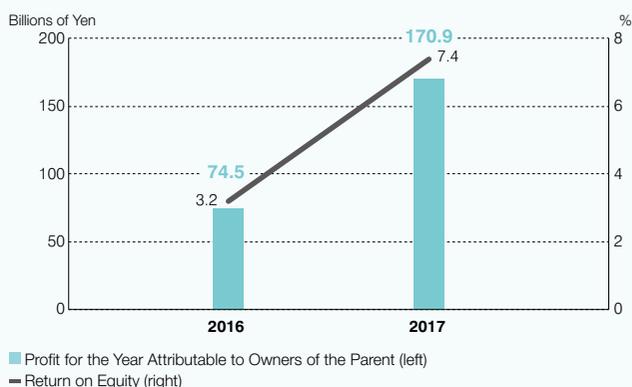
**Profit for the year attributable to owners of the parent.** As a result of the above, Profit for the year attributable to owners of the parent totaled ¥170.9 billion, representing an increase of ¥96.3 billion, or 129.2%, from ¥74.5 billion in the previous year.

**Comprehensive income for the year attributable to owners of the parent.** Comprehensive income for the year attributable to owners of the parent totaled ¥169.7 billion, up by ¥334.1 billion from a loss of ¥164.4 billion in the previous year. This was due primarily to factors such as increases in Financial assets measured at fair value through other comprehensive income and in Exchange differences on translating foreign operations in addition to an increase in Retained earnings by generating Profit for the year attributable to owners of the parent.

#### Gross Profit



#### Profit for the Year Attributable to Owners of the Parent & Return on Equity



## 7 | Operating Segment Analysis

We manage and assess our business using six operating segments, including five operating segments based on industries and one overseas operating segment based on a geographical focus.

We conduct our business using five business segments based on industries, including: Metal Products; Transportation & Construction Systems; Environment & Infrastructure; Media, ICT, Lifestyle Related Goods & Services; Mineral Resources, Energy, Chemical & Electronics.

In addition, we conduct our business in overseas regional operations. Our overseas operations, which are distinct from the industry-based business units, are conducted by our overseas

subsidiaries, such as Sumitomo Corporation of Americas, and branch offices. These regional operations conduct trading activities in all industry sectors based on their specialized knowledge of the regions. In addition, they work together on certain projects with our industry-based business units in order to develop products and services that are more focused on a particular region. In such cases, revenues and expenses are shared by the units based on their respective roles. These overseas regional operations constitute the “Overseas Subsidiaries and Branches” segment in our consolidated financial statements.

Note: On April 1, 2016 a part of Battery business was transferred from Environment & Infrastructure Business Unit to Transportation & Construction Systems Business Unit.

The following table sets forth our operating results by operating segments for the years ended March 31, 2017 and 2016.

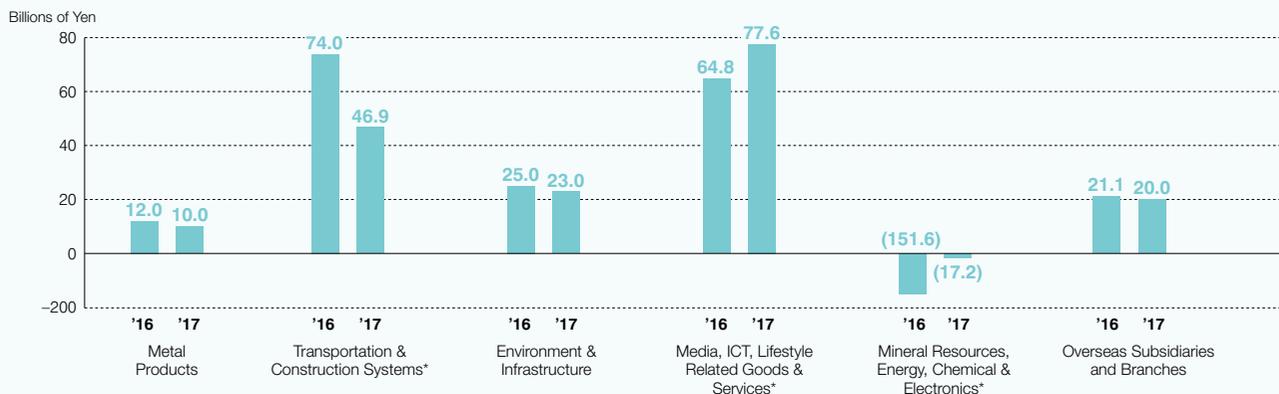
### Breakdown of Gross Profit by Operating Segment

For the years ended March 31, 2017 and 2016	Billions of Yen				Millions of U.S. Dollars
	2017	2016	Increase/ decrease	Increase/ decrease	2017
Metal Products	¥ 67.4	¥ 77.3	¥(10.0)	(12.9)%	\$ 607
Transportation & Construction Systems	131.2	175.6	44.4	(25.3)	1,182
Environment & Infrastructure	55.0	56.7	(1.7)	(3.0)	495
Media, ICT, Lifestyle Related Goods & Services	257.0	254.6	2.5	1.0	2,316
Mineral Resources, Energy, Chemical & Electronics	117.9	80.3	37.5	46.7	1,062
Overseas Subsidiaries and Branches	217.2	253.2	(36.1)	(14.2)	1,956
Segment Total	845.6	897.8	(52.2)	(5.8)	7,618
Corporate and Eliminations	(2.9)	(3.8)	0.8	(21.5)	(26)
Consolidated	¥842.7	¥894.1	¥(51.4)	(5.7)%	\$7,592

### Breakdown of Profit (Loss) for the Year Attributable to Owners of the Parent by Operating Segment

For the years ended March 31, 2017 and 2016	Billions of Yen				Millions of U.S. Dollars
	2017	2016	Increase/ decrease	Increase/ decrease	2017
Metal Products	¥ 10.0	¥ 12.0	¥ (2.1)	(17.2)%	\$ 90
Transportation & Construction Systems	46.9	74.0	(27.0)	(36.6)	422
Environment & Infrastructure	23.0	25.0	(2.1)	(8.4)	207
Media, ICT, Lifestyle Related Goods & Services	77.6	64.8	12.8	19.7	699
Mineral Resources, Energy, Chemical & Electronics	(17.2)	(151.6)	134.4	88.7	(155)
Overseas Subsidiaries and Branches	20.0	21.1	(1.1)	(5.3)	180
Segment Total	160.2	45.3	114.9	253.6	1,443
Corporate and Eliminations	10.7	29.3	(18.5)	(63.3)	97
Consolidated	¥170.9	¥ 74.5	¥ 96.3	129.2%	\$1,540

## Profit (Loss) for the Year Attributable to Owners of the Parent by Operating Segment



### Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016

#### Metal Products

Gross profit totaled ¥67.4 billion, a decrease of ¥10.0 billion, or 12.9%, from ¥77.3 billion in the previous year. This was attributable to factors such as a decrease in earnings of tubular products business in North America. Profit for the year attributable to owners of the parent totaled ¥10.0 billion, a decrease of ¥2.1 billion, or 17.2%, from ¥12.0 billion in the previous year. This was due to a decrease in earnings of tubular products business in North America, although the operation of overseas steel service centers showed stable performances.

#### Transportation & Construction Systems

Gross profit totaled ¥131.2 billion, a decrease of ¥44.4 billion, or 25.3%, from ¥175.6 billion in the previous year. This was due to the automobile financing business in Indonesia that became an equity method investment in the previous year. Profit for the year attributable to owners of the parent totaled ¥46.9 billion, a decrease of ¥27.0 billion, or 36.6%, from ¥74.0 billion in the previous year. While leasing business and construction equipment rental business showed robust performances, there was a decrease in earnings of ship business due to lackluster shipping market. In addition, there were profits on sale and revaluation of stocks stemming from the business reorganization of the automobile financing business in Indonesia in the previous year.

#### Environment & Infrastructure

Gross profit totaled ¥55.0 billion, a decrease of ¥1.7 billion, or 3.0%, from ¥56.7 billion in the previous year. Profit for the year attributable to owners of the parent totaled ¥23.0 billion, a decrease of ¥2.1 billion, or 8.4%, from ¥25.0 billion in the previous year. Although overseas IPP/IWPP businesses showed stable performance in this year, there were profits from value

realization in the renewable energy power generation businesses in the previous year.

#### Media, ICT, Lifestyle Related Goods & Services

Gross profit totaled ¥257.0 billion, an increase of ¥2.5 billion, or 1.0%, from ¥254.6 billion in the previous year. This was attributable to factors such as robust performances of domestic major group companies. Profit for the year attributable to owners of the parent totaled ¥77.6 billion, an increase of ¥12.8 billion, or 19.7%, from ¥64.8 billion in the previous year. This was due to a steady performance of domestic major group companies and real estate business this year. In addition, there was an impairment loss of ¥9.8 billion in Grain business in Australia in the previous year.

#### Mineral Resources, Energy, Chemical & Electronics

Gross profit totaled ¥117.9 billion, an increase of ¥37.5 billion, or 46.7%, from ¥80.3 billion in the previous year mainly due to the higher mineral resources prices. Loss for the year attributable to owners of the parent totaled ¥17.2 billion, an improvement of ¥134.4 billion, or 88.7%, from a loss of ¥151.6 billion in the previous year. This was attributable to a decrease in impairment losses recognized as well as the effect of higher mineral resources prices. In this year, an impairment loss of ¥33.6 billion was recognized for Copper and molybdenum mining business in Chile. In the previous year, there were impairment losses of ¥156.8 billion in total posted for several businesses, including Nickel mining and refining business in Madagascar, Iron ore mining project in South Africa, and Iron ore mining project in Brazil.

#### Overseas Subsidiaries and Branches

Gross profit totaled ¥217.2 billion, a decrease of ¥36.1 billion, or 14.2%, from ¥253.2 billion in the previous year. This was due

mainly to a decrease in earnings of tubular products business in North America. Profit for the year attributable to owners of the parent totaled ¥20.0 billion, a decrease of ¥1.1 billion, or 5.3%, from ¥21.1 billion in the previous year. This was owing to factors such as a decrease in earnings of tubular products business in

North America this year, while there were realized gains resulting from asset replacements and impairment losses of ¥23.6 billion in total for several businesses, including Edgen Group and Grain business in Australia in the previous year.

## 8 | Liquidity and Capital Resources

In general, we seek to fund our operations through cash flow from operations, bank debt and bonds raised in the capital markets and issuance of commercial paper. Our basic policy for fund raising activities is to secure stable, medium-to long-term low-interest rate funds and liquidity for our operations.

As of March 31, 2017, we had ¥3,418.3 billion of bonds and borrowings. Our short-term debt, excluding current maturities of long-term debt, was ¥189.3 billion, a decrease of ¥4.0 billion from the previous year. Our short-term debt consisted of ¥143.7 billion of loans, principally from banks, and ¥45.6 billion of commercial paper.

As of March 31, 2017, we had bonds and long-term debt of ¥3,229.1 billion, a decrease of ¥228.6 billion from the previous year, including current maturities of ¥470.0 billion. As of March 31, 2017, the balance of our borrowings from banks and insurance companies was ¥2,838.0 billion, a decrease of ¥204.9 billion from the previous year, and the balance of notes and bonds was ¥391.1 billion, a decrease of ¥23.6 billion from the previous year.

Most of our loans from banks contain covenant provisions customary in Japan. We do not believe those provisions materially limit our operating or financial flexibility. However, several of the loan agreements require maintenance of certain financial ratios and minimum levels of tangible net worth. Under some agreements, principally with government-owned financial institutions, we may be required to make early repayments of an outstanding amount if the lender concludes that we are able to repay the outstanding amount through improved earnings or from the proceeds of an equity or debt offering, and makes such a prepayment request. Certain agreements provide that the banks may require the borrower to obtain bank approval prior to the payment of dividends and other appropriations of earnings. We have not been asked to make any such prepayments and currently do not anticipate any prepayment requests. See “Risk Factors – Risks stemming from restriction on access to liquidity and capital.”

In addition, we continuously determine various worst case scenarios, including the current financial market turmoil, to maintain adequate levels of liquidity in any market condition. As of March 31, 2017, we had several committed lines of credit available for immediate borrowing, providing an aggregate of up

to \$1,260 million and ¥445 billion in short-term loans. These lines of credit consist of:

- \$1,060 million multi-borrower and multi-currency line of credit provided by a syndicate of major European and U.S. banks, under which we can obtain loans for Sumitomo Corporation or any of our subsidiaries in the United Kingdom, the United States and Singapore;
- \$100 million U.S. dollar-denominated line of credit provided to Sumitomo Corporation of Americas by a major U.S. bank;
- \$100 million multi-currency line of credit provided to Sumitomo Corporation Capital Europe by a major European bank;
- ¥330 billion line of credit provided by a syndicate of major Japanese banks, including ¥100 billion multi-currency facility; and
- ¥115 billion line of credit provided by a syndicate of Japanese regional banks.

To date, we have not drawn on any of these lines of credit. We believe these lines of credit do not contain any material covenants, ratings triggers or other restrictions that could potentially impair our ability to draw down the funds. We also have several uncommitted lines of credit.

As of March 31, 2017, our long-term and short-term credit ratings are Baa1/P-2 (outlook negative) from Moody's Investors Service, A-/A-2 (outlook negative) from Standard & Poor's and A+/a-1 from Rating and Investment Information, Inc. In order to facilitate our access to capital markets for funding, we have established several funding programs, including:

- ¥200 billion Japanese shelf registration for primary debt offerings;
- ¥1.0 trillion commercial paper program in Japan;
- \$1,500 million commercial paper program, established by our U.S. subsidiary, Sumitomo Corporation of Americas;
- U.S.\$3,000 million Euro Medium Term Note program jointly established by Sumitomo Corporation Capital Europe, Sumitomo Corporation of Americas and Sumitomo Corporation Capital Asia; and
- U.S.\$1,500 million Euro-denominated commercial paper program established by Sumitomo Corporation Capital Europe.

As of March 31, 2017, Total assets stood at ¥7,761.8 billion, representing a decrease of ¥56.0 billion from the previous fiscal year-end, due mainly to a decrease from asset replacements despite an increase resulting from the execution of investment and loans.

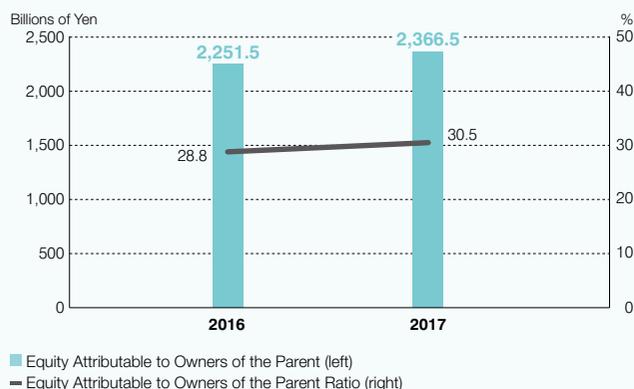
As of March 31, 2017, Equity attributable to owners of the parent totaled to ¥ 2,366.5 billion, increased by ¥115.0 billion

from the previous fiscal year-end, due primarily to an increase in retained earnings. The ratio of Equity attributable to owners of the parent to Total assets was 30.5%. Meanwhile, Interest-bearing liabilities (net) decreased by ¥142.4 billion from the previous fiscal year-end, to ¥2,627.9 billion. Consequently, the net debt-equity ratio (Interest-bearing liabilities (net)/ Equity attributable to owners of the parent) was 1.1.

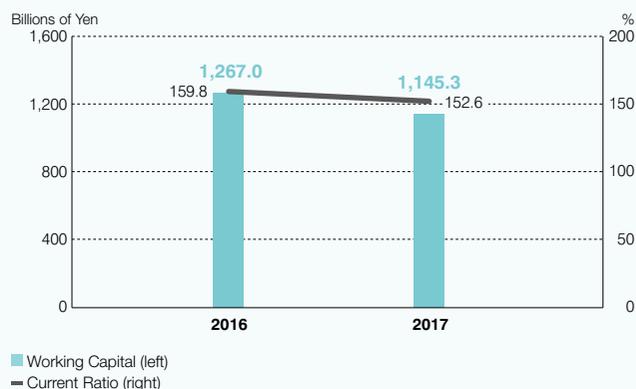
### Liquidity and Capital Resources

As of March 31, 2017 and 2016	Billions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Short-term	¥ 189.3	¥193.3	\$ 1,705
Loans, principally from banks	143.7	152.4	1,295
Commercial paper	45.6	40.9	410
Long-term, including current maturities of long-term debt	3,229.1	3,457.6	29,090
Secured long-term debt			
Loans	277.8	291.7	2,503
Unsecured long-term debt			
Loans	2,560.1	2,751.2	23,064
Bonds and notes	391.1	414.7	3,523
Interest-bearing liabilities (gross)	3,418.3	3,650.9	30,795
Cash and cash equivalents & time deposits	790.5	880.7	7,122
Interest-bearing liabilities (net)	2,627.9	2,770.3	23,674
Total assets	7,761.8	7,817.8	69,926
Equity attributable to owners of the parent	2,366.5	2,251.5	21,320
Equity attributable to owners of the parent ratio (%)	30.5	28.8	30.5
Debt-Equity Ratio (gross) (times)	1.4	1.6	1.4
Debt-Equity Ratio (net) (times)	1.1	1.2	1.1

### Equity Attributable to Owners of the Parent & Equity Attributable to Owners of the Parent Ratio



### Working Capital & Current Ratio (Current Assets / Current Liabilities)



The following table sets forth our cash flow information for the fiscal years ended March 31, 2017, and 2016:

### Summary Statements of Consolidated Cash Flows

For the years ended March 31, 2017 and 2016	Billions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Net cash from operating activities	<b>¥ 345.8</b>	¥ 599.7	<b>\$ 3,115</b>
Net cash used in investing activities	<b>(180.7)</b>	(85.4)	<b>(1,628)</b>
Free cash flow	<b>165.1</b>	514.3	<b>1,487</b>
Net cash from (used in) financing activities	<b>(254.4)</b>	(507.2)	<b>(2,292)</b>
Net (decrease) increase in cash and cash equivalents	<b>(89.3)</b>	7.1	<b>(805)</b>
Cash and cash equivalents at the beginning of year	<b>868.8</b>	895.9	<b>7,827</b>
Effect of exchange rate changes on cash and cash equivalents	<b>(3.0)</b>	(34.2)	<b>(27)</b>
Cash and cash equivalents at the end of year	<b>¥ 776.5</b>	¥ 868.8	<b>\$ 6,995</b>

Net cash provided by operating activities totaled ¥345.8 billion, as our core businesses including major businesses of Media, ICT, Lifestyle Related Goods & Services segment performed well in generating cash.

Net cash used in investing activities totaled ¥180.7 billion due mainly to new investments and loans of approx. ¥340.0 billion primarily for acquisitions of office buildings in the U.S. and Fyffes plc, an international produce marketer and distributor in Ireland, despite collection of approx. ¥180.0 billion through asset replacements such as the sale of interests in Batu Hijau Copper Gold Mine in Indonesia and shares in Soukai Drug Co., Ltd.

As a result, Free cash flow, calculated as Net cash provided by operating activities plus Net cash used in investing activities, totaled ¥165.1 billion inflow.

Net cash used in financing activities was ¥254.4 billion, due primarily to repayment of borrowings and dividend payment.

As a result, Cash and cash equivalents as of March 31, 2017 decreased by ¥92.3 billion from March 31, 2016 to ¥776.5 billion.

As of March 31, 2017, our contractual cash obligations for the periods indicated were as follows:

### Payments due by period

	Billions of Yen	
	Bonds and borrowings	Non-cancelable operating leases
Less than 1 year	¥ 659.3	¥ 46.2
1–2 years	407.1	43.4
2–3 years	461.1	40.2
3–4 years	366.0	35.7
4–5 years	264.9	31.3
More than 5 years	1,260.0	196.6
Total	<b>¥3,418.3</b>	<b>¥393.3</b>

As of March 31, 2017, we had financing commitments in connection with loans and investments in equity capital, and also we had contracts for the use of equipment, that was an aggregate amount of ¥1,217.0 billion.

As of March 31, 2017, we have no material commitments for capital expenditures.

In addition to our commitments discussed above, in connection with our businesses, from time to time, we incur various contingent liabilities, such as guarantees of our customers' obligations. In addition, we are, from time to time, subject to contingent liabilities arising from litigation. These contingent

liabilities are discussed in detail in "9. Contingencies" and "10. Litigation and others" described below. Although we currently do not believe that our cash needs under such contingent liabilities will be significant, if, contrary to expectations, defaults under guarantees are substantial or there is a major adverse outcome in our litigation, such contingent liabilities may create significant new cash needs for us.

Our primary future recurring cash needs will be for working capital, capital investments in new and existing business ventures and debt service. Our growth strategy contemplates the making of investments, in the form of acquisitions, equity

investments and loans. We invested ¥131.0 billion in acquisitions of property, plant and equipment and investment property, ¥83.5 billion in acquisitions of subsidiaries, and ¥94.5 billion in acquisitions of other investments in the year ended March 31, 2017. We are currently contemplating acquisitions of companies complementary to our existing businesses and also to related business areas in all business segments.

These investments, however, are either at a preliminary

evaluation stage or are subject to a number of conditions, and accordingly, may not be completed. And we believe that our existing cash, current credit arrangements and cash flows from operations will be sufficient to meet our cash needs during the foreseeable future, although we cannot assure you that this will be the case. If our future cash flows from operations are less than we expect, we may need to incur additional debt, pursue other sources of liquidity, or modify our investment plans.

## 9 | Contingencies

In connection with our businesses, from time to time, we incur various contingent liabilities, such as guarantees of our customers' obligations. We conduct business with counterparties around the world, and we make an effort to control the related trade receivables and guarantees in order to minimize concentrations of credit risk. We do not anticipate losses on the commitments and guarantees discussed below in excess of

established allowances.

As of March 31, 2017, we were contingently liable for guarantees (continuing through 2042) in the aggregate amount of ¥166.9 billion, including ¥117.3 billion relating to our associated companies and ¥49.7 billion to third parties. The guarantees were primarily to enhance the credit standings of our associated companies, suppliers and buyers.

## 10 | Litigation and others

On December 30, 2011, Minera San Cristobal S.A. ("MSC"), which is a consolidated subsidiary of the Company in Plurinational State of Bolivia ("Bolivia"), received a correction notice relating to its withholding tax returns from Bolivian Tax Authority. MSC appealed to the Supreme Court for the revocation of corrected amounts of tax payment order issued by the General Authority of Taxes. In addition, MSC offered the appropriate fixed assets as a collateral in accordance with the procedure stipulated in the related Bolivian law.

The estimated corrected tax amount in the year ended March 31, 2016 was approximately \$185 million.

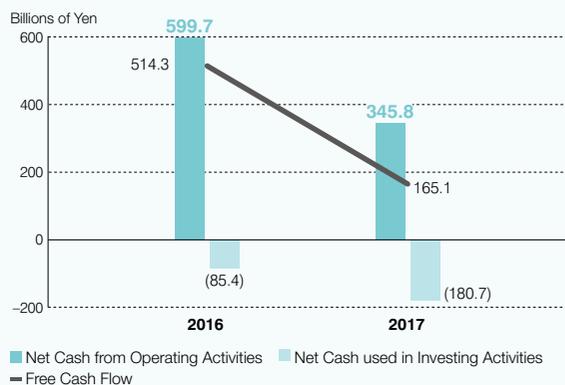
On July 4, 2016, the amended tax code and its regulations, including measures for the reduction and exemption of delayed interests and penalties, were promulgated in Bolivia. Based on the consideration among the local specialists, MSC withdrew its appeal to the Supreme Court in order to apply the amended tax code and its regulations.

Consequently, in the year ended March 31, 2017, the loss of the corrected tax amount approximately \$106 million (¥10,886 million) was recognized as "Other, net" in the Consolidated statement of comprehensive income and the same amount was already paid.

### Interest-Bearing Liabilities (Net) & Debt-Equity Ratio (Net)



### Cash Flows



In addition to the above, the Companies are also involved in certain legal actions and claims incidental to its business. In the opinion of management, none of these actions or claims will

have a material adverse effect on the financial position or results of operations of the Companies.

## 11 | New standards and interpretations not yet applied

The new standards, interpretations, and amendments that have been issued as of the date of the approval for the consolidated financial statements, which the Companies have not yet applied

as of March 31, 2017, are as follows. The Companies are currently evaluating the potential impacts that application of these will have on the consolidated financial statements.

IFRSs	Title	Reporting periods on or after which the applications are required	Reporting periods of the application by the Companies (The reporting period ended)	Summaries of new IFRSs and amendments
IFRS 2	Share-based Payment	January 1, 2018	March 31, 2019	Clarification of the accounting for classification and measurement of share-based payment transactions
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	New requirements for general hedge accounting Limited amendments to the requirements of classification and measurement of financial assets, and new requirements for impairment
IFRS 10	Consolidated Financial Statements	To be determined	To be determined	Accounting for the sale or contribution of assets between an investor and its associate or joint venture
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Establishment of accounting for revenue recognition that applies to contracts with customers
IFRS 16	Leases	January 1, 2019	March 31, 2020	Amendments to lease accounting
IFRS 17	Insurance Contracts	January 1, 2021	March 31, 2022	Amendments to the accounting of insurance contracts
IAS 7	Statement of Cash Flows	January 1, 2017	March 31, 2018	Disclosure requirements of changes in liabilities relating to financing activities
IAS 12	Income Taxes	January 1, 2017	March 31, 2018	Clarification of the accounting treatments for deferred tax assets relating to debt instruments measured at fair value
IAS 28	Investments in Associates and Joint Ventures	To be determined	To be determined	Accounting for the sale or contribution of assets between an investor and its associate or joint venture
IAS 40	Investment Property	January 1, 2018	March 31, 2019	Clarification of requirements on transfers to, or from, investment properties
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	March 31, 2019	Clarification of the accounting for the transactions that involve advance consideration paid or received in a foreign currency
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	March 31, 2020	Clarification of the accounting for income tax when there is uncertainty over income tax treatments

## 12 | Quantitative and Qualitative Disclosure about Market Risk

In the normal course of business, we are exposed to risks arising from fluctuations in interest and currency exchange rates, commodity prices and equity prices. In order to manage these risks, we use financial and commodity derivative instruments including: foreign exchange forwards, currency swaps and options; interest rate swaps, futures and options; and commodity futures, forwards, swaps, and options. To a lesser degree, we also use derivative commodity instruments for trading purposes within prescribed position limits and loss limits imposed under the risk management structure described below.

### Interest Rate Risk

Our business activities expose us to market risks arising from changes in interest rates, which we monitor and for which we take measures to minimize through the departments which Chief Financial Officer of the Corporate Group manages. In particular, interest rate fluctuations will impact our borrowing costs because a significant amount of our outstanding debt instruments is floating rate instruments and because we have short-term borrowings that we refinance from time to time. However, the impact on our borrowing costs will be partially offset by increased returns on certain of our assets, which will also be impacted by interest rate fluctuations. In addition, we are engaged in financing activities, such as automobile financing, which could be affected by interest rate fluctuations. To manage this risk, we enter into interest rate swap agreements, future contracts and option contracts that serve to modify and match the interest rate characteristics of our assets and liabilities.

### Foreign Currency Exchange Rate Risk

The nature of our global operations expose us to market risks caused by fluctuations in foreign currency exchange rates related to imports, exports and financing in currencies other than the local currency. In order to mitigate foreign currency exchange rate risks, except for certain risks including the risk associated with foreign investments considered to be permanent, we use derivative instruments including foreign exchange forward contracts, currency swap agreements and currency option contracts with third parties in addition to borrowing and deposit transactions denominated in foreign currencies.

### Commodity Price Risk

We trade in commodities such as physical precious and base metals, energy products (crude oil and refined oil products) and agricultural products (wheat, coffee, sugar and others), and engage in investments in metal mining, and oil and gas development. As a result of these activities, we are exposed to commodity price risks. We intend to reduce commodity price risks by hedging sales, matching the volume and timing of selling and purchasing commodities, or using derivatives. We use derivatives for trading purposes within well-defined position limits and loss limits.

### Equity Price Risk

We are exposed to equity price risk inherent in stock we hold in financial institutions and our customers and suppliers for strategic purposes and in the other investments held by us. We do not engage in continuous hedging measures against the market exposures on those securities. As of March 31, 2017, we had fair value exposure on our marketable equity securities in the aggregate amount of ¥339.2 billion.

### Risk Management Structure

Any business department wishing to enter into a derivative transaction or any other type of transaction exposing us to market risk must obtain approval from the President or General Manager, depending on the magnitude of the transaction, before entering into the transaction. The President or General Manager, as the case may be, reviews requests with the assistance of staff members who have expertise in derivative contracts. The request must identify the counterparty, the applicable market and credit risks and state the objectives of the transaction, the trading limit, and the loss limit amount.

The departments which Chief Financial Officer manages provide the following with respect to the execution and monitoring of transactions:

- back office support services for financial and derivative commodity transactions, such as opening accounts, confirming the execution of contracts, processing settlement and delivery of funds, and maintaining accounting records for the transactions;
- confirmation of balances of each transaction position; and
- monitoring of the status of positions and analyzing and calculating the risks of related transactions on a company-wide basis, and issuing periodic reports to our senior management, including an annual report to our board of directors.

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Our subsidiaries are required to comply with the risk management structure described above when they execute commodity market transactions.

#### **VaR (Value at Risk)**

VaR is a statistical measure of the potential maximum loss in the fair value of a portfolio that may result from adverse market movements in underlying risk factors, which is calculated over a defined period and within a certain confidence level. In principle, we use the VaR method to measure the market risk for certain market-sensitive commodity transactions and certain financial transactions. See “Notes to Consolidated Financial Statements—26. Financial Instruments and Related Disclosures—(2) Financial Risk Management Policy—4. Commodity price risk management.”

## Consolidated Statement of Financial Position

Sumitomo Corporation and Subsidiaries  
As of March 31, 2017 and 2016

ASSETS	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
<b>Current assets:</b>			
Cash and cash equivalents (Note 9)	¥ 776,464	¥ 868,755	\$ 6,995
Time deposits	13,996	11,930	126
Marketable securities (Notes 6, 9 and 26)	4,647	4,748	42
Trade and other receivables (Notes 7, 9 and 26)	1,206,398	1,204,650	10,868
Other financial assets (Note 26)	66,550	132,886	600
Inventories (Notes 9 and 10)	830,871	807,371	7,485
Advance payments to suppliers	169,084	164,669	1,523
Other current assets (Note 16)	253,165	192,063	2,281
Total current assets	3,321,175	3,387,072	29,920
<b>Non-current assets:</b>			
Investments accounted for using the equity method (Notes 9 and 11)	1,870,935	1,891,768	16,855
Other investments (Notes 6, 9 and 26)	437,162	410,730	3,938
Trade and other receivables (Notes 7, 9 and 26)	472,462	538,855	4,256
Other financial assets (Note 26)	91,937	120,737	828
Property, plant and equipment (Notes 8, 9 and 12)	795,857	785,009	7,170
Intangible assets (Notes 8 and 13)	357,359	310,789	3,220
Investment property (Notes 8, 9 and 14)	311,115	266,623	2,803
Biological assets (Note 15)	12,536	11,911	113
Prepaid expenses	23,498	22,881	212
Deferred tax assets (Note 16)	67,758	71,443	611
Total non-current assets	4,440,619	4,430,746	40,006
Total assets (Note 4)	¥7,761,794	¥7,817,818	\$69,926

LIABILITIES AND EQUITY	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
<b>Current liabilities:</b>			
Bonds and borrowings (Notes 7, 17 and 26)	¥ 659,257	¥ 737,457	\$ 5,939
Trade and other payables (Notes 18 and 26)	1,029,294	933,147	9,273
Other financial liabilities (Note 26)	53,264	66,195	480
Income tax payables	20,737	21,916	187
Accrued expenses	105,164	103,967	947
Advances from customers	223,584	186,383	2,014
Provisions (Note 19)	4,490	10,940	41
Other current liabilities	80,129	60,114	722
Total current liabilities	2,175,919	2,120,119	19,603
<b>Non-current liabilities:</b>			
Bonds and borrowings (Notes 7, 17 and 26)	2,759,069	2,913,486	24,856
Trade and other payables (Notes 18 and 26)	121,126	134,240	1,091
Other financial liabilities (Note 26)	40,599	64,384	366
Accrued pension and retirement benefits (Note 20)	28,076	34,332	253
Provisions (Note 19)	33,210	38,059	299
Deferred tax liabilities (Note 16)	116,840	121,253	1,053
Total non-current liabilities	3,098,920	3,305,754	27,918
Total liabilities	5,274,839	5,425,873	47,521
<b>Equity:</b>			
Common stock (Note 21)	219,279	219,279	1,975
Additional paid-in capital (Note 22)	263,937	256,500	2,378
Treasury stock	(3,113)	(3,344)	(28)
Other components of equity (Note 23)	309,094	311,880	2,785
Retained earnings (Note 22)	1,577,288	1,467,194	14,210
Equity attributable to owners of the parent	2,366,485	2,251,509	21,320
Non-controlling interests	120,470	140,436	1,085
Total equity	2,486,955	2,391,945	22,405
Total liabilities and equity	¥7,761,794	¥7,817,818	\$69,926

See the accompanying notes to the consolidated financial statements.



# Consolidated Statement of Changes in Equity

Sumitomo Corporation and Subsidiaries  
For the years ended March 31, 2017 and 2016

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
<b>Equity (Note 21):</b>			
<b>Common stock:</b>			
Balance, beginning of year	¥ 219,279	¥ 219,279	\$ 1,975
Balance, end of year	219,279	219,279	1,975
<b>Additional paid-in capital (Note 22):</b>			
Balance, beginning of year	256,500	260,009	2,311
Acquisition (disposal) of non-controlling interests, net	8,865	(294)	80
Others	(1,428)	(3,215)	(13)
Balance, end of year	263,937	256,500	2,378
<b>Treasury stock:</b>			
Balance, beginning of year	(3,344)	(3,721)	(30)
Acquisition (disposal) of treasury stock, net (Note 25)	231	377	2
Balance, end of year	(3,113)	(3,344)	(28)
<b>Other components of equity (Note 23):</b>			
Balance, beginning of year	311,880	531,343	2,810
Other comprehensive income for the year	(1,174)	(238,940)	(11)
Transfer to retained earnings	(1,612)	19,477	(14)
Balance, end of year	309,094	311,880	2,785
<b>Retained earnings (Note 22):</b>			
Balance, beginning of year	1,467,194	1,474,522	13,218
Transfer from other components of equity	1,612	(19,477)	14
Profit for the year attributable to owners of the parent	170,889	74,546	1,540
Cash dividends (Note 24)	(62,407)	(62,397)	(562)
Balance, end of year	1,577,288	1,467,194	14,210
Equity attributable to owners of the parent	¥2,366,485	¥2,251,509	\$21,320
<b>Non-controlling interests:</b>			
Balance, beginning of year	140,436	135,818	1,265
Cash dividends to non-controlling interests	(20,117)	(4,762)	(181)
Acquisition (disposal) of non-controlling interests and others, net	(11,388)	2,090	(103)
Profit for the year attributable to non-controlling interests	16,316	14,021	147
Other comprehensive income for the year (Note 23)	(4,777)	(6,731)	(43)
Balance, end of year	120,470	140,436	1,085
Total equity	¥2,486,955	¥2,391,945	\$22,405
<b>Comprehensive income for the year attributable to:</b>			
Owners of the parent	169,715	(164,394)	1,529
Non-controlling interests	11,539	7,290	104
Total comprehensive income for the year	¥ 181,254	¥ (157,104)	\$ 1,633

See the accompanying notes to the consolidated financial statements.

# Consolidated Statement of Cash Flows

Sumitomo Corporation and Subsidiaries

For the years ended March 31, 2017 and 2016

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
<b>Operating activities</b> (Note 32):			
Profit for the year	¥ 187,205	¥ 88,567	\$ 1,687
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation and amortization	114,266	125,076	1,029
Impairment losses on long-lived assets	18,803	57,228	169
Finance (income) costs, net	(20,516)	(80,209)	(185)
Share of (profit) loss of investments accounted for using the equity method	(83,457)	53,815	(752)
(Gain) loss on sale of long-lived assets, net	876	(23,783)	8
Income tax expense	25,896	51,549	233
(Increase) decrease in inventories	(8,866)	148,190	(80)
Decrease in trade and other receivables	21,169	174,890	191
(Increase) decrease in prepaid expenses	(2,221)	5,552	(20)
Increase (decrease) in trade and other payables	105,028	(43,778)	946
Other, net	(61,680)	(1,478)	(556)
Interest received	25,799	29,555	233
Dividends received	114,333	117,973	1,030
Interest paid	(26,999)	(32,121)	(243)
Income tax paid	(63,848)	(71,318)	(575)
Net cash provided by operating activities	345,788	599,708	3,115
<b>Investing activities</b> (Note 32):			
Proceeds from sale of property, plant and equipment	17,773	9,009	160
Proceeds from sale of investment property	7,838	45,889	71
Proceeds from sale of subsidiaries, net of cash and cash equivalents disposed of	(27,758)	48,139	(250)
Proceeds from sale of other investments	93,598	101,204	843
Collection of loan receivables	146,404	404,820	1,319
Purchase of property, plant and equipment	(73,004)	(120,442)	(658)
Purchase of investment property	(57,947)	(18,522)	(522)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(83,480)	10,218	(752)
Acquisition of other investments	(94,494)	(131,342)	(851)
Increase in loan receivables	(109,603)	(434,421)	(988)
Net cash used in investing activities	(180,673)	(85,448)	(1,628)
<b>Financing activities</b> (Note 32):			
Net increase in short-term debt	36,090	(212,719)	325
Proceeds from issuance of long-term debt	358,743	329,460	3,232
Repayment of long-term debt	(547,643)	(563,370)	(4,934)
Cash dividends paid	(62,407)	(62,397)	(562)
Capital contribution from non-controlling interests	974	8,175	9
Payment for acquisition of subsidiary's interests from non-controlling interests	(20,120)	(1,630)	(181)
Payment of dividends to non-controlling interests	(20,117)	(4,762)	(181)
(Acquisition) disposal of treasury stock, net	32	86	0
Net cash used in financing activities	(254,448)	(507,157)	(2,292)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(89,333)</b>	<b>7,103</b>	<b>(805)</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>868,755</b>	<b>895,875</b>	<b>7,827</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(2,958)</b>	<b>(34,223)</b>	<b>(27)</b>
<b>Cash and cash equivalents at the end of year</b>	<b>¥ 776,464</b>	<b>¥ 868,755</b>	<b>\$ 6,995</b>

See the accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

Sumitomo Corporation and Subsidiaries  
For the years ended March 31, 2017 and 2016

## 1 | Reporting Entity

Sumitomo Corporation (the “Company”) is a company incorporated in Japan. The consolidated financial statements of the Company as at and for the year ended March 31, 2017 comprise the financial statements of the Company and its subsidiaries (together, the “Companies”), and the interests in associates and joint arrangements. The Company is an integrated trading company (*sogo shosha*). The Companies are engaged in a wide range of business activities on global basis. The Companies’ business foundation consists of trust, global relations with over 100,000 business partners around the world, a global network with offices and subsidiaries worldwide, intellectual capital, and advanced functions in business development, logistic solutions, financial services, IT solutions, risk management and intelligence gathering and analysis. Through integration of these elements, the Companies provide a diverse array of value to our customers. Based on this business foundation and these

functions, the Companies engage in general trading of a wide range of goods and commodities and in various business activities.

The Companies act as both a principal and an agent in these trading transactions. The Companies also provide a range of services for a variety of industries, such as: financing for customers and suppliers; planning, coordination and operation of urban and industrial infrastructure projects; consulting in areas such as system integration and technology development; and transportation and logistics.

In addition, the Companies engage in other diverse business activities, including investing in a variety of industries ranging from photovoltaic power generation to communications; developing natural resources; manufacturing and processing products such as steel products and textiles; developing and managing real estate; and operating retail stores.

## 2 | Basis of Preparation

### (1) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

### (2) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis except for the following significant items:

- derivatives are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- financial instruments at fair value through other comprehensive income are measured at fair value;
- defined benefit liabilities (assets) are the present value of the defined benefit obligation less the fair value of plan assets;
- inventories acquired with the purpose of generating profits from short-term fluctuations in price are measured at fair value less costs to sell; and
- biological assets are measured at fair value less costs to sell.

### (3) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is also the Company’s functional currency. All financial information presented in Japanese yen has been rounded to the nearest million. The translation of Japanese yen

amounts into United States dollars for the year ended March 31, 2017 is included solely for the convenience of readers and has been made at the rate of ¥111 = U.S. \$1, the approximate exchange rate prevailing at the Federal Reserve Bank of New York on March 31, 2017. Such translation should not be construed as a representation that the Japanese yen amounts have been, or could in the future be converted into United States dollars at that or any rate.

### (4) Use of Estimates and Judgments

The preparation of consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods in which the revision affects.

Judgments and estimates made by management in the application of accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Note 7—Revenue Recognition
- Note 8—Accounting for Arrangement containing a Lease
- Notes 26 and 29—Financial Instruments

The following notes include information in respect of uncertainties of judgments and estimates which have a significant risk to cause material adjustment in the next fiscal year:

- Notes 12, 13 and 14—Impairment of Non-financial Assets
- Note 16—Use of Tax Losses
- Note 20—Measurement of Defined Benefit Obligations
- Notes 19 and 35—Provisions and Contingencies

### 3 | Significant Accounting Policies

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

#### (1) Basis of Consolidation

##### 1. Business combinations

The Companies have applied International Financial Reporting Standard No. 3 *Business Combinations* ("IFRS 3") and International Financial Reporting Standard No. 10 *Consolidated Financial Statements* to all business combinations.

The Companies have applied the acquisition method to business combinations disclosed in Note 5.

The Companies control an investee when the Companies are exposed, or have rights, to variable returns from their involvement with the investee and have the ability to affect those returns through their power over the investee. The acquisition date is the date when the control is transferred to the acquirer. Judgments may be required in deciding the acquisition date and as to whether the control is transferred from one party to another.

Goodwill is measured at the fair value of the considerations transferred, including the recognized amount of any non-controlling interests in the acquiree at the date of acquisition, less the net recognized amount of the identifiable assets acquired and the liabilities assumed at the acquisition date (ordinarily measured at fair value).

The considerations transferred include the fair value of the assets transferred from the Companies to the former owners of the acquiree, assumed liabilities, and equity interest issued by the Companies. The considerations transferred also include the fair value of contingent consideration.

The contingent liabilities of the acquiree are recognized in the business combinations if, and only if, they are present obligations that arose from past events and their fair value can be measured with sufficient reliability.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value

#### (5) Changes in Accounting Policies

The Companies have applied the Standards and Interpretations required to be adopted from the year ended March 31, 2017. These applications had no material effect on the consolidated financial statements.

or, when applicable, on the basis specified in another IFRS.

Acquisition-related costs incurred by the Companies in connection with business combinations such as finder's and legal fees, due diligence, and other professional or consulting fees are recognized as expenses when incurred.

Additional acquisitions of non-controlling interests are accounted for as equity transactions, and no goodwill is recognized.

The identifiable assets acquired, the liabilities and contingent liabilities assumed in accordance with the recognition principles of IFRS 3 are measured at their fair values at the acquisition date, except:

- Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with International Accounting Standard No. 12 *Income Taxes* and International Accounting Standard No. 19 *Employee Benefits*, respectively; and
- Non-current assets and operations classified as held for sale are measured in accordance with International Financial Reporting Standard No. 5 *Non-current Assets Held for Sale and Discontinued Operations*.

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, the Companies report provisional amounts for the items for which the acquisition accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the amounts recognized at that date. Additional assets or liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

##### 2. Subsidiaries

Subsidiaries are entities which are controlled by the Companies. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is obtained until the date when it is lost. The accounting policies of subsidiaries have been adjusted in order to ensure consistency with the accounting policies adopted by the Company, when necessary.

The consolidated financial statements include the financial statements of certain subsidiaries, of which the end of the reporting period is different from that of the Company because it is impracticable to unify the end of the reporting period of the subsidiaries with that of the Company. Due to the requirement of local laws and regulations, it is impracticable to unify the closing dates with that of the Company. It is also impracticable to prepare additional financial statements as of the same date as the financial statements of the Company due to the characteristics of the local business and the IT environment for the accounting system. The difference between the end of the reporting period of subsidiaries and that of the Company does not exceed three months.

When the financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared as of the dates different from the end of the reporting period of the Company, adjustments are made for the effects of significant transactions or events that occur between the end of the reporting period of the subsidiaries and that of the Company.

On the disposal of interests in subsidiaries, if the Companies retain control over the subsidiaries, they are accounted for as equity transactions. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration received is recognized directly in equity as "Equity attributable to owners of the parent."

### 3. Business combinations of entities under common control

Business combinations of entities under common control are business combinations in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The Companies have consistently accounted for all such transactions based on carrying amounts.

### 4. Associates and joint arrangements

Associates are entities over which the Companies have significant influence but do not have control to govern the financial and operating policies. Significant influence is presumed to exist when the Companies hold between 20 % and 50 % of the voting power of another entity.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

The Companies account for the assets, liabilities, revenues and expenses relating to their interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

Investments in associates and joint ventures ("equity-accounted investees") are accounted for using the equity method, and recognized at cost on acquisition. The investments include goodwill identified on acquisition (net of accumulated impairment losses).

The Companies' share of the income and expenses of the equity-accounted investees and changes in the Companies' share in equity are included in the consolidated financial statements from the date when significant influence or joint control is obtained until the date when it is lost. The accounting policies of equity-accounted investees have been adjusted when necessary to ensure consistency with those applied by the Company.

The consolidated financial statements include some equity-accounted investees, of which the end of the reporting period is different from that of the Company because it is impracticable to unify the end of the reporting date of those equity-accounted investees with that of the Company in connection with other share holders and for other reasons. The end of the reporting period of those equity-accounted investees is mainly the end of December. Adjustments are made for the effects of significant transactions or events that occur due to differences in the end of the reporting period.

### 5. Transactions eliminated in consolidation

All inter-company transactions, balances, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains on transactions with equity-accounted investees are eliminated to the extent of the Companies' interest in the investees. Unrealized losses are eliminated in the same way as unrealized gains unless there is evidence of impairment.

## (2) Foreign Currencies

### 1. Foreign currency transactions

Foreign currency transactions are translated into functional currencies of individual companies using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into functional currencies using the spot exchange rate at the reporting date. Exchange differences on monetary items are the differences between the amortized costs denominated in functional currencies at the beginning of the reporting period adjusted by effective interest and interest payments during the year, and the amortized costs denominated in foreign currencies translated using the spot exchange rate at the reporting date. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are retranslated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising from retranslation are recognized in profit or loss. However, exchange differences arising from FVTOCI financial assets, hedges of a net investment in foreign operations (see 3. below) and cash-flow hedges are recognized in other comprehensive income. Non-monetary items measured at historical cost in foreign currencies are translated using the spot exchange rate at the date of the transaction.

## 2. Foreign operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rate for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income.

These differences are presented as “Exchange differences on translating foreign operations” in Other components of equity after the date of transition to IFRSs. On disposal of the entire interest in foreign operations and on the partial disposal of the interest involving loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to profit or loss as a part of gains or losses on disposal.

## 3. Hedges of a net investment in foreign operations

The Companies apply hedge accounting to a part of the exchange differences arising between the functional currencies of foreign operations and the Company’s functional currency (Japanese Yen), regardless of whether investments in foreign operations are held directly by the Company or indirectly through its subsidiaries.

Exchange differences arising from the retranslation of financial instruments designated as hedging instruments for a net investment in foreign operations are recognized in other comprehensive income to the extent that the hedge is effective, and are presented as “Exchange differences on translating foreign operations” in Other components of equity. The ineffective portion of the gains or losses on the hedging instruments is recognized in profit or loss. On disposal of hedged portion of net investments, the cumulative amount of exchange differences is reclassified to profit or loss as a part of gains or losses on disposal.

### (3) Financial Instruments

The Companies have early-applied International Financial Reporting Standard No. 9 *Financial Instruments* (issued in November 2009, revised in October 2010) (“IFRS 9”) to the accounting for financial instruments.

#### 1. Non-derivative financial assets

The Companies recognize trade and other receivables on the date they are originated.

All other financial assets are recognized on the contract date when the Companies become a party to the contractual provisions of the instrument.

The following is a summary of the classification and measurement model of the non-derivative financial assets;

#### Financial assets measured at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value (plus directly attributable transaction costs). Subsequently, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, less impairment loss when necessary.

#### Financial assets measured at FVTPL

Financial assets other than equity instruments that do not meet the above conditions in relation to amortized cost measurement are measured at FVTPL. Those financial assets include financial assets held for trading.

Equity investments are measured at fair value with gains or losses on re-measurement recognized in profit or loss unless the Companies make an irrevocable election to measure equity investments at FVTOCI on initial recognition.

Financial assets measured at FVTPL are initially measured at fair value and transaction costs are recognized in profit or loss when they occur.

#### Financial assets measured at FVTOCI

On initial recognition, the Companies may make an irrevocable election to measure investments in equity instruments at FVTOCI. The election is made only for the equity investment other than held for trading.

Financial assets measured at FVTOCI are initially measured at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as “Financial assets measured at fair value through other comprehensive income” in Other components of equity. The amount of Other components of equity is transferred directly to retained earnings, not to profit or loss, when the equity investment is derecognized or the decline in its fair value compared to its acquisition cost is significant and other-than-temporary.

However, dividends on financial assets measured at FVTOCI are recognized in profit or loss as finance income.

### Derecognition of financial assets

The Companies derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Companies transfer the contractual rights to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. Any interests in transferred financial assets that qualify for derecognition that is created or retained by the Companies are recognized as a separate asset or liability.

## 2. Cash and cash equivalents

Cash and cash equivalents are cash and highly liquid investments that are readily convertible to known amounts of cash, including short-term time deposits with original maturities of three months or less.

## 3. Non-derivative financial liabilities

Debt securities issued are initially recognized on the issue date. All other financial liabilities are recognized when the Companies become a party to the contractual provisions of the instruments.

The Companies derecognize financial liabilities when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

The Companies classify borrowings, corporate bonds, trade payables and other payables as non-derivative financial liabilities, and initially measure them at fair value (minus directly attributable transaction costs).

Non-derivative financial liabilities held for trading are measured at fair value after initial recognition and the change in fair value is recognized in profit or loss. Non-derivative financial liabilities held for other than trading are measured at amortized cost using the effective interest method after initial recognition.

## 4. Equity

### Common stock

Proceeds from issuance of equity instruments by the Company are included in "Common stock" and "Additional paid-in capital." The direct issue costs (net of tax) are deducted from "Additional paid-in capital."

### Treasury stock

When the Companies reacquire treasury stocks, the consideration paid, net of direct transaction costs and tax, is recognized as a deduction from equity. When the Companies sell treasury stocks, the consideration received is recognized as an increase in equity.

## 5. Derivatives including hedge accounting

The Companies utilize derivatives to manage interest rate risk, foreign currency risk and the risk of the price fluctuation of commodity inventories and trading commitments. The primary derivatives used by the Companies include foreign exchange forward contracts, currency swaps, interest rate swaps and commodity future contracts.

At the initial designation of the hedging relationship, the Companies document the relationship between the hedging instrument and the hedged item, along with their risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed.

At the inception of the hedge and on an ongoing basis, the Companies assess whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

To qualify as a cash flow hedge of a forecast transaction, the transaction must be highly probable.

Derivatives are initially recognized at fair value with transaction costs recognized in profit or loss when they occur. Subsequently, derivatives are measured at fair value, and gains and losses arising from changes in fair value are accounted for as follows:

### Fair value hedges

The changes in the fair value of the hedging instrument are recognized in profit or loss. The carrying amounts of the hedged items are measured at fair value and the gains or losses on the hedged items attributable to the hedged risks are recognized in profit or loss.

### Cash flow hedges

When derivatives are designated as a hedging instrument to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities or highly probable forecast transactions which could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognized in other comprehensive income and included in "Cash flow hedges" in the Other components of equity. The balances of cash flow hedges are reclassified to profit or loss from other comprehensive income in the periods when the cash flows of the hedged items affect profit or loss, in the same line items of the Consolidated statement of comprehensive income as those of the hedged items. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument expires or is sold, terminated or exercised, or when the designation is revoked.

When hedge accounting is discontinued, the balances of cash flow hedges remain in equity until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

## 6. Derivatives held for trading and others

The Companies hold derivatives for hedging purposes which do not qualify for hedge accounting. The Companies also hold derivatives for trading purposes as opposed to hedging purposes. Any changes in fair value of these derivatives are recognized immediately in profit or loss.

## 7. Presentation for financial instruments

Financial assets and liabilities are offset and the net amounts are presented in the Consolidated statement of financial position when, and only when, the Companies currently have a legally enforceable right to set off the recognized amounts and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### (4) Inventories

Inventories mainly consist of commodities, materials/work in progress, and real estate held for development and resale.

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business less any estimated costs of completion and the estimated costs necessary to make the sale.

Inventories acquired with the purpose of generating profits from short-term fluctuations in price are measured at fair value less costs to sell, and changes in fair value are recognized in profit or loss.

The cost of inventories other than acquired with the purpose of generating profits from short-term fluctuations in price is determined based on either specific identification basis when inventories are not ordinarily interchangeable, or mainly moving average basis when inventories are ordinarily interchangeable.

### (5) Property, Plant and Equipment

#### 1. Recognition and measurement

Property, plant and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses.

The cost of items of property, plant and equipment comprises costs directly attributable to the acquisition, costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs.

When the useful life of each part of an item of property, plant and equipment varies, it is accounted for as a separate item of property, plant and equipment.

## 2. Depreciation

Depreciation is calculated based on the depreciable amount which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation of property, plant and equipment is mainly computed under the straight-line method based on the estimated useful life of each item. The straight-line method is used because it is considered to most closely approximate the pattern in which the asset's future economic benefits are expected to be consumed by the Companies. Leased assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty that the Companies will obtain ownership by the end of the lease term.

Depreciation of mining rights is computed under the units-of-production method over the estimated proven and probable reserve tons, and recognized as an expense. Land and land improvements are not depreciated.

The estimated useful lives for the years ended March 31, 2017 and 2016 are as follows:

- Buildings and leasehold improvements 3–50 years
- Machinery and equipment 2–20 years

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and changed when necessary.

### (6) Intangible Assets

#### 1. Goodwill

##### Initial recognition

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Measurement of goodwill on initial recognition is described in (1) 1.

##### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of investments in equity-accounted investees includes the carrying amount of goodwill. The impairment loss of those investments is not allocated to any asset (including goodwill) which constitutes part of the carrying amount of investments in equity-accounted investees.

## 2. Capitalized software costs

The Companies incur certain costs to purchase or develop software for sale or internal-use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses as incurred. Expenditures arising from development activities are capitalized as internally generated intangible assets, if, and only if, they are reliably measurable, products or processes are technically and commercially feasible, it is highly probable to generate future economic benefits, and the Companies have an intention and adequate resources to complete those assets and use or sell them. Capitalized software costs are measured at cost less any accumulated amortization and accumulated impairment losses.

## 3. Intangible assets acquired in business combinations

Intangible assets that are acquired in business combinations, such as sales licenses, trademarks and customer relationships, are recognized separately from goodwill, and are initially recognized at fair value at acquisition date.

Subsequently the intangible assets are measured at cost less any accumulated amortization and accumulated impairment losses.

## 4. Other intangible assets

Other intangible assets with finite useful lives are measured at cost less any accumulated amortization and accumulated impairment losses.

Certain trademarks are not amortized because they are determined to have indefinite useful lives and are expected to exist fundamentally as long as the business continues.

## 5. Amortization

Amortization is calculated based on the cost of an asset less its residual value. Amortization of intangible assets other than goodwill is computed under the straight-line method over their estimated useful lives from the date the assets are available for use. The straight-line method is used because it is considered to the most closely approximate the pattern in which the intangible assets' future economic benefits are expected to be consumed by the Companies. Estimated useful lives for the years ended March 31, 2017 and 2016 are mainly as follows:

- Software 3–5 years
- Sales licenses, trademarks and customer relationships 3–30 years
- Others 3–20 years

The amortization methods, useful lives and residual values are reviewed at the end of each reporting period, and changed when necessary.

## (7) Investment Property

Investment property is a property held to earn rental income or for capital appreciation or for both. Property held for sale in the ordinary course of business, or use in the production or supply of goods or service or for other administrative purpose is not included in investment property. Investment property is measured at cost less any accumulated depreciation (see (5) 2.) and accumulated impairment losses.

## (8) Leased Assets

Leases are classified as finance leases when lessor transfers substantially all the risks and rewards of ownership to the Companies. Leased assets are initially recognized at fair value or, if lower, at the present value of the minimum lease payments. Subsequent to initial recognition, the leased assets are accounted for in accordance with the accounting policies applicable to the assets.

All other leases are classified as operating leases, and are not reported in the Companies' Consolidated statement of financial position.

## (9) Impairment

### 1. Non-derivative financial assets

Financial assets measured at amortized cost are assessed on a quarterly basis whether there is objective evidence that the asset may be impaired. Financial assets are considered to be impaired when there is objective evidence which indicates that loss events have occurred after the initial recognition of the assets, and when it is reasonably anticipated that the loss events have a negative impact on the estimated future cash flows of the assets.

Objective evidence of impairment for financial assets measured at amortized cost includes: a default or delinquency of the borrower, granting the borrower a concession that the Companies would not otherwise consider, indications for bankruptcy of the issuer or obligor and the disappearance of active markets.

The Companies assess whether evidence of impairment exists individually and collectively for financial assets measured at amortized cost. An individually significant financial asset is individually assessed for impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred, but not yet reported. Financial assets that are not individually significant are collectively assessed for impairment in a group of financial assets with similar risk characteristics.

In assessing collective impairment, the Companies evaluate historical trends of the probability of default, timing of recoveries and the amount of loss incurred. In addition, an adjustment is made to reflect management judgment on whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

The impairment loss for financial assets measured at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognized in profit or loss. Interest on the impaired assets continues to be recognized through unwinding of the discount. If there are events which decrease the amount of impairment after the recognition of the impairment, the reversal of the impairment loss is recognized in profit or loss.

## 2. Non-financial assets

At the end of each reporting period, the carrying amounts of non-financial assets, excluding inventories, biological assets and deferred tax assets, are assessed to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the non-financial asset is estimated. Regarding goodwill and intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated at the same time every year.

The recoverable amount of an asset or a cash-generating unit ("CGU") is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. A CGU is the smallest group of assets which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

A CGU of goodwill is determined based on the unit by which the goodwill is monitored for internal management purposes, and does not exceed an operating segment before aggregation.

Because the corporate assets do not generate independent cash inflows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU to which the corporate assets belong.

If the carrying amount of an asset or a CGU exceeds the recoverable amount, an impairment loss is recognized in profit or loss. The impairment loss recognized related to a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in subsequent periods. Assets other than goodwill are reviewed at the end of each reporting period to determine whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. An impairment loss recognized in prior years for an asset is reversed to profit or loss if an event occurs that changes the estimates used to determine the asset's recoverable amount. A reversal of impairment loss does not exceed the carrying amount, net of depreciation and amortization, that would have been determined if no impairment loss had been recognized for the asset for prior years.

Goodwill that forms part of the carrying amount of investments in equity-accounted investees is not separately recognized, and it is not tested for impairment separately. The entire carrying amount of the investments is tested for impairment as a single asset, whenever there is any objective evidence that the investments are impaired.

## (10) Employee Benefits

### 1. Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans (see 2. below). The Companies' net defined benefit obligations are calculated separately for each plan by estimating the future amount of benefit that employees have earned in exchange for their service for the previous years. The benefits are discounted to determine the present value, and fair value of plan assets is deducted.

The discount rates are equivalent to the market yields of AA credit-rated corporate bonds at the end of each reporting period that have maturity terms approximating those of the Companies' obligations. These calculations are performed annually by qualified actuaries using the projected unit credit method.

When plan amendments are made, the change in defined benefit obligations related to past service by employees is recognized in profit or loss immediately.

The Companies recognize remeasurements of the net defined benefit liability (asset) in other comprehensive income and immediately reclassify them from Other components of equity to Retained earnings.

### 2. Defined contribution plans

The employees of certain subsidiaries are provided with defined contribution plans. Defined contribution plans are post-employment benefit plans in which the Companies pay fixed contributions into separate entities and will have no legal or constructive obligation to make further contributions. The Obligations for contributions to defined contribution plans are recognized as an expense during the period when the service is rendered. Certain subsidiaries participate in multi-employer plans in addition to lump-sum benefit plans or pension benefit

plans, and recognize the contribution during a period as an expense in profit or loss and contribution payable as a liability.

### 3. Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the service is rendered.

Bonus accrual is recognized as a liability, when the Companies have present legal or constructive obligations to pay as a result of past employee service, and when reliable estimates of the obligation can be made.

### 4. Share-based payments

The Companies have stock option plans as incentive plans for directors, executive officers, and corporate officers under the Companies' grade system. The fair value of stock options at the grant date is recognized as an employee expense over the vesting period from the grant date as a corresponding increase in equity. The fair value of the stock options is measured using the Black-Scholes or other model, taking into account the terms of the options granted. The Companies regularly review the assumptions made and revise estimates of the number of options that are expected to vest, when necessary.

## (11) Provisions

Provisions are recognized when the Companies have present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of the obligations. Provisions are discounted to their present value using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

### Asset retirement obligations

The Companies account for asset retirement obligations mainly related to the dismantlement of crude oil, coal, and ore mining and drilling facilities in accordance with the Companies' published environmental policies and the requirements of laws and regulations applicable to the Companies.

## (12) Revenue

Revenue is measured at the fair value of the consideration for goods sold and services provided in the ordinary course of business, less sales related taxes.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Companies have transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Companies retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Companies; and
- the costs incurred in respect of the transaction can be measured reliably.

The outcome of a transaction involving rendering services can be estimated reliably, and revenue is recognized by reference to the stage of completion of the transaction at the end of the reporting period, when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

The policies on revenue recognition, multiple-element transactions, and gross versus net in presentation of revenue are as follows:

### 1. Revenue from sales of tangible products

The Companies generate revenue from sales of tangible products (a) in connection with the Companies' wholesale, retail, manufacturing and processing operations, (b) in connection with the Companies' real estate operations, and (c) under long-term construction contracts, etc.

#### (a) Wholesale, retail, manufacturing and processing operations

The Companies recognize revenue from sales of tangible products in connection with the Companies' wholesale, retail, manufacturing and processing operations when there is persuasive evidence such as the execution of a transaction based on a sales contract, that is, when the Companies have transferred to the buyer the significant risks and rewards of ownership of the goods, and it is probable that the economic benefits associated with the transaction will flow to the Companies, and the costs incurred in respect of the transaction and the possibility of product returns can be estimated reasonably, and the Companies do not retain continuing managerial involvement over the goods sold, and the amount of revenue can be measured reliably.

Depending upon the terms of the contract, this may occur at the time of delivery or shipment or upon the attainment of customer acceptance. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specifications are not recognized as revenue until the attainment of customer acceptance. The Companies' policy is not to accept product returns unless the products are defective. The Companies have no material exposure to losses under warranty provisions. Such losses are recognized when probable and estimable. The amounts of rebates and discounts are deducted from revenue, and they are not material. The Companies recognize revenue upon delivery, shipment, or upon the attainment of customer acceptance for steel service center operations in which the Companies process and cut steel sheets to customer specifications (Metal Products Business Unit), dealership operations in which the Companies sell automobiles to general consumers and distribute construction equipment and machinery to construction companies (Transportation & Construction Systems Business Unit), retail business operations such as supermarkets and drugstores (Media, ICT, Lifestyle Related Goods & Services Business Unit), and plastic products (Mineral Resources, Energy, Chemical & Electronics Business Unit).

#### (b) Real estate operations

Revenue from the sale of land, office buildings, and condominiums is recognized when all the following conditions are satisfied:

- the companies have transferred to the buyer the significant risks and rewards of ownership of the asset sold;
- the companies retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the asset sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Companies;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably; and
- there are no significant clauses in sales agreements that oblige the Companies to complete the asset sold.

For sale transactions with some degree of continuing managerial involvement (for example, guarantee to the buyer), revenue recognized at the date of sale is reduced by the estimated exposure to loss measured at the fair value related to the continuing involvement.

In circumstances where the terms of the transaction provide for the Companies to receive additional consideration which is contingent upon fulfillment of certain conditions without risk of loss, and the transaction otherwise qualifies for profit recognition, the contingent future profits are recognized when the contingency is resolved.

In those cases where the Companies transfer to the buyer control and significant risks and rewards of ownership of the work in progress in its current state as construction progresses, and if all the criteria described above are met, revenue is recognized using the percentage of completion ("POC") method in accordance with IFRIC Interpretation 15 *Agreements for the Construction of Real Estate*.

#### (c) Long-term construction contracts, etc.

The Companies generate revenue from sales of tangible products under long-term construction contracts, etc., principally in connection with the construction of power plants in which the Companies provide engineering, procurement and construction service (Environment & Infrastructure Business Unit), and software development business in which the Companies customize the software to customer specifications (Media, ICT, Lifestyle Related Goods & Services Business Unit).

Revenue from fixed price long-term construction contracts, etc., is recognized when the outcome of a contract can be estimated reliably. Revenue and costs are recognized generally by the POC method. Under the POC method, revenue is recognized by reference to the stage of completion measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then, revisions to the estimates are made.

These revisions may result in increases or decreases in estimated revenues or estimated costs, and such revisions are reflected in profit or loss in which the circumstances that give rise to the revision become known by management. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent that it is probable that contract costs incurred will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

The Companies review the cost performance and estimates to complete projections on its contracts at least on a quarterly basis. The impact of revisions of profit estimates on fixed price contracts is recognized in the period in which the revisions are made. The expected losses on fixed price contracts are recognized as an expense when such losses can be estimated. Provisions are recognized for contingent liabilities in the period in which they become known and estimable pursuant to specific contract terms and conditions.

When costs incurred by the end of reporting period plus recognized profits (less recognized losses) exceed progress billings, the surplus is presented as receivables from customers. For contracts where progress billings exceed contract costs incurred by the end of the reporting period plus recognized profits (less recognized losses), the surplus is presented as payables to customers. Amounts received before the related work is performed are recognized as liabilities and are included in

“Advances from customers” in the Consolidated statement of financial position. Amounts billed for work performed but not yet paid by the customer are reported in the Consolidated statement of financial position and recognized as “Trade and other receivables” and some other assets.

## 2. Revenue from sales of services and others

The Companies also generate revenue from sales of services and others in connection with (a) services related to customized software development, (b) loans, finance leases and operating leases of commercial real estate, automobiles and vessels, and (c) other service arrangements to suppliers and customers such as arranging finance and coordinating logistics in connection with trading activities.

### (a) Services related to customized software development

Revenue from services contracts related to customized software development to customer specifications is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. The stage of completion is estimated by reference to the proportion of contracts cost incurred for work performed to date. Revenue from maintenance is recognized over the contractual period or as the services are rendered (Media, ICT, Lifestyle Related Goods & Services Business Unit).

### (b) Loans, finance leases and operating leases of commercial real estate, automobiles and vessels

Revenue from loans is recognized using the effective interest method over the terms of the loans, which is the rate that exactly discounts the estimated future cash receipts through the expected residual period of the financial asset to that asset's net carrying amount.

Revenue from finance leases is calculated using the interest rate implicit in the lease, which is the discount rate that results in the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Revenue from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Companies recognize revenue from operating leases in connection with vessels leased to shipping companies (Transportation & Construction Systems Business Unit) and rental of commercial real estate (Media, ICT, Lifestyle Related Goods & Services Business Unit).

### (c) Other service arrangements to suppliers and customers such as arranging finance and coordinating logistics in connection with trading activities

Revenue from other service arrangements includes transactions in which the Companies act between customer and supplier as an agent or a broker to provide such services as arranging finance or coordinating logistics in connection with trading activities. Such revenue is recognized when the contracted services are rendered.

## 3. Multiple-element arrangements

The Companies enter into multiple-element transactions related revenue arrangements, which may include any combination of products, equipment, software, installation services and/or financing.

A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

- the delivered element(s) has (have) the standalone value to the customer;
- there is objective and reliable evidence of the fair value of the undelivered element(s); and
- if the arrangement includes a general right of return relative to the delivered element(s), the delivery or performance of the undelivered element(s) is considered probable and substantially in the control of the Companies.

If these criteria are not met, revenue is deferred until the earlier of when such criteria are met or when all of the undelivered elements are delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered element(s) but no such evidence for the delivered element(s). In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered element(s) equals the total arrangement consideration less the aggregate fair value of the undelivered element(s).

#### 4. Gross versus net

In the ordinary course of business, the Companies frequently act as an intermediary or an agent in executing transactions with third parties. In these arrangements, the Companies determine whether to report revenue based on the “gross” amount billed to the ultimate customer for tangible products or services provided or on the “net” amount received from the customer after commissions and other payments to third parties. However, the amounts of “Gross profit” and “Profit for the year attributable to owners of the parent” are not affected by whether revenue is reported on a gross or net basis.

Determining whether revenue should be reported in gross or net is based on an assessment of whether the Companies are acting as a “principal” or an “agent” in a transaction. Accordingly, to the extent that the Companies are acting as a principal in a transaction, the Companies report revenue on a gross basis and to the extent that the Companies are acting as an agent in a transaction, the Companies report revenue on a net basis. The determination of whether the Companies are acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement with respect to exposure to the significant risks and rewards associated with the sale of tangible products or the rendering of services.

Factors that indicate that the Companies act as a principal, and thus recognize revenue on a gross basis include:

- the Companies have the primary responsibility for providing the goods or services to the customer or for fulfilling the orders;
- the Companies have inventory risk before or after the customer order, during shipping or on return;
- the Companies have latitude in establishing prices, either directly or indirectly; and
- the Companies bear the customer's credit risk for the amount receivable from the customer.

Factors that indicate that the Companies act as an agent, and thus recognize revenue on a net basis include:

- the consideration of services rendered (commission or fee) is fixed; and
- the consideration is determined by multiplying the amount of goods and services provided to customers by a stated percentage.

#### (13) Lease Payments

Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term. Lease incentives are deemed as inseparable part of the total lease payments and are recognized over the lease term.

Minimum lease payments made under finance leases are allocated to finance costs and the reduction of the outstanding liabilities. Finance costs are allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of liabilities.

Contingent fees are accounted for as adjustments to minimum lease payments over the remaining lease term, when an adjustment to the lease payments becomes certain.

The Companies assess whether an arrangement is, or contains, a lease at the inception of the arrangement. If fulfillment of the arrangement is dependent on the use of a specific asset, it contains a lease. Arrangements convey the right to use the assets when the arrangements convey to the Companies the right to control the use of the underlying assets. Payments and other consideration required by the arrangements are allocated at the inception of the arrangements or upon a reassessment of the arrangements into lease payments and payments of other elements on the basis of their relative fair values. If the Companies conclude that it is impracticable to separate the payments for finance leases reliably, assets and liabilities are recognized at the amount equal to the fair value of the underlying assets. Subsequently, the liabilities are reduced as payments are made and finance costs incurred on liabilities are recognized using the Companies' incremental borrowing rate.

#### (14) Finance Income and Costs

Finance income mainly comprises interest income, dividend income, gains on sale of securities, changes in fair value of financial assets measured at FVTPL, gains on hedging instruments recognized in profit or loss. Interest income is recognized when incurred using the effective interest method. Dividend income is recognized on the date when the right to receive payment is established. Interest income from a financial asset (excluding financial assets measured at FVTPL) is accrued using the effective interest method.

Finance costs mainly comprise interest expense, losses on sale of securities, changes in fair value of financial assets measured at FVTPL, impairment loss on financial assets, losses on hedging instruments recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognized in profit or loss using the effective interest method.

### **(15) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of certain qualifying assets, which take a considerable period of time to get ready for their intended use or sale, are added to the costs of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss when incurred.

### **(16) Income Taxes**

Income taxes comprise current taxes and deferred taxes. These are recognized in profit or loss, except for the taxes which arise from business combinations or are recognized either in other comprehensive income or directly in equity.

Current taxes are the expected taxes payables or receivables on the taxable profit, using the tax rates enacted or substantially enacted by the end of the reporting period, adjusted by taxes payables or receivables in prior years.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax basis. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not related to a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. Deferred tax liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint arrangements. However, if the Companies are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognized. Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries, associates and joint arrangements are recognized only to the extent that it is probable that there will be sufficient taxable profit against which the benefit of temporary differences can be utilized and the temporary differences will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the temporary differences will reverse, based on tax laws that have been enacted or substantively enacted by the end of reporting period. Deferred tax assets and deferred tax liabilities are offset when: there is a legally enforceable right to offset current tax assets against current tax liabilities; and income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realized.

### **(17) Earnings per Share**

#### **(attributable to owners of the parent)**

The Companies disclose basic and diluted earnings per share (attributable to owners of the parent) related to common stock. Basic earnings per share is calculated by dividing profit for the year (attributable to owners of the parent) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock acquired. For the purpose of calculating diluted earnings per share, profit for the year (attributable to owners of the parent) and the weighted average number of common stock outstanding, adjusted for the number of treasury stock, are adjusted for the effects of all dilutive potential common stock. Potential common stock of the Company is related to the stock option plan.

### **(18) Operating Segments**

Operating segments are components of business activities from which the Companies may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by management in order to determine the allocation of resources to the segment and assess its performance.

**(19) New standards and interpretations not yet applied**

The new standards, interpretations, and amendments that have been issued as of the date of the approval for the consolidated financial statements, which the Companies have not yet applied as of March 31, 2017, are as follows. The Companies are currently evaluating the potential impacts that application of these will have on the consolidated financial statements.

IFRSs	Title	Reporting periods on or after which the applications are required	Reporting periods of the application by the Companies (The reporting period ended)	Summaries of new IFRSs and amendments
IFRS 2	Share-based Payment	January 1, 2018	March 31, 2019	Clarification of the accounting for classification and measurement of share-based payment transactions
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	New requirements for general hedge accounting Limited amendments to the requirements of classification and measurement of financial assets, and new requirements for impairment
IFRS 10	Consolidated Financial Statements	To be determined	To be determined	Accounting for the sale or contribution of assets between an investor and its associate or joint venture
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Establishment of accounting for revenue recognition that applies to contracts with customers
IFRS 16	Leases	January 1, 2019	March 31, 2020	Amendments to lease accounting
IFRS 17	Insurance Contracts	January 1, 2021	March 31, 2022	Amendments to the accounting of insurance contracts
IAS 7	Statement of Cash Flows	January 1, 2017	March 31, 2018	Disclosure requirements of changes in liabilities relating to financing activities
IAS 12	Income Taxes	January 1, 2017	March 31, 2018	Clarification of the accounting treatments for deferred tax assets relating to debt instruments measured at fair value
IAS 28	Investments in Associates and Joint Ventures	To be determined	To be determined	Accounting for the sale or contribution of assets between an investor and its associate or joint venture
IAS 40	Investment Property	January 1, 2018	March 31, 2019	Clarification of requirements on transfers to, or from, investment properties
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	March 31, 2019	Clarification of the accounting for the transactions that involve advance consideration paid or received in a foreign currency
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	March 31, 2020	Clarification of the accounting for income tax when there is uncertainty over income tax treatments

**4 | Segment Information****(1) Operating Segment**

The Companies conduct business through five industry-based business operating segments (business units) and overseas regional segment (Overseas Subsidiaries and Branches).

The Companies' industry-based business segments are:

- Metal Products
- Transportation & Construction Systems
- Environment & Infrastructure
- Media, ICT, Lifestyle Related Goods & Services
- Mineral Resources, Energy, Chemical & Electronics

"Trading" used in the following descriptions of the Companies' business units represents sales transactions where the business units act as a principal or an agent. See Note 3. (12) for the Companies' accounting policy on revenue recognition.

### **Metal Products—**

The Metal Products Business Unit encompasses various metal products, including steel products such as steel sheets, tubular products, and non-ferrous metal products such as aluminum and titanium. This segment also has an extensive value chain that satisfies the diverse needs of customers in a broad range of fields. In the steel sheet-related field, this segment provides just-in-time delivery services for steel sheet products mainly to automotive and home appliance manufacturers via worldwide steel service center network, which provides functions including procurement, inventory management, and processing. In the tubular products field, this segment has functions as a total service provider by developing oil field services in addition to unique supply chain management (SCM) system for oil and gas companies. In the non-ferrous products & metals field, a priority of this segment is to expand production and sales locations for aluminum ingot and sheets. This segment consists of the Steel Sheet & Construction Steel Products Division, the Metal Products for Automotive & Railway Industry Division, the Light Metals & Specialty Steel Sheet Division, and the Tubular Products Division.

### **Transportation & Construction Systems—**

The Transportation & Construction Systems Business Unit engages in global transactions involving ships, aircrafts, transportation systems, motor vehicles, construction equipment and related components and parts. Activities of this segment range from trading, leasing and financing to designing and arranging the construction of public transportation systems. This segment consists of the Ship, Aerospace & Transportation Systems Division, two Automotive Divisions, and the Construction & Mining Systems Division.

### **Environment & Infrastructure—**

The Environment & Infrastructure Business Unit engages in a wide range of large-scale overseas infrastructure development projects such as power generation and power plant Engineering, Procurement and Construction (EPC). This segment also engages in electricity retail in Japan, renewable energy businesses such as wind, solar photovoltaic and geothermal power generation, industrial infrastructure businesses such as industrial facilities and equipments, water businesses, environmental solutions, and storage battery businesses. This segment also engages in providing logistics services such as delivery, customs clearance and transportation services, arrangements for insurance, and development and operation of overseas industrial parks. This segment consists of the Environment & Infrastructure Project Business Division, the Global Power Infrastructure Business Division and the Logistics & Insurance Business Division.

### **Media, ICT, Lifestyle Related Goods & Services—**

The Media, ICT, Lifestyle Related Goods & Services Business Unit engages in cable television operations, video contents businesses, IT service businesses, cell-phone related businesses, telecommunications, venture investments, and retail businesses such as TV shopping channels, e-commerce businesses, supermarkets, drugstores, and fashion businesses. This segment also engages in trading, marketing, manufacturing, selling, processing and distributing of foodstuffs including fruits, vegetables and meats, cement, timber, and building materials. This segment also engages in a variety of real estate activities relating to office buildings and commercial, residential properties, distribution facilities and funding. This segment consists of the Media Division, the ICT Division, the Lifestyle & Retail Business Division, the Food Business Division and the Materials, Supplies & Real Estate Division.

### **Mineral Resources, Energy, Chemical & Electronics—**

The Mineral Resources, Energy, Chemical & Electronics Business Unit engages in the development and trading of mineral and energy resources including coal, iron ore, manganese, uranium, non-ferrous metals, precious metals, petroleum, natural gas and liquefied natural gas (LNG) and commodity derivative transactions. This segment also trades petroleum products, liquefied petroleum gas (LPG), storage batteries, carbon products, plastics, organic and inorganic chemicals, silicon wafers, LEDs, pharmaceuticals, agricultural chemicals, household insecticide, fertilizers, and veterinary drugs and is also involved and invests in those businesses. This segment also operates electronics manufacturing services (EMS) mainly in Asia. This segment consists of two Mineral Resources Divisions, the Energy Division, the Basic Chemicals & Electronics Division and the Life Science Division.

### **Overseas Subsidiaries and Branches—**

The Overseas Subsidiaries and Branches segment consists of four broad regions, namely, “East Asia,” “Asia & Oceania,” “Europe, Middle East, Africa & CIS” and “The Americas.” These regional operations conduct business activities in all industry sectors based on their specialized knowledge of the region. In addition, they work together on certain projects with the industry-based business units in order to develop products and services that are more focused on that particular region.

The reportable segments are organized based on the nature of products and services provided and on certain specific overseas regions that oversee the business activities of all products and services in those regions. Each business segment operates with a degree of autonomy in pursuing its strategic goals, managing operations and ensuring accountability. Segment financial information is evaluated regularly by management in order to assess performance and determine the allocation of resources.

Information by operating segments for the years ended March 31, 2017 and 2016 is summarized as follows:

Segment	Millions of Yen			
	Revenue	Gross profit	Profit for the year (attributable to owners of the parent)	Total assets
Metal Products	¥ 485,148	¥ 67,358	¥ 9,966	¥ 676,055
Transportation & Construction Systems	519,389	131,207	46,911	1,471,865
Environment & Infrastructure	229,424	54,982	22,954	666,251
Media, ICT, Lifestyle Related Goods & Services	962,594	257,040	77,550	1,909,301
Mineral Resources, Energy, Chemical & Electronics	653,990	117,851	(17,200)	1,333,571
Overseas Subsidiaries and Branches	1,154,743	217,182	19,979	1,864,439
Total	4,005,288	845,620	160,160	7,921,482
Corporate and Eliminations	(8,314)	(2,922)	10,729	(159,688)
Consolidated	¥3,996,974	¥842,698	¥170,889	¥7,761,794

Segment	Millions of Yen			
	Revenue	Gross profit	Profit for the year (attributable to owners of the parent)	Total assets
Metal Products	¥ 556,422	¥ 77,331	¥ 12,030	¥ 674,150
Transportation & Construction Systems	591,070	175,595	73,960	1,509,303
Environment & Infrastructure	201,593	56,692	25,048	559,357
Media, ICT, Lifestyle Related Goods & Services	948,768	254,567	64,779	1,734,959
Mineral Resources, Energy, Chemical & Electronics	427,146	80,344	(151,612)	1,434,374
Overseas Subsidiaries and Branches	1,294,539	253,249	21,091	1,869,558
Total	4,019,538	897,778	45,296	7,781,701
Corporate and Eliminations	(8,730)	(3,721)	29,250	36,117
Consolidated	¥4,010,808	¥894,057	¥ 74,546	¥7,817,818

Segment	Millions of U.S. Dollars			
	Revenue	Gross profit	Profit for the year (attributable to owners of the parent)	Total assets
Metal Products	\$ 4,371	\$ 607	\$ 90	\$ 6,091
Transportation & Construction Systems	4,679	1,182	422	13,260
Environment & Infrastructure	2,067	495	207	6,002
Media, ICT, Lifestyle Related Goods & Services	8,672	2,316	699	17,201
Mineral Resources, Energy, Chemical & Electronics	5,892	1,062	(155)	12,014
Overseas Subsidiaries and Branches	10,403	1,956	180	16,797
Total	36,084	7,618	1,443	71,365
Corporate and Eliminations	(75)	(26)	97	(1,439)
Consolidated	\$36,009	\$7,592	\$1,540	\$69,926

On April 1, 2016, a part of Battery business was transferred from Environment & Infrastructure Business Unit to Transportation & Construction Systems Business Unit.

The segment information of the previous year has also been reclassified.

Corporate assets consist primarily of cash and cash equivalents and marketable securities maintained by corporate headquarters that are not related to specific operating segments.

Profit for the year attributable to owners of the parent in Corporate and Eliminations includes certain profits and losses that are not allocated to operating segments and intersegment eliminations. Certain profits and losses in Corporate and Eliminations are reallocated once the Company determines their attributable operating segments.

Transactions between segments are made on an arm's-length basis.

In the year ended March 31, 2016, impairment losses in the Grain business in Australia were recognized in the Media, ICT, Lifestyle Related Goods & Services segment. The post-tax impact to the Profit for the year attributable to owners of the parent was a loss of ¥9,840 million.

In the year ended March 31, 2017, impairment losses in the Copper and molybdenum mining business in Chile were recognized in the Mineral Resources, Energy, Chemical & Electronics segment, which post-tax impact to the Profit for the year attributable to owners of the parent was a loss of ¥33,597 million (\$303 million). In the year ended March 31, 2016, impairment losses in the Nickel mining and refining business in Madagascar, the Iron ore mining project in South

Africa and the Iron ore mining project in Brazil were recognized in the Mineral Resources, Energy, Chemical & Electronics segment. The post-tax impact of such impairment losses to the Profit for the year attributable to owners of the parent was a loss of ¥156,764 million in total.

In the year ended March 31, 2016, impairment losses in the Edgen Group and the Grain business in Australia were recognized in the Overseas Subsidiaries and Branches segment, which post-tax impact to the Profit for the year attributable to owners of the parent was a loss of ¥23,550 million in total.

## (2) Geographic Information

The Companies' revenue by geographical areas for the years ended March 31, 2017 and 2016 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Japan	<b>¥1,706,352</b>	¥1,596,720	<b>\$15,372</b>
Asia	<b>659,092</b>	570,274	<b>5,938</b>
North America:			
U.S.	<b>821,613</b>	1,024,039	<b>7,402</b>
Others	<b>166,791</b>	176,938	<b>1,503</b>
Europe	<b>440,035</b>	427,726	<b>3,964</b>
Others	<b>203,091</b>	215,111	<b>1,830</b>
Total	<b>¥3,996,974</b>	¥4,010,808	<b>\$36,009</b>

The carrying amount of non-current assets, excluding Financial assets and Deferred tax assets, by geographical areas as of March 31, 2017 and 2016 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Japan	<b>¥ 568,403</b>	¥ 546,588	<b>\$ 5,121</b>
Asia	<b>46,241</b>	53,921	<b>417</b>
North America:			
U.S.	<b>443,812</b>	432,450	<b>3,998</b>
Others	<b>15,842</b>	15,500	<b>143</b>
Europe	<b>278,793</b>	192,457	<b>2,512</b>
Others	<b>147,274</b>	156,297	<b>1,327</b>
Total	<b>¥1,500,365</b>	¥1,397,213	<b>\$13,518</b>

Breakdown by products and services are not available.

## 5 | Acquisition of Subsidiaries

### For the year ended March 31, 2017

On February 17, 2017, the Company acquired the entire share capital of Fyffes plc, an international produce marketer and distributor in Ireland, by means of Scheme of Arrangement under Irish law. The acquisition was executed with the purposes of enhancing the corporate value by further utilizing Fyffes's customer base and distribution networks and formulating more effective supply chains.

The aggregated acquisition-date fair value of the consideration transferred, assets acquired and liabilities assumed and non-controlling interests are as follows. The consideration transferred was paid fully in cash.

As the purchase price allocation is incomplete as of the issuance date of the consolidated financial statements, the Company reports provisional amounts for the items for which the acquisition accounting is incomplete as of March 31, 2017.

	Millions of Yen	Millions of U.S. Dollars
Fair value of the consideration transferred	<b>¥ 91,391</b>	<b>\$ 823</b>
Cash and cash equivalents	<b>7,911</b>	<b>71</b>
Trade and other receivables	<b>14,996</b>	<b>135</b>
Other current assets	<b>16,651</b>	<b>150</b>
Property, plant and equipment	<b>23,975</b>	<b>216</b>
Intangible assets	<b>15,365</b>	<b>139</b>
Other non-current assets	<b>5,918</b>	<b>53</b>
Current liabilities	<b>(21,748)</b>	<b>(196)</b>
Non-current liabilities	<b>(27,660)</b>	<b>(249)</b>
Net assets	<b>35,408</b>	<b>319</b>
Non-controlling interests	<b>(261)</b>	<b>(2)</b>
Goodwill	<b>56,244</b>	<b>506</b>
Total	<b>¥ 91,391</b>	<b>\$ 823</b>

Goodwill consists primarily of future economic benefits and is recognized in the Media, ICT, Lifestyle Related Goods & Services Business Unit. The acquisition-related costs of ¥1,944 million (\$18 million) are included in "Selling, general and administrative expenses" in the Consolidated statement of comprehensive income for the year ended March 31, 2017.

### For the year ended March 31, 2016

Business combinations during the year ended March 31, 2016 mainly consisted of multifaceted distribution of products and services offered to farmers in the Brazilian agribusiness. The aggregated acquisition-date fair value of the consideration transferred which consisted of cash, the previously held equity interest, assets acquired and liabilities assumed, and non-controlling interests were as follows. The consideration transferred was paid fully in cash.

	Millions of Yen
Fair value of the consideration transferred	¥ 6,334
Fair value of the previously held equity interest	11,091
Total	17,425
Total assets	54,498
Total liabilities	(39,950)
Net assets	14,548
Non-controlling interests	(1,387)
Goodwill	4,264
Total	¥ 17,425

Goodwill consists primarily of future economic benefits and synergies with existing operations.

Non-controlling interests were measured at the ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets.

## 6 | Marketable Securities and Other Investments

The amounts of “Marketable securities” and “Other investments” in the Consolidated statement of financial position are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Marketable securities:			
FVTPL	¥ 3,967	¥ 4,048	\$ 36
Amortized cost	680	700	6
Total	4,647	4,748	42
Other investments:			
FVTPL	17,312	25,335	156
FVTOCI	414,543	380,050	3,735
Amortized cost	5,307	5,345	47
Total	¥437,162	¥410,730	\$3,938

The fair values of “Marketable securities” and “Other investments” measured at amortized cost as of March 31, 2017 and 2016 are ¥5,987 million (\$54 million) and ¥6,045 million, respectively.

The Companies classify investments as financial assets measured at FVTOCI when those investments are held for the objective, such as expansion of the medium and long-term revenue through maintenance and reinforcement of relationships with investees.

The fair value and dividends received from “Other investments” measured at FVTOCI held as of March 31, 2017 and 2016 are as follows:

	Millions of Yen				Millions of U.S. Dollars	
	2017		2016		2017	
	Fair value	Dividends	Fair value	Dividends	Fair value	Dividends
Listed	¥339,168	¥5,347	¥297,546	¥6,405	\$3,056	\$49
Unlisted	75,375	3,674	82,504	2,087	679	33
Total	¥414,543	¥9,021	¥380,050	¥8,492	\$3,735	\$82

The fair values of “Other investments” measured at FVTOCI as of March 31, 2017 mainly consist of the following:

	Millions of Yen	Millions of U.S. Dollars
	2017	2017
NIPPON STEEL & SUMITOMO METAL CORPORATION	¥46,860	\$422
YAMAZAKI BAKING CO., LTD.	21,423	193
TOYOTA MOTOR CORPORATION	20,250	182
Asahi Group Holdings, Ltd.	16,875	152
Sumitomo Realty & Development Co., LTD.	14,912	134
DAIKIN INDUSTRIES, LTD.	12,733	115
Sumitomo Metal Mining Co., Ltd.	11,085	100
MS&AD Insurance Group Holdings, Inc.	10,620	96
NISSHIN SEIFUN GROUP INC.	10,118	91
Mazda Motor Corporation	9,755	88
Sumitomo Electric Industries, Ltd.	9,245	83
Sumitomo Rubber Industries, Ltd.	9,114	82
Sumitomo Forestry Co., Ltd.	7,408	67
Dai-ichi Life Holdings, Inc.	7,335	66
YAMATO KOGYO CO., LTD.	7,068	64
SUMITOMO HEAVY INDUSTRIES, LTD.	5,790	52
KATO SANGYO CO., LTD.	5,515	50
INTERNATIONAL STEELS LIMITED	5,497	50
NICHIHA CORPORATION	5,240	47
SKY Perfect JSAT Holdings Inc.	5,231	47
Daikyo Nishikawa Corporation	5,214	47
ISUZU MOTORS LIMITED	5,029	45

The fair values of “Other investments” measured at FVTOCI as of March 31, 2016 mainly consist of the following:

	Millions of Yen
	2016
NIPPON STEEL & SUMITOMO METAL CORPORATION	¥39,498
YAMAZAKI BAKING CO., LTD.	22,181
TOYOTA MOTOR CORPORATION	19,948
Sumitomo Realty & Development Co., LTD.	17,020
Asahi Group Holdings, Ltd.	14,064
NISSHIN SEIFUN GROUP INC.	10,898
Mazda Motor Corporation	10,628
DAIKIN INDUSTRIES, LTD.	9,576
MS&AD Insurance Group Holdings, Inc.	9,408
Sumitomo Rubber Industries, Ltd.	8,355
Sumitomo Metal Mining Co., Ltd.	7,823
SKY Perfect JSAT Holdings Inc.	7,290
Sumitomo Electric Industries, Ltd.	6,856
YAMATO KOGYO CO., LTD.	6,012
Daikyo Nishikawa Corporation	5,771
Sumitomo Forestry Co., Ltd.	5,667
KATO SANGYO CO., LTD.	5,374
The Dai-ichi Life Insurance Company, Limited	5,006
SAWAI PHARMACEUTICAL CO., LTD.	4,464
ISUZU MOTORS LIMITED	3,968
HONDA MOTOR CO., LTD.	3,703
SUMITOMO HEAVY INDUSTRIES, LTD.	3,469
Sumitomo Osaka Cement Co., Ltd.	3,176

“Other investments” measured at FVTOCI which were disposed of during the years ended March 31, 2017 and 2016 are as follows:

Millions of Yen						Millions of U.S. Dollars		
2017			2016			2017		
Fair value at the date of sale	Cumulative gains or (losses)	Dividends	Fair value at the date of sale	Cumulative gains or (losses)	Dividends	Fair value at the date of sale	Cumulative gains or (losses)	Dividends
<b>¥7,250</b>	<b>¥(11,714)</b>	<b>¥252</b>	¥21,761	¥6,309	¥221	<b>\$65</b>	<b>\$(106)</b>	<b>\$2</b>

The Companies sold or exchanged the investments mainly as a result of reviewing business relationships or as a result of business combinations in the investees. In connection with the disposal, the Companies reclassified cumulative gains (net of tax) of ¥1,410 million (\$13 million) and ¥5,594 million from Other components of equity to Retained earnings for the years ended March 31, 2017 and 2016, respectively.

For financial assets measured at FVTOCI of which the decline in fair value compared to its acquisition cost is significant and other than temporary, the Companies reclassified cumulative losses (net of tax) of ¥9,558 million (\$86 million) and ¥2,279 million from Other components of equity to Retained earnings for the years ended March 31, 2017 and 2016, respectively.

## 7 | Trade and Other Receivables

The components of Trade and other receivables as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Notes receivable	<b>¥ 60,197</b>	¥ 62,302	<b>\$ 542</b>
Accounts receivable	<b>1,007,951</b>	960,534	<b>9,081</b>
Receivables due from equity-accounted investees	<b>165,194</b>	200,593	<b>1,488</b>
Loans receivable	<b>126,806</b>	156,609	<b>1,142</b>
Finance lease receivable	<b>270,805</b>	302,892	<b>2,440</b>
Other receivables	<b>74,552</b>	86,414	<b>671</b>
Less: Allowance for doubtful receivables	<b>(26,645)</b>	(25,839)	<b>(240)</b>
Trade and other receivables	<b>¥1,678,860</b>	¥1,743,505	<b>\$15,124</b>

Financial assets measured at FVTPL of ¥24,706 million (\$222 million) and ¥29,383 million are included in Accounts receivable as of March 31, 2017 and 2016, respectively.

The components of Trade and other receivables in the Consolidated statement of financial position as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Current assets	<b>¥1,206,398</b>	¥1,204,650	<b>\$10,868</b>
Non-current assets	<b>472,462</b>	538,855	<b>4,256</b>
Total	<b>¥1,678,860</b>	¥1,743,505	<b>\$15,124</b>

Trade and other receivables by operating segment as of March 31, 2017 and 2016 are summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Metal Products	<b>¥ 241,155</b>	¥ 235,364	<b>\$ 2,172</b>
Transportation & Construction Systems	<b>273,280</b>	276,235	<b>2,462</b>
Environment & Infrastructure	<b>319,154</b>	296,485	<b>2,875</b>
Media, ICT, Lifestyle Related Goods & Services	<b>215,915</b>	226,080	<b>1,945</b>
Mineral Resources, Energy, Chemical & Electronics	<b>465,442</b>	484,092	<b>4,193</b>
Others	<b>163,914</b>	225,249	<b>1,477</b>
Trade and other receivables	<b>¥1,678,860</b>	¥1,743,505	<b>\$15,124</b>

Certain notes receivables derived mainly from export transactions are transferred to banks on a discounted basis. The Companies are liable to the banks for defaults by the note issuer. As such, the Companies continue to recognize the discounted notes receivables of ¥4,411 million (\$40 million) and ¥10,538 million as of March 31, 2017 and 2016, respectively, and these discounted notes are presented in "Trade and other receivables" in the Consolidated statement of financial position. The associated liabilities are presented in "Bonds and borrowings."

Allowance for doubtful receivables is recognized against the receivables based on estimated irrecoverable amounts determined by considering individual customers' risk factors such as historical performance, recent developments, changes in original terms, internal risk-ratings, industry trends and other specific factors as well as general risk factors, including sovereign risk of the country where the customer resides. Credit insurance and collateral obtained are also considered in the estimation of irrecoverable amounts.

Movements in Allowance for doubtful receivables for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	<b>¥25,839</b>	¥ 31,853	<b>\$233</b>
Impairment losses	<b>2,278</b>	10,396	<b>21</b>
Charge-off	<b>(1,391)</b>	(14,759)	<b>(13)</b>
Exchange differences on translating foreign operations	<b>(81)</b>	(1,651)	<b>(1)</b>
Balance, end of year	<b>¥26,645</b>	¥ 25,839	<b>\$240</b>

As of March 31, 2017 and 2016, the total gross amount of impaired trade and other receivables is ¥16,494 million (\$149 million) and ¥17,821 million, respectively and the cumulative impairment losses recognized as of March 31, 2017 and 2016 are ¥12,827 million (\$116 million) and ¥13,237 million, respectively.

The age of trade and other receivables that are past due but not impaired as of March 31, 2017 and 2016 is as follows:

Receivables disclosed below include amounts considered recoverable through credit insurance and collateral and are not considered to be impaired as of March 31, 2017 and 2016.

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Past due within 90 days	<b>¥103,268</b>	¥ 79,274	<b>\$ 931</b>
Past due over 90 days until 1 year	<b>14,129</b>	20,669	<b>127</b>
Past due over 1 year	<b>17,968</b>	16,301	<b>162</b>
Total	<b>¥135,365</b>	¥116,244	<b>\$1,220</b>

## 8 | Leases

### (1) As lessor

The Companies lease office buildings, vessels, aircraft engines and certain other assets to third parties under cancelable or non-cancelable operating leases. Costs of the leased properties as of March 31, 2017 and 2016 are ¥457,586 million (\$4,122 million) and ¥370,757 million, respectively.

Accumulated depreciation and accumulated impairment losses as of March 31, 2017 and 2016 are ¥98,488 million (\$887 million) and ¥77,235 million, respectively. These assets are included in "Property, plant and equipment," "Intangible assets," and "Investment property" in the Consolidated statement of financial position.

Future minimum lease payments receivable under non-cancelable operating leases as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Due in 1 year or less	<b>¥28,190</b>	¥23,529	<b>\$254</b>
Due after 1 year through 5 years	<b>71,893</b>	52,044	<b>648</b>
Due after 5 years	<b>47,012</b>	37,172	<b>424</b>

The Companies lease automobiles, vessels, power stations, service equipment and other assets under arrangements which are classified as finance leases under International Accounting Standard No.17 *Leases* ("IAS 17"). The significant leased item is a coal-fired thermal power plant owned by the Companies in Indonesia and currently leased to the Indonesian state-owned electricity corporation.

Future receivable under finance leases as of March 31, 2017 and 2016 are as follows:

	Minimum lease payments receivable		Millions of U.S. Dollars
	Millions of Yen		
	2017	2016	2017
Due in 1 year or less	<b>¥ 81,817</b>	¥ 82,867	<b>\$ 737</b>
Due after 1 year through 5 years	<b>188,131</b>	204,996	<b>1,695</b>
Due after 5 years	<b>83,427</b>	115,855	<b>752</b>
Unguaranteed residual value	<b>4,479</b>	5,371	<b>40</b>
Less: Future finance income	<b>(87,049)</b>	(106,197)	<b>(784)</b>
Net investment in the lease	<b>¥270,805</b>	¥ 302,892	<b>\$2,440</b>

	Net investment in the lease		Millions of U.S. Dollars
	Millions of Yen		
	2017	2016	2017
Due in 1 year or less	<b>¥ 74,081</b>	¥ 75,433	<b>\$ 667</b>
Due after 1 year through 5 years	<b>145,913</b>	159,143	<b>1,315</b>
Due after 5 years	<b>47,865</b>	65,231	<b>431</b>
Unguaranteed residual value	<b>2,946</b>	3,085	<b>27</b>

Contingent rental income recognized in profit for the years ended March 31, 2017 and 2016 are ¥12,400 million (\$112 million) and ¥11,172 million, respectively.

### (2) As lessee

The Companies lease office buildings, vessels, and certain other assets under cancelable or non-cancelable operating leases. Total rental expenses under such leases for the years ended March 31, 2017 and 2016 are ¥73,655 million (\$664 million) and ¥77,776 million, respectively.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Due in 1 year or less	<b>¥ 46,155</b>	¥ 45,224	<b>\$ 416</b>
Due after 1 year through 5 years	<b>150,581</b>	137,902	<b>1,357</b>
Due after 5 years	<b>196,583</b>	197,759	<b>1,771</b>

The Companies also lease machinery and equipment and other assets under arrangements which are classified as finance leases under IAS 17. Costs of the leased properties as of March 31, 2017 and 2016 are ¥92,580 million (\$834 million) and ¥93,014 million, respectively. Accumulated depreciation

and accumulated impairment losses as of March 31, 2017 and 2016 are ¥35,334 million (\$318 million) and ¥33,072 million, respectively. These assets are included in "Property, plant and equipment" and "Intangible assets" in the Consolidated statement of financial position.

Future payments under finance leases as of March 31, 2017 and 2016 are as follows:

	Minimum lease payments		
	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Due in 1 year or less	¥ 22,093	¥ 16,065	\$ 199
Due after 1 year through 5 years	53,923	63,072	486
Due after 5 years	44,592	49,813	402
Less: Future finance cost	(34,514)	(38,576)	(311)
Present value of minimum lease payments	¥ 86,094	¥ 90,374	\$ 776

	Present value of minimum lease payments		
	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Due in 1 year or less	¥21,205	¥14,648	\$191
Due after 1 year through 5 years	45,621	52,763	411
Due after 5 years	19,268	22,963	174

The total amount of lease payments included in "Cost" for the years ended March 31, 2017 and 2016 are ¥12,137 million (\$109 million) and ¥12,334 million, respectively.

## 9 | Assets Pledged as Security

Assets pledged to secure borrowings, guarantee of contracts and others as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Cash and deposits	¥ 52,714	¥ 46,684	\$ 475
Marketable securities and investments	153,135	153,257	1,380
Trade and other receivables	350,247	394,491	3,155
Inventories	23,471	25,455	211
Property, plant and equipment (Carrying amount)	70,554	72,409	636
Investment property (Carrying amount)	21,249	20,552	191
Total	¥671,370	¥712,848	\$6,048

Trust receipts issued under customary import financing arrangements give recipient banks a security interest in the merchandise imported and/or the accounts receivable or sales proceeds resulting from the sales of such merchandise. The Companies repay the related notes and acceptances payable at the maturity dates without applying the sales proceeds to specific notes or acceptances. The large volume of transactions makes it impracticable to determine the aggregate amounts of assets covered by outstanding trust receipts.

## 10 | Inventories

The components of Inventories as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Real estate held for development and resale	¥101,728	¥ 82,229	\$ 917
Commodities	632,744	633,670	5,700
Materials/work in progress	96,399	91,472	868
Inventories	¥830,871	¥807,371	\$7,485

The carrying amounts of Inventories measured at fair value less costs to sell as of March 31, 2017 and 2016 are ¥51,433 million (\$463 million) and ¥45,671 million, respectively.

The write-down of Inventories recognized as expense for the years ended March 31, 2017 and 2016 are ¥10,119 million (\$91 million) and ¥12,895 million, respectively.

## 11 | Investments Accounted for Using the Equity Method

### (1) Investments in Associates

Summarized financial information for the Companies' interest in associates, based on the amounts reported in the Companies' consolidated financial statements as of, and for the years ended, March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Total carrying amount	<b>¥1,422,451</b>	¥1,381,937	<b>\$12,815</b>

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Profit for the year	<b>¥114,277</b>	¥65,299	<b>\$1,029</b>
Other comprehensive income	<b>4,648</b>	(5,642)	<b>42</b>
Comprehensive income for the year	<b>¥118,925</b>	¥59,657	<b>\$1,071</b>

In Iron ore mining project in South Africa, an impairment loss of ¥18,338 million was recognized based on revision of a medium and long-term iron ore price to approximately US \$60/MT which was applied to the long-term business plan due to the decline in the current iron ore price for the year ended March 31, 2016. Impairment losses of ¥17,378 million and ¥960 million were recognized in the Mineral Resources, Energy, Chemical & Electronics segment and the Overseas Subsidiaries and Branches segment, respectively. The impairment loss was included in "Share of profit (loss) of investments accounted for using the equity method" in the Consolidated statement of comprehensive income.

The major associated company accounted for using the equity method included in the summarized financial information above is Sumitomo Mitsui Finance and Leasing Company, Limited (40% owned).

### Sumitomo Mitsui Finance and Leasing Company, Limited

Sumitomo Mitsui Finance and Leasing Company, Limited's summarized financial information as of, and for the years ended, March 31, 2017 and 2016 are as follows:

Note that the following summarized financial information includes the amount of goodwill to Sumitomo Mitsui Finance and Leasing Company, Limited and other figures.

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Current assets	<b>¥3,379,865</b>	¥2,784,705	<b>\$30,449</b>
Non-current assets	<b>2,378,459</b>	2,097,701	<b>21,428</b>
Total assets	<b>¥5,758,324</b>	¥4,882,406	<b>\$51,877</b>
Current liabilities	<b>¥2,650,399</b>	¥2,078,582	<b>\$23,877</b>
Non-current liabilities	<b>2,195,651</b>	1,954,788	<b>19,781</b>
Total liabilities	<b>¥4,846,050</b>	¥4,033,370	<b>\$43,658</b>
Non-controlling interests	<b>¥ 101,719</b>	¥ 89,079	<b>\$ 917</b>
Equity	<b>810,555</b>	759,958	<b>7,302</b>
Total equity	<b>¥ 912,274</b>	¥ 849,037	<b>\$ 8,219</b>

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Revenues	<b>¥571,878</b>	¥480,087	<b>\$5,152</b>
Profit for the year	<b>67,022</b>	47,447	<b>604</b>
Other comprehensive income	<b>1,232</b>	(13,537)	<b>11</b>
Comprehensive income for the year	<b>¥ 68,254</b>	¥ 33,910	<b>\$ 615</b>

Sumitomo Mitsui Finance and Leasing Company, Limited engages in a variety of financial services including leasing. The dividends which the Company received from Sumitomo Mitsui Finance and Leasing Company, Limited for the years ended March 31, 2017 and 2016 are ¥7,326 million (\$66 million) and ¥8,029 million, respectively.

## (2) Investments in Joint Ventures

Summarized financial information for the Companies' interest in joint ventures, based on the amounts reported in the Companies' consolidated financial statements as of, and for the years ended, March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Total carrying amount	<b>¥448,484</b>	¥509,831	<b>\$4,040</b>

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Profit (loss) for the year	<b>¥(30,820)</b>	¥(119,114)	<b>\$(278)</b>
Other comprehensive income	<b>872</b>	(136)	<b>8</b>
Comprehensive income for the year	<b>¥(29,948)</b>	¥(119,250)	<b>\$(270)</b>

In Copper and molybdenum mining business in Chile, an impairment loss of ¥33,601 million (\$303 million) is recognized as a result of revision of a medium and long-term copper price to slightly less than US \$3/lb which is applied to the long-term business plan based on the current performance of mining operation and the medium and long-term trend in copper prices. Impairment losses of ¥33,597 million (\$303 million) and ¥4 million (\$0 million) are recognized in the Mineral Resources, Energy, Chemical & Electronics segment and the Overseas Subsidiaries and Branches segment, respectively.

The impairment loss is included in "Share of profit (loss) of investments accounted for using the equity method" in the Consolidated statement of comprehensive income.

In Nickel mining and refining businesses in Madagascar, as a result of revision to the medium and long-term price forecasts of US \$8.5/lb due to the current decline in nickel prices, an impairment loss of ¥77,031 million was recognized in the Mineral Resources, Energy, Chemical & Electronics segment. In Iron ore mining project in Brazil, an impairment loss

of ¥14,572 million was recognized based on revision of a medium and long-term iron ore price to approximately US \$60/MT which was applied to the long-term business plan due to the decline in the current iron ore price. Impairment losses of ¥14,208 million and ¥364 million were recognized in the Mineral Resources, Energy, Chemical & Electronics segment and the Overseas Subsidiaries and Branches segment, respectively. In Copper and molybdenum mining business in Chile, an impairment loss of ¥14,039 million was recognized based on revision of a medium and long-term copper price to approximately US \$3/lb which was applied to the long-term business plan due to the decline in the current copper price. Impairment losses of ¥14,031 million and ¥8 million were recognized in the Mineral Resources, Energy, Chemical & Electronics segment and the Overseas Subsidiaries and Branches segment, respectively.

The impairment loss was included in "Share of profit (loss) of investments accounted for using the equity method" in the Consolidated statement of comprehensive income.

## (3) Summary of Transactions with Equity-accounted Investees

The Companies engage in various agency transactions between equity-accounted investees and third parties. Net fees earned on these transactions are not material.

Transactions with equity-accounted investees for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Management and secondment fees, received	<b>¥5,821</b>	¥ 5,441	<b>\$52</b>
Interest income	<b>6,679</b>	11,227	<b>60</b>
Interest expense	<b>76</b>	13	<b>1</b>

Transactions with equity-accounted investees stated above are made on an arm's length basis.

## 12 | Property, Plant and Equipment

Cost and accumulated depreciation and impairment losses of Property, plant and equipment as of March 31, 2017 and 2016 are as follows:

### [Cost]

	Millions of Yen					
	Land and land improvements	Buildings including leasehold improvements	Machinery and equipment	Projects in progress	Mining rights	Total
Balance as of April 1, 2015	¥99,483	¥326,981	¥857,876	¥ 77,383	¥ 404,873	¥1,766,596
Acquisitions	1,982	13,224	102,063	41,500	5,893	164,662
Reclassification	(7,180)	15,310	60,867	(83,008)	(5,211)	(19,222)
Acquisitions through business combinations	–	–	537	6	–	543
Deconsolidation of subsidiaries	(751)	(4,255)	(78,656)	(1,635)	(1)	(85,298)
Disposals	(1,479)	(4,810)	(39,401)	(570)	(35,860)	(82,120)
Exchange differences on translating foreign operations	(2,721)	(11,991)	(52,370)	(1,593)	(3,189)	(71,864)
Others	(116)	1,163	2,938	(1,138)	783	3,630
Balance as of March 31, 2016	¥89,218	¥335,622	¥853,854	¥ 30,945	¥ 367,288	¥1,676,927
Acquisitions	<b>427</b>	<b>8,191</b>	<b>69,434</b>	<b>47,104</b>	<b>1,813</b>	<b>126,969</b>
Reclassification	<b>727</b>	<b>10,129</b>	<b>2,286</b>	<b>(21,491)</b>	<b>(593)</b>	<b>(8,942)</b>
Acquisitions through business combinations	<b>6,852</b>	<b>9,450</b>	<b>7,803</b>	–	–	<b>24,105</b>
Deconsolidation of subsidiaries	<b>(1,927)</b>	<b>(5,504)</b>	<b>(21,998)</b>	<b>(247)</b>	<b>(5,906)</b>	<b>(35,582)</b>
Disposals	<b>(3,484)</b>	<b>(7,838)</b>	<b>(20,056)</b>	<b>(978)</b>	<b>(101,109)</b>	<b>(133,465)</b>
Exchange differences on translating foreign operations	<b>(238)</b>	<b>(2,417)</b>	<b>(9,226)</b>	<b>(317)</b>	<b>(28,175)</b>	<b>(40,373)</b>
Others	<b>(122)</b>	<b>2,405</b>	<b>627</b>	<b>(1,240)</b>	<b>(2,290)</b>	<b>(620)</b>
Balance as of March 31, 2017	<b>¥91,453</b>	<b>¥350,038</b>	<b>¥882,724</b>	<b>¥ 53,776</b>	<b>¥ 231,028</b>	<b>¥1,609,019</b>

	Millions of U.S. Dollars					
	Land and land improvements	Buildings including leasehold improvements	Machinery and equipment	Projects in progress	Mining rights	Total
Balance as of March 31, 2016	\$803	\$3,024	\$7,692	\$ 279	\$3,309	\$15,107
Acquisitions	<b>4</b>	<b>74</b>	<b>626</b>	<b>424</b>	<b>16</b>	<b>1,144</b>
Reclassification	<b>7</b>	<b>91</b>	<b>21</b>	<b>(194)</b>	<b>(5)</b>	<b>(80)</b>
Acquisitions through business combinations	<b>62</b>	<b>85</b>	<b>70</b>	–	–	<b>217</b>
Deconsolidation of subsidiaries	<b>(17)</b>	<b>(50)</b>	<b>(198)</b>	<b>(2)</b>	<b>(53)</b>	<b>(320)</b>
Disposals	<b>(31)</b>	<b>(70)</b>	<b>(181)</b>	<b>(9)</b>	<b>(911)</b>	<b>(1,202)</b>
Exchange differences on translating foreign operations	<b>(2)</b>	<b>(22)</b>	<b>(83)</b>	<b>(3)</b>	<b>(254)</b>	<b>(364)</b>
Others	<b>(2)</b>	<b>22</b>	<b>6</b>	<b>(11)</b>	<b>(21)</b>	<b>(6)</b>
Balance as of March 31, 2017	<b>\$824</b>	<b>\$3,154</b>	<b>\$7,953</b>	<b>\$ 484</b>	<b>\$2,081</b>	<b>\$14,496</b>

### [Accumulated depreciation and impairment losses]

	Millions of Yen				
	Land and land improvements	Buildings including leasehold improvements	Machinery and equipment	Mining rights	Total
Balance as of April 1, 2015	¥(2,450)	¥(149,306)	¥(401,133)	¥(328,941)	¥(881,830)
Deconsolidation of subsidiaries	–	1,139	13,095	–	14,234
Disposals	23	3,944	23,750	35,187	62,904
Depreciation expenses	–	(16,250)	(69,698)	(9,461)	(95,409)
Impairment losses	(265)	(1,217)	(9,090)	(13,496)	(24,068)
Exchange differences on translating foreign operations	13	4,279	22,873	2,311	29,476
Others	1,108	(511)	(755)	2,933	2,775
Balance as of March 31, 2016	¥(1,571)	¥(157,922)	¥(420,958)	¥(311,467)	¥(891,918)
Deconsolidation of subsidiaries	<b>368</b>	<b>4,975</b>	<b>20,650</b>	<b>5,752</b>	<b>31,745</b>
Disposals	<b>235</b>	<b>4,151</b>	<b>13,832</b>	<b>91,220</b>	<b>109,438</b>
Depreciation expenses	–	<b>(16,425)</b>	<b>(63,920)</b>	<b>(5,061)</b>	<b>(85,406)</b>
Impairment losses	<b>(28)</b>	<b>(2,060)</b>	<b>(7,592)</b>	<b>(68)</b>	<b>(9,748)</b>
Exchange differences on translating foreign operations	<b>6</b>	<b>884</b>	<b>3,638</b>	<b>23,407</b>	<b>27,935</b>
Others	<b>167</b>	<b>480</b>	<b>3,332</b>	<b>813</b>	<b>4,792</b>
Balance as of March 31, 2017	<b>¥ (823)</b>	<b>¥(165,917)</b>	<b>¥(451,018)</b>	<b>¥(195,404)</b>	<b>¥(813,162)</b>

	Millions of U.S. Dollars				
	Land and land improvements	Buildings including leasehold improvements	Machinery and equipment	Mining rights	Total
Balance as of March 31, 2016	\$(14)	\$(1,423)	\$(3,792)	\$(2,806)	\$(8,035)
Deconsolidation of subsidiaries	<b>3</b>	<b>45</b>	<b>186</b>	<b>52</b>	<b>286</b>
Disposals	<b>2</b>	<b>37</b>	<b>125</b>	<b>822</b>	<b>986</b>
Depreciation expenses	–	<b>(147)</b>	<b>(576)</b>	<b>(46)</b>	<b>(769)</b>
Impairment losses	<b>(0)</b>	<b>(19)</b>	<b>(69)</b>	<b>(0)</b>	<b>(88)</b>
Exchange differences on translating foreign operations	<b>0</b>	<b>8</b>	<b>33</b>	<b>211</b>	<b>252</b>
Others	<b>2</b>	<b>4</b>	<b>29</b>	<b>7</b>	<b>42</b>
Balance as of March 31, 2017	<b>\$ (7)</b>	<b>\$(1,495)</b>	<b>\$(4,064)</b>	<b>\$(1,760)</b>	<b>\$(7,326)</b>

### [Carrying amount]

	Land and land improvements	Buildings including leasehold improvements	Machinery and equipment	Projects in progress	Mining rights	Total
2017 (Millions of Yen)	<b>¥90,630</b>	<b>¥184,121</b>	<b>¥431,706</b>	<b>¥53,776</b>	<b>¥35,624</b>	<b>¥795,857</b>
2016 (Millions of Yen)	¥87,647	¥177,700	¥432,896	¥30,945	¥55,821	¥785,009
2017 (Millions of U.S. Dollars)	<b>\$817</b>	<b>\$1,659</b>	<b>\$3,889</b>	<b>\$484</b>	<b>\$321</b>	<b>\$7,170</b>

The losses recognized from impairment are included in “Impairment losses on long-lived assets” in the Consolidated statement of comprehensive income.

These impairment losses by operating segment for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Metal Products	<b>¥ (88)</b>	¥ (70)	<b>\$ (1)</b>
Transportation & Construction Systems	<b>(5,223)</b>	(2,338)	<b>(47)</b>
Environment & Infrastructure	–	(18)	–
Media, ICT, Lifestyle Related Goods & Services	<b>(1,845)</b>	(1,479)	<b>(17)</b>
Mineral Resources, Energy, Chemical & Electronics	<b>(277)</b>	(17,301)	<b>(2)</b>
Overseas Subsidiaries and Branches	<b>(2,315)</b>	(2,838)	<b>(21)</b>
Corporate and Eliminations	–	(24)	–
Total	<b>¥(9,748)</b>	¥(24,068)	<b>\$(88)</b>

Impairment losses during the year ended March 31, 2016 mainly consisted of mining rights and machinery and equipment of Coal-mining project in Australia. Due to a decline in coal market price and revision to the long-term business plan, the asset's recoverable amount based on the present value of estimated future cash flows fell below its carrying amount. Those impairment losses were ¥12,079 million recognized in the Mineral Resources, Energy, Chemical & Electronics segment.

The carrying amounts of assets held under finance leases (net of accumulated depreciation expenses and impairment losses) included in "Property, plant and equipment" as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Buildings including leasehold improvements	<b>¥14,934</b>	¥14,015	<b>\$135</b>
Machinery and equipment	<b>¥41,952</b>	¥45,407	<b>\$378</b>

Depreciation expenses for property, plant and equipment are included in "Cost" and "Selling, general and administrative expenses" in the Consolidated statement of comprehensive income.

## 13 | Intangible Assets

### (1) Goodwill

Cost and accumulated impairment losses of goodwill for the years ended March 31, 2017 and 2016 are as follows:

#### [Cost]

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	<b>¥196,654</b>	¥205,360	<b>\$1,772</b>
Acquisitions through business combinations	<b>65,611</b>	3,399	<b>591</b>
Deconsolidation of subsidiaries	<b>(3,882)</b>	(1,787)	<b>(35)</b>
Exchange differences on translating foreign operations	<b>(2,123)</b>	(11,257)	<b>(19)</b>
Others	<b>(102)</b>	939	<b>(1)</b>
Balance, end of year	<b>¥256,158</b>	¥196,654	<b>\$2,308</b>

#### [Accumulated impairment losses]

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	<b>¥(75,927)</b>	¥(48,767)	<b>\$(684)</b>
Impairment losses	<b>(7,243)</b>	(30,399)	<b>(65)</b>
Deconsolidation of subsidiaries	<b>775</b>	862	<b>7</b>
Exchange differences on translating foreign operations	<b>218</b>	2,175	<b>2</b>
Others	<b>(49)</b>	202	<b>(1)</b>
Balance, end of year	<b>¥(82,226)</b>	¥(75,927)	<b>\$(741)</b>

The impairment losses recognized on goodwill for the years ended March 31, 2017 and 2016 are ¥7,243 million (\$65 million) and ¥30,399 million, respectively, and are included in "Impairment losses on long-lived assets" in the Consolidated statement of comprehensive income.

The impairment losses on goodwill during the year ended March 31, 2017 consist of mainly operations relating to Edgen Group. The impairment loss of ¥2,601 million (\$23 million) is recognized due to revision of the business plan resulting from stagnation of the oil prices. The impairment losses of ¥754 million (\$7 million) and ¥1,847 million (\$17 million) are recognized in the Metal Products segment and the Overseas Subsidiaries and Branches segment, respectively.

The impairment losses on goodwill during the year ended March 31, 2016 consisted of mainly operations relating to Edgen Group. The impairment loss of ¥19,884 million was recognized due to the decline in demand resulting from drop in the oil prices and revision of the long-term business plan. The impairment losses of ¥5,766 million and ¥14,118 million were recognized in the Metal Products segment and the Overseas Subsidiaries and Branches segment, respectively.

In the Grain business in Australia, the impairment loss of ¥9,824 million was recognized due to revision of the business plan, etc. The impairment losses of ¥8,723 million and ¥1,101 million were recognized in the Media, ICT, Lifestyle Related Goods & Services segment and the Overseas Subsidiaries and Branches segment, etc., respectively.

**[Carrying amount]**

	Carrying amount
2017 (Millions of Yen)	<b>¥173,932</b>
2016 (Millions of Yen)	¥120,727
2017 (Millions of U.S. Dollars)	<b>\$1,567</b>

Goodwill is tested for impairment annually or more frequently when there are indicators of impairment.

The recoverable amount of goodwill for the impairment test is calculated based on value in use.

Goodwill arising from business combinations is allocated to each of the Companies' CGU that is expected to benefit from the synergies of the business combination at the date of acquisition of the business.

The carrying amounts of goodwill by operating segments as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Metal Products	<b>¥ 12,118</b>	¥ 14,701	<b>\$ 109</b>
Transportation & Construction Systems	<b>20,513</b>	21,364	<b>185</b>
Environment & Infrastructure	-	-	-
Media, ICT, Lifestyle Related Goods & Services	<b>81,359</b>	20,106	<b>733</b>
Mineral Resources, Energy, Chemical & Electronics	<b>4,546</b>	4,424	<b>41</b>
Overseas Subsidiaries and Branches	<b>55,396</b>	60,132	<b>499</b>
Total	<b>¥173,932</b>	¥120,727	<b>\$1,567</b>

The value in use is the present value calculated by discounting the estimated cash flows based on the business plans approved by management and a growth rate. The business plans are not longer than five years in principle, and reflect the management assessments of future industry trends and historical data based on the external and internal information. The growth rate used is determined by considering the long term average growth rate of the market or the country which the CGU belongs to. The growth rate used does not exceed the long term average growth rate of the market or country (domestic: approximately 1% or less, overseas: approximately 5% or less). The discount rate used is calculated based on the weighted average capital cost or capital cost of each CGU (domestic: approximately 4 to 9%, overseas: approximately 6 to 20%).

Significant portions of goodwill included above as of March 31, 2017 are related to that of Fyffes plc, an international produce marketer and distributor in Ireland, of ¥65,167 million (\$587 million) and TBC Corporation of ¥36,508 million (\$329 million), respectively, and as of March 31, 2016 were related to TBC Corporation of ¥36,607 million and Edgen Group of ¥16,662 million, respectively.

There is a possibility that the impairment loss may be recognized for TBC Corporation if the key assumptions of the business plan change depending on the progress of the ongoing business transformation.

**(2) Other Intangible Assets**

Cost and accumulated depreciation and impairment losses of other intangible assets as of March 31, 2017 and 2016 are as follows:

**[Cost]**

	Millions of Yen			
	Software	Sales licenses, trademarks and customer relationships	Others	Total
Balance as of April 1, 2015	¥116,976	¥248,442	¥19,374	¥384,792
Acquisitions through business combinations	183	13,201	471	13,855
Separate acquisitions	9,264	1,015	2,865	13,144
Deconsolidation of subsidiaries	(1,778)	(4,972)	(267)	(7,017)
Disposals	(3,114)	(225)	(1,423)	(4,762)
Exchange differences on translating foreign operations	(1,470)	(14,624)	(1,941)	(18,035)
Others	1,687	177	(598)	1,266
Balance as of March 31, 2016	¥121,748	¥243,014	¥18,481	¥383,243
Acquisitions through business combinations	<b>4</b>	<b>8,656</b>	<b>11</b>	<b>8,671</b>
Separate acquisitions	<b>10,882</b>	<b>201</b>	<b>959</b>	<b>12,042</b>
Deconsolidation of subsidiaries	<b>(1,648)</b>	<b>(3,390)</b>	<b>(104)</b>	<b>(5,142)</b>
Disposals	<b>(2,543)</b>	<b>(247)</b>	<b>(2,941)</b>	<b>(5,731)</b>
Exchange differences on translating foreign operations	<b>(187)</b>	<b>(2,407)</b>	<b>(441)</b>	<b>(3,035)</b>
Others	<b>1,443</b>	<b>880</b>	<b>(854)</b>	<b>1,469</b>
Balance as of March 31, 2017	<b>¥129,699</b>	<b>¥246,707</b>	<b>¥15,111</b>	<b>¥391,517</b>

	Millions of U.S. Dollars			
	Software	Sales licenses, trademarks and customer relationships	Others	Total
Balance as of March 31, 2016	\$1,097	\$2,190	\$166	\$3,453
Acquisitions through business combinations	<b>0</b>	<b>78</b>	<b>0</b>	<b>78</b>
Separate acquisitions	<b>98</b>	<b>2</b>	<b>8</b>	<b>108</b>
Deconsolidation of subsidiaries	<b>(15)</b>	<b>(30)</b>	<b>(1)</b>	<b>(46)</b>
Disposals	<b>(23)</b>	<b>(3)</b>	<b>(26)</b>	<b>(52)</b>
Exchange differences on translating foreign operations	<b>(1)</b>	<b>(21)</b>	<b>(4)</b>	<b>(26)</b>
Others	<b>13</b>	<b>7</b>	<b>(7)</b>	<b>13</b>
Balance as of March 31, 2017	<b>\$1,169</b>	<b>\$2,223</b>	<b>\$136</b>	<b>\$3,528</b>

**[Accumulated amortization and impairment]**

	Millions of Yen			
	Software	Sales licenses, trademarks and customer relationships	Others	Total
Balance as of April 1, 2015	¥ (94,956)	¥(74,699)	¥ (6,292)	¥(175,947)
Disposals	2,801	215	173	3,189
Amortization expenses	(9,294)	(13,168)	(2,588)	(25,050)
Impairment losses	(400)	(156)	(1,998)	(2,554)
Deconsolidation of subsidiaries	1,543	419	66	2,028
Exchange differences on translating foreign operations	1,189	3,999	680	5,868
Others	(612)	(7)	(96)	(715)
Balance as of March 31, 2016	¥ (99,729)	¥(83,397)	¥(10,055)	¥(193,181)
Disposals	<b>2,394</b>	<b>249</b>	<b>2,932</b>	<b>5,575</b>
Amortization expenses	<b>(9,115)</b>	<b>(12,811)</b>	<b>(1,210)</b>	<b>(23,136)</b>
Impairment losses	<b>(10)</b>	<b>-</b>	<b>(149)</b>	<b>(159)</b>
Deconsolidation of subsidiaries	<b>1,024</b>	<b>1,852</b>	<b>54</b>	<b>2,930</b>
Exchange differences on translating foreign operations	<b>106</b>	<b>1,205</b>	<b>143</b>	<b>1,454</b>
Others	<b>100</b>	<b>(2,300)</b>	<b>627</b>	<b>(1,573)</b>
Balance as of March 31, 2017	<b>¥(105,230)</b>	<b>¥(95,202)</b>	<b>¥ (7,658)</b>	<b>¥(208,090)</b>

Millions of U.S. Dollars				
	Software	Sales licenses, trademarks and customer relationships	Others	Total
Balance as of March 31, 2016	\$(898)	\$(751)	\$(91)	\$(1,740)
Disposals	<b>21</b>	<b>2</b>	<b>27</b>	<b>50</b>
Amortization expenses	<b>(82)</b>	<b>(116)</b>	<b>(11)</b>	<b>(209)</b>
Impairment losses	<b>(0)</b>	-	<b>(1)</b>	<b>(1)</b>
Deconsolidation of subsidiaries	<b>9</b>	<b>17</b>	<b>0</b>	<b>26</b>
Exchange differences on translating foreign operations	<b>1</b>	<b>11</b>	<b>1</b>	<b>13</b>
Others	<b>1</b>	<b>(21)</b>	<b>6</b>	<b>(14)</b>
Balance as of March 31, 2017	<b>\$(948)</b>	<b>\$(858)</b>	<b>\$(69)</b>	<b>\$(1,875)</b>

**[Carrying amount]**

	Software	Sales licenses, trademarks and customer relationships	Others	Total
2017 (Millions of Yen)	<b>¥24,469</b>	<b>¥151,505</b>	<b>¥7,453</b>	<b>¥183,427</b>
2016 (Millions of Yen)	¥22,019	¥159,617	¥8,426	¥190,062
2017 (Millions of U.S. Dollars)	<b>\$221</b>	<b>\$1,365</b>	<b>\$67</b>	<b>\$1,653</b>

Significant portions of sales licenses, trademarks and customer relationships as of March 31, 2017 are related to TBC Corporation of ¥41,911 million (\$378 million; average remaining amortization period of 15 years), and as of March 31, 2016 were related to TBC Corporation of ¥47,557 million and Edgen Group of ¥45,324 million, respectively.

The impairment loss recognized on intangible assets for the year ended March 31, 2016 was ¥2,554 million, and was included in "Impairment losses on long-lived assets" in the Consolidated statement of comprehensive income. In the Grain business in Australia, the impairment loss of ¥2,280 million was recognized due to revision of the business plan, etc. The impairment losses of ¥1,596 million and ¥684 million were recognized in the Media, ICT, Lifestyle Related Goods & Services segment and the Overseas Subsidiaries and Branches segment, respectively.

Intangible assets with finite useful lives are amortized over their useful lives.

Amortization expenses on intangible assets are recognized in "Cost" and "Selling, general and administrative expenses" in the Consolidated statement of comprehensive income.

Intangible assets with indefinite useful lives as of March 31, 2017 and 2016 included above are ¥6,756 million (\$61 million) and ¥6,034 million, respectively, and consist mainly of trademarks. Those trademarks were acquired through business combinations which are expected to exist as long as business continues, therefore the management considers the useful lives for these as indefinite.

The carrying amount of Intangible assets leased under finance leases, net of accumulated amortization and impairment losses, as of March 31, 2017 and 2016 are ¥360 million (\$3 million) and ¥520 million, respectively, and are included in Intangible assets, mainly software.

The internally generated intangible assets, net of accumulated amortization and impairment losses, as of March 31, 2017 and 2016 are ¥11,711 million (\$106 million) and ¥8,604 million, respectively, and mainly are included in software.

## 14 | Investment Property

Cost and accumulated depreciation and impairment losses of investment property as of March 31, 2017 and 2016 are as follows:

### [Cost]

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	<b>¥309,050</b>	¥318,400	<b>\$2,784</b>
Acquisitions	<b>57,541</b>	17,716	<b>518</b>
Disposals	<b>(10,406)</b>	(36,014)	<b>(94)</b>
Exchange differences on translating foreign operations	<b>1,663</b>	(1,510)	<b>15</b>
Reclassification	<b>897</b>	10,334	<b>8</b>
Others	<b>267</b>	124	<b>3</b>
Balance, end of year	<b>¥359,012</b>	¥309,050	<b>\$3,234</b>

### [Accumulated depreciation and impairment losses]

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	<b>¥(42,427)</b>	¥(48,940)	<b>\$(382)</b>
Depreciation expenses	<b>(5,724)</b>	(4,617)	<b>(51)</b>
Impairment losses	<b>(1,653)</b>	(207)	<b>(15)</b>
Disposals	<b>2,198</b>	12,501	<b>20</b>
Exchange differences on translating foreign operations	<b>(81)</b>	147	<b>(1)</b>
Reclassification	<b>(218)</b>	(1,158)	<b>(2)</b>
Others	<b>8</b>	(153)	<b>0</b>
Balance, end of year	<b>¥(47,897)</b>	¥(42,427)	<b>\$(431)</b>

Impairment losses recognized for the year ended March 31, 2017 and 2016 are ¥1,653 million (\$15 million) and ¥207 million, respectively, and are included in "Impairment losses on long-lived assets" in the Consolidated statement of comprehensive income.

### [Carrying amount and fair value]

	Carrying amount	Fair value
2017 (Millions of Yen)	<b>¥311,115</b>	<b>¥361,388</b>
2016 (Millions of Yen)	¥266,623	¥298,342
2017 (Millions of U.S. Dollars)	<b>\$2,803</b>	<b>\$3,256</b>

The fair value as of the end of each reporting period is based on a valuation conducted by independent valuation appraisers having current experience in the locations and categories of the investment property being valued and the appropriate and recognized professional qualifications, such as a registered appraiser. The valuation, which conforms to the standards of the country where the investment property is located, is based on market evidence of transaction prices for similar properties.

All of Investment property are classified in the level 3 under International Financial Reporting Standard No.13 *Fair Value Measurement*, and measured with unobservable inputs for the assets or liabilities.

Rental income from investment property for the years ended March 31, 2017 and 2016 are ¥28,103 million (\$253 million) and ¥26,050 million, respectively, and are reported in "Revenue" in the Consolidated statement of comprehensive income. Expenses directly attributable to generating rental income (including repairs and maintenance) for the years ended March 31, 2017 and 2016 are ¥19,567 million (\$176 million) and ¥19,164 million, respectively, and are included mainly in "Cost."

## 15 | Biological Assets

Biological assets as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	<b>¥11,911</b>	¥12,851	<b>\$107</b>
Increases due to purchases	<b>582</b>	833	<b>5</b>
Decreases due to harvest	<b>(788)</b>	(1,035)	<b>(7)</b>
The gain or loss arising from changes in fair value less costs to sell	<b>735</b>	1,062	<b>7</b>
Exchange differences on translating foreign operations	<b>96</b>	(1,800)	<b>1</b>
Balance, end of year	<b>¥12,536</b>	¥11,911	<b>\$113</b>

The Companies own forest assets (mainly pines) in New Zealand. The assets are measured at fair value less estimated selling cost.

All of Biological assets are classified in the level 3 under International Financial Reporting Standard No. 13 *Fair Value Measurement*, and measured with unobservable inputs for the assets or liabilities.

## 16 | Deferred Taxes

The tax effects of temporary differences that give rise to significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Net operating loss carry forwards	<b>¥ 58,200</b>	¥ 55,731	<b>\$ 524</b>
Securities and other investments	<b>20,862</b>	19,290	<b>188</b>
Inventories and long-lived assets	<b>41,230</b>	44,987	<b>372</b>
Allowance for doubtful receivables	<b>33,613</b>	8,624	<b>303</b>
Retirement benefit plans	<b>11,797</b>	15,540	<b>106</b>
Others	<b>78,298</b>	81,141	<b>705</b>
Deferred tax assets total	<b>¥ 244,000</b>	¥ 225,313	<b>\$ 2,198</b>
Deferred tax liabilities:			
Investments accounted for using the equity method	<b>¥ (49,707)</b>	¥ (60,292)	<b>\$(448)</b>
Securities and other investments	<b>(73,763)</b>	(62,243)	<b>(665)</b>
Long-lived assets	<b>(98,626)</b>	(87,505)	<b>(888)</b>
Others	<b>(70,986)</b>	(65,083)	<b>(639)</b>
Deferred tax liabilities total	<b>¥(293,082)</b>	¥(275,123)	<b>\$(2,640)</b>

Deferred tax assets and liabilities reported in the Consolidated statement of financial position as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Deferred tax assets	<b>¥ 67,758</b>	¥ 71,443	<b>\$ 611</b>
Deferred tax liabilities	<b>(116,840)</b>	(121,253)	<b>(1,053)</b>

Changes in deferred tax assets and liabilities for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Net deferred tax assets (liabilities):			
Balance, beginning of year	<b>¥(49,810)</b>	¥(85,084)	<b>\$(448)</b>
Amount recognized in other comprehensive income:			
Financial assets measured at FVTOCI	<b>(9,936)</b>	23,511	<b>(90)</b>
Remeasurements of defined benefit pension plans	<b>(5,223)</b>	8,598	<b>(47)</b>
Exchange differences on translating foreign operations	<b>(976)</b>	(421)	<b>(9)</b>
Cash-flow hedges	<b>(1,345)</b>	3,349	<b>(12)</b>
Share of other comprehensive income of investments accounted for using the equity method	<b>466</b>	(647)	<b>4</b>
Amount recognized in profit or loss	<b>22,440</b>	(1,484)	<b>202</b>
Effects of acquisitions and divestitures	<b>(4,698)</b>	2,368	<b>(42)</b>
Balance, end of year	<b>¥(49,082)</b>	¥(49,810)	<b>\$(442)</b>

The Companies consider the probability that a portion of, or all of the future deductible temporary differences or operating loss carry forwards can be utilized against future taxable profits on recognition of deferred tax assets. In assessing the recoverability of deferred tax assets, the Companies consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Based on the level of historical taxable profits and projected future taxable income during the periods in which deferred tax assets can be recognized, the Companies determined that it is probable that the tax benefits can be utilized. The amount of the deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. As a result of the assessment of the recoverability of deferred tax assets, the net change in deferred tax assets for the years ended March 31, 2017 and 2016 is an increase of ¥15,257 million (\$137 million) and a decrease of ¥15,358 million, respectively.

Deferred tax assets were not recognized for certain tax losses and deductible temporary differences which relate principally to the net operating loss carry forwards of certain domestic subsidiaries. The Companies performed an analysis of each of these subsidiaries to assess their ability to realize such deferred tax assets and reduce the amount of those assets to the extent that the Companies believe it is not probable that tax benefits will be utilized. No deferred tax assets are recognized at certain domestic subsidiaries attributable to tax losses carry forwards and deductible temporary differences when it is not probable that future taxable profit will be available. The amounts of unused tax loss carry forwards and deductible temporary differences for which no deferred tax asset is recognized amounted to ¥577,890 million (\$5,206 million) and ¥132,711 million (\$1,196 million) as of March 31, 2017 and ¥523,739 million and ¥247,437 million as of March 31, 2016, respectively. The deductible temporary differences do not expire under current tax legislation.

The tax losses for which deferred tax assets are not recognized as of March 31, 2017 and 2016 expire as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
1st year	<b>¥ 1,430</b>	¥ 1,188	<b>\$ 13</b>
2nd year	<b>107,061</b>	2,467	<b>964</b>
3rd year	<b>34,432</b>	107,836	<b>310</b>
4th year	<b>2,302</b>	36,203	<b>21</b>
5th year and thereafter	<b>432,665</b>	376,045	<b>3,898</b>
Total	<b>¥577,890</b>	¥523,739	<b>\$5,206</b>

As of March 31, 2017 and 2016, in principle, the Companies did not recognize a deferred tax liability on the taxable temporary differences associated with investments in subsidiaries because the Companies were in a position to control the timing of the reversal of the temporary differences and it was probable that such differences would not reverse in the foreseeable future. The amount of taxable temporary differences associated with investments in subsidiaries on which a

deferred tax liability was not recognized in the accompanying consolidated financial statements as of March 31, 2017 and 2016 totaled to ¥1,043,299 million (\$9,399 million) and ¥1,072,513 million, respectively.

Other current assets as of March 31, 2017 and 2016 included tax receivables of ¥45,140 million (\$407 million) and ¥31,531 million, respectively.

## 17 | Bonds and Borrowings

Details of the bonds and borrowings (non-current), and interest rates as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Secured:			
Loans from banks and insurance companies, maturing serially through 2039, average interest rate 3.12%	¥ 277,845	¥ 291,711	\$ 2,503
Unsecured:			
Loans from banks and insurance companies, maturing serially through 2035, average interest rate 0.76%	2,560,143	2,751,225	23,064
Bonds payable in Japanese yen due, 2016, fixed rates 1.70% to 2.12%	–	25,205	–
2017, fixed and floating rates 0.50% to 1.98%	20,038	30,224	181
2018, fixed and floating rates 0.34% to 1.89%	30,168	30,403	272
2019, fixed rates 0.76% to 2.21%	35,965	36,589	324
2020, fixed rates 0.33% to 1.46%	30,669	31,023	276
2021, fixed rate 0.14%	9,955	–	90
2022, fixed rates 0.88% to 1.71%	89,017	90,577	802
2023, fixed rate 0.86%	30,783	31,064	277
2024, fixed rates 0.77% to 0.83%	35,571	35,742	320
2029, fixed rates 1.24% to 1.29%	27,634	28,036	249
2030, fixed rate 2.26%	12,178	12,376	110
2031, fixed rate 2.19%	12,035	12,237	108
Medium-term notes, maturing serially through 2022, average interest rate 1.51%	57,061	51,230	514
Subtotal	3,229,062	3,457,642	29,090
Less: Current maturities	(469,993)	(544,156)	(4,234)
Bonds and borrowings (non-current)	¥2,759,069	¥2,913,486	\$24,856

Details of the bonds and borrowings (current) as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Short-term loans, principally from banks	¥143,702	¥152,378	\$1,295
Commercial paper	45,562	40,923	410
Total	¥189,264	¥193,301	\$1,705

The differences between the balances stated above and the balances presented as “Bonds and borrowings” under Current liabilities of the Consolidated statement of financial position are the amounts of bonds and borrowings with current maturities.

The weighted average interest rates for short-term loans for the years ended March 31, 2017 and 2016 are 1.72% and 1.31%, respectively.

The weighted average interest rates for commercial paper for the years ended March 31, 2017 and 2016 are 0.76% and 0.24%, respectively.

The Companies have lines of credit agreements available for immediate borrowing with a syndicate of foreign banks as well as U.S. and European banks in the amount of \$1,260 million in total and with two syndicates of domestic banks in the amount of ¥445,000 million (\$4,009 million) in total.

Most short-term and long-term loans from banks contain certain covenants. The banks may, under certain conditions, require the Companies to provide collateral (or additional collateral) or guarantors.

The banks may treat any collateral as collateral for all indebtedness to the banks. Several of the loan agreements require maintenance of certain financial ratios and minimum levels of tangible net worth. Default provisions of certain agreements grant certain rights of possession to the banks. The borrower may be required to make early repayments of outstanding amounts under some agreements, principally with government-owned financial institutions, if the lender concludes that the borrower is able to repay the outstanding amount through improved earnings or from the proceeds of an equity or debt offering, and the lender makes such a prepayment request. Certain agreements provide that the banks may require the borrower to obtain bank approval prior to presenting proposals for the payment of dividends and other appropriations of earnings at the general meeting of shareholders. The Companies have not been asked to make any prepayments for the years ended March 31, 2017 and 2016, and currently do not anticipate any prepayment requests.

The Companies have been in compliance with all of the bonds and borrowing obligations covenants for the years ended March 31, 2017 and 2016.

## 18 | Trade and Other Payables

The components of Trade and other payables as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Notes payable	¥ 29,299	¥ 30,162	\$ 264
Accounts payable	830,713	745,366	7,484
Payables to equity-accounted investees	39,907	42,498	359
Finance lease obligations	77,136	82,333	695
Other payables	173,365	167,028	1,562
Trade and other payables	¥1,150,420	¥1,067,387	\$10,364

The amount of Trade and other payables above includes financial liabilities measured at FVTPL of ¥78,782 million (\$710 million) and ¥79,080 million as of March 31, 2017 and 2016, respectively.

Payables to equity-accounted investees above include finance lease obligations of ¥8,958 million (\$81 million) and ¥8,041 million as of March 31, 2017 and 2016, respectively.

Trade and other payables in the Consolidated statement of financial position as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Current liabilities	¥1,029,294	¥ 933,147	\$ 9,273
Non-current liabilities	121,126	134,240	1,091
Total	¥1,150,420	¥1,067,387	\$10,364

## 19 | Provisions

The changes in Provisions for the year ended March 31, 2017 are as follows:

	Millions of Yen			
	Asset retirement obligations	Employee benefits	Other provisions	Total
Balance, beginning of year	¥26,335	¥1,679	¥ 20,985	¥ 48,999
Provisions made	4,019	11	2,998	7,028
Provisions used	(564)	(42)	(12,696)	(13,302)
Accretion expense	819	-	-	819
Others	(4,495)	(14)	(1,335)	(5,844)
Balance, end of year	¥26,114	¥1,634	¥ 9,952	¥ 37,700

	Millions of Yen			
	Asset retirement obligations	Employee benefits	Other provisions	Total
Current	¥ 129	¥ -	¥4,361	¥ 4,490
Non-current	25,985	1,634	5,591	33,210
Total	¥26,114	¥1,634	¥9,952	¥37,700

	Millions of U.S. Dollars			
	Asset retirement obligations	Employee benefits	Other provisions	Total
Balance, beginning of year	\$237	\$15	\$ 189	\$ 441
Provisions made	36	0	27	63
Provisions used	(5)	(0)	(114)	(119)
Accretion expense	7	-	-	7
Others	(40)	(0)	(12)	(52)
Balance, end of year	\$235	\$15	\$ 90	\$ 340

	Millions of U.S. Dollars			
	Asset retirement obligations	Employee benefits	Other provisions	Total
Current	\$ 1	\$ -	\$40	\$ 41
Non-current	234	15	50	299
Total	\$235	\$15	\$90	\$340

Asset retirement obligations are principally related to the dismantlement costs of oil, coal, or ore exploration installations.

The provision for employee benefits mainly represents long service leave entitlements accrued and other provisions primarily consist of the provision for warranties and cancellation.

## 20 | Employee Benefits

### (1) Post-employment benefit

The Company has non-contributory defined benefit pension plans and lump-sum retirement benefit plans covering substantially all employees other than directors and executive officers. The plans provide benefits based upon years of service, compensation at the time of severance, and other factors.

The Company has a responsibility to manage pension assets faithfully and has an obligation to make employee benefit contribution comply with laws and regulations. Under the Defined Benefit Corporate Pension Act, the Company recalculates the amount of pension contribution every three years to ascertain the validity of the contribution and so forth.

The Company establishes the steering committee organized by related officers and employees as an advisory body to discuss important issues concerning the pension plan. The

committee holds a meeting timely to report net gains from investment, status of the system and method of accounting or to argue system revisions and investment policy change.

Most of the subsidiaries have unfunded retirement benefit plans and/or funded pension plans. Employees, other than directors, are entitled to, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, a lump-sum retirement benefit based on compensation at the time of retirement, years of service and other factors. Certain subsidiaries have defined contribution retirement benefit plans.

Changes in the present value of the defined benefit obligations and changes in the fair value of the plan assets for the years ended March 31, 2017 and 2016 are as follows:

#### [Changes in the defined benefit obligations]

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	¥(358,402)	¥(335,183)	\$(3,229)
Service cost	(11,785)	(11,053)	(106)
Interest on obligation	(2,355)	(4,874)	(21)
Past service cost	914	(18)	8
Remeasurement	6,885	(25,723)	62
Exchange differences on translating foreign operations	1,648	3,015	15
Benefits paid	12,251	12,218	110
Acquisitions and disposals	(20,289)	3,216	(183)
Balance, end of year	¥(371,133)	¥(358,402)	\$(3,344)

#### [Changes in the plan assets]

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Balance, beginning of year	¥327,084	¥336,092	\$2,947
Interest on plan assets	2,800	4,331	25
Remeasurement	9,222	(7,769)	83
Exchange differences on translating foreign operations	(213)	(761)	(2)
Contributions by the employer	5,526	6,013	50
Benefits paid	(11,002)	(10,668)	(99)
Acquisitions and disposals	17,351	(154)	156
Balance, end of year	¥350,768	¥327,084	\$3,160

The measurement dates used to determine the benefit obligations are mainly March 31 of each year.

The Companies' funding policy is based on a number of factors including the tax deductibility of contributions, funded status, actuarial calculations and other considerations. Contributions are intended to provide not only for benefits attributable to service to date, but also for those expected to be earned in the future. In addition, the Company may contribute cash to an employee retirement benefit trust for any funding deficits in benefit obligations at the fiscal year end.

The Companies' investment policy is designed to increase the value of plan assets within acceptable risk levels to ensure payments of pension benefits to eligible participants, including future participants. Taking into account the return and risk on plan assets thereon, the Companies formulate a strategic asset

mix which aims at an optimal portfolio on a long-term basis and supervise asset management by selecting investment management companies and monitoring asset allocations. The strategic asset mix is subject to review in response to changes in expected market conditions or funded status. The strategic asset mix is not based on limitations but guidelines, and therefore, the actual allocation may temporarily exceed or fall below the guidelines. The Companies' target allocation is 23% equity securities, 45% debt securities, and 32% others.

The Companies hold a meeting regularly with the asset management institutions and discuss important issues regarding pension assets investment, and request the institutions to inform violations of investment policy and important business and operating conditions of the institutions.

The major categories of plan assets as of March 31, 2017 are as follows:

Categories of plan assets	Millions of Yen		
	Prices are quoted in a market	Prices are not quoted in a market	Total
Cash and cash equivalents	¥ 58,387	¥ -	¥ 58,387
Equity securities:			
Domestic	31,751	-	31,751
Foreign	66,991	-	66,991
Debt securities:			
Domestic	29,685	-	29,685
Foreign	86,566	-	86,566
Hedge funds	-	50,738	50,738
Life insurance company general accounts	-	19,724	19,724
Private equity	-	3,046	3,046
Others	-	3,880	3,880
Total	¥273,380	¥77,388	¥350,768

The major categories of plan assets as of March 31, 2016 are as follows:

Categories of plan assets	Millions of Yen		
	Prices are quoted in a market	Prices are not quoted in a market	Total
Cash and cash equivalents	¥ 75,131	¥ -	¥ 75,131
Equity securities:			
Domestic	34,428	-	34,428
Foreign	60,529	-	60,529
Debt securities:			
Domestic	31,044	-	31,044
Foreign	65,782	-	65,782
Hedge funds	-	35,438	35,438
Life insurance company general accounts	-	18,921	18,921
Private equity	-	3,972	3,972
Others	-	1,839	1,839
Total	¥266,914	¥60,170	¥327,084

The major categories of plan assets as of March 31, 2017 are as follows:

Categories of plan assets	Millions of U.S. Dollars		
	Prices are quoted in a market	Prices are not quoted in a market	Total
Cash and cash equivalents	\$ 526	\$ -	\$ 526
Equity securities:			
Domestic	286	-	286
Foreign	604	-	604
Debt securities:			
Domestic	267	-	267
Foreign	780	-	780
Hedge funds	-	457	457
Life insurance company general accounts	-	178	178
Private equity	-	27	27
Others	-	35	35
Total	\$2,463	\$697	\$3,160

Principal assumptions used in the actuarial valuations for the years ended March 31, 2017 and 2016 are as follows:

	%	
	2017	2016
Discount rate as of March 31	1.0	0.9
The expected rate of salary increase	2.8	2.7

The changes in the key assumptions may affect the valuations of defined benefit obligations as of March 31, 2017 and 2016, a 0.5% increase in discount rate would lead to a decrease of ¥22,295 million (\$201 million) and ¥22,665 million, respectively, a 0.5% decrease in discount rate would lead to an increase of ¥26,569 million (\$239 million) and ¥26,766 million, respectively. This analysis shows the sensitivity to the key assumptions without taking into account projected all cash flow information.

The employer's contributions expected to be paid for the year ending March 31, 2018 are ¥10,298 million (\$93 million).

The weighted-average duration of the defined benefit obligation for the year ending March 31, 2017 is 18 years.

The Companies' pension and retirement benefits expense at the defined contribution plans for the years ended March 31,

2017 and 2016 are ¥4,717 million (\$42 million) and ¥4,889 million, respectively.

In addition to lump-sum retirement benefit plans or retirement benefit pension plans, certain domestic subsidiaries participate in multi-employer defined benefit plans, and recognize the payments made during the fiscal year as an expense and contribution payable as a liability. The amount of contributions expected to be paid by the subsidiaries for the year ending March 31, 2018 are ¥498 million (\$4 million).

## (2) Employee Benefits Expense

The employee benefits expense included in "Cost" for the years ended March 31, 2017 and 2016 are ¥138,670 million (\$1,249 million) and ¥143,606 million, respectively.

## 21 | Common Stock

The numbers of shares authorized and issued as of March 31, 2017 and 2016 are as follows:

	2017	2016
	(Number of shares)	(Number of shares)
Authorized:		
Ordinary shares	2,000,000,000	2,000,000,000
Issued:		
Balance, beginning of year	1,250,602,867	1,250,602,867
Adjustment for the year	-	-
Balance, end of year	1,250,602,867	1,250,602,867

The number of shares of treasury stock as of March 31, 2017 and 2016 included in the number of shares issued shown above were 2,333,692 shares and 2,506,842 shares, respectively.

## 22 | Reserves

### (1) Additional Paid-in Capital

Under the Companies Act of Japan (“the Companies Act”), at least 50% of the proceeds of certain issues of common shares shall be credited to Common stock. The remainder of the proceeds shall be credited to Additional paid-in capital. The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amounts from Additional paid-in capital to Common stock.

### (2) Retained Earnings

The Companies Act provides that a 10% dividend of retained earnings shall be appropriated as additional paid-in capital or as a legal reserve until the aggregate amount of the additional paid-in capital and the legal reserve equals 25% of common

stock. The legal reserve may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the general meeting of shareholders.

Retained earnings available for dividends under the Companies Act is based on the amount recorded in the Company's general accounting records maintained in accordance with accounting principles generally accepted in Japan.

The Companies Act limits the amount of retained earnings available for dividends. Retained earnings of ¥367,656 million (\$3,312) and ¥318,141 million, shown by the Company's accounting records for the years ended March 31, 2017 and 2016, respectively, were not restricted by the limitations under the Companies Act.

## 23 | Other Components of Equity and Other Comprehensive Income (Loss)

The changes in Other components of equity for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Financial assets measured at FVTOCI			
Balance, beginning of year	¥142,580	¥ 182,195	\$1,285
Adjustment for the year	22,277	(36,300)	201
Transfer to retained earnings	8,148	(3,315)	73
Balance, end of year	¥173,005	¥ 142,580	\$1,559
Remeasurements of defined benefit pension plans			
Balance, beginning of year	¥ -	¥ -	\$ -
Adjustment for the year	9,760	(22,792)	88
Transfer to retained earnings	(9,760)	22,792	(88)
Balance, end of year	¥ -	¥ -	\$ -
Exchange differences on translating foreign operations			
Balance, beginning of year	¥199,395	¥ 365,709	\$1,796
Adjustment for the year	(41,769)	(166,314)	(376)
Balance, end of year	¥157,626	¥ 199,395	\$1,420
Cash-flow hedges			
Balance, beginning of year	¥ (30,095)	¥ (16,561)	\$ (271)
Adjustment for the year	8,558	(13,534)	77
Balance, end of year	¥ (21,537)	¥ (30,095)	\$ (194)
Other components of equity			
Balance, beginning of year	¥311,880	¥ 531,343	\$2,810
Adjustment for the year	(1,174)	(238,940)	(11)
Transfer to retained earnings	(1,612)	19,477	(14)
Balance, end of year	¥309,094	¥ 311,880	\$2,785

The following table provides each component of Other comprehensive income (loss) included in Non-controlling interests for the years ended March 31, 2017 and 2016.

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Financial assets measured at FVTOCI	¥ 233	¥ (322)	\$ 2
Remeasurements of defined benefit pension plans	844	(2,388)	8
Exchange differences on translating foreign operations	(5,852)	(4,034)	(53)
Cash-flow hedges	(2)	13	(0)
Other comprehensive income (loss)	¥(4,777)	¥(6,731)	\$(43)

The following table provides an analysis of each component of other comprehensive income (loss) and related tax effects (including those on Non-controlling interests) for the years ended March 31, 2017 and 2016.

	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
<b>2017</b>			
Financial assets measured at FVTOCI:			
Gains (losses) recorded in other comprehensive income during the year	¥ 32,707	¥ (9,936)	¥ 22,771
Adjustment for the year	32,707	(9,936)	22,771
Remeasurements of defined benefit pension plans:			
Gains (losses) recorded in other comprehensive income during the year	16,107	(5,223)	10,884
Adjustment for the year	16,107	(5,223)	10,884
Exchange differences on translating foreign operations:			
Aggregated adjustment during the year resulting from translation of foreign currency financial statements	(30,095)	5,954	(24,141)
Reclassification to profit or loss for the year	(16,550)	(6,930)	(23,480)
Adjustment for the year	(46,645)	(976)	(47,621)
Cash-flow hedges:			
Unrealized gains (losses) arising during the year	5,712	(1,446)	4,266
Reclassification to profit or loss for the year	(1,872)	101	(1,771)
Adjustment for the year	3,840	(1,345)	2,495
Share of other comprehensive income of investments accounted for using the equity method:			
Unrealized gains (losses) arising during the year	873	466	1,339
Reclassification to profit or loss for the year	4,181	-	4,181
Adjustment for the year	5,054	466	5,520
<b>Total other comprehensive income (loss)</b>	<b>¥ 11,063</b>	<b>¥(17,014)</b>	<b>¥ (5,951)</b>

	Millions of Yen		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
<b>2016</b>			
Financial assets measured at FVTOCI:			
Gains (losses) recorded in other comprehensive income during the year	¥ (60,515)	¥23,511	¥ (37,004)
Adjustment for the year	(60,515)	23,511	(37,004)
Remeasurements of defined benefit pension plans:			
Gains (losses) recorded in other comprehensive income during the year	(33,492)	8,598	(24,894)
Adjustment for the year	(33,492)	8,598	(24,894)
Exchange differences on translating foreign operations:			
Aggregated adjustment during the year resulting from translation of foreign currency financial statements	(164,441)	(492)	(164,933)
Reclassification to profit or loss for the year	(5,486)	71	(5,415)
Adjustment for the year	(169,927)	(421)	(170,348)
Cash-flow hedges:			
Unrealized gains (losses) arising during the year	(9,801)	3,130	(6,671)
Reclassification to profit or loss for the year	(1,195)	219	(976)
Adjustment for the year	(10,996)	3,349	(7,647)
Share of other comprehensive income of investments accounted for using the equity method:			
Unrealized gains (losses) arising during the year	(9,264)	(647)	(9,911)
Reclassification to profit or loss for the year	4,133	-	4,133
Adjustment for the year	(5,131)	(647)	(5,778)
<b>Total other comprehensive income (loss)</b>	<b>¥(280,061)</b>	<b>¥34,390</b>	<b>¥(245,671)</b>

	Millions of U.S. Dollars		
	Pretax amount	Tax (expense) or benefit	Net-of-tax amount
<b>2017</b>			
Financial assets measured at FVTOCI:			
Gains (losses) recorded in other comprehensive income during the year	<b>\$ 295</b>	<b>\$ (90)</b>	<b>\$ 205</b>
Adjustment for the year	<b>295</b>	<b>(90)</b>	<b>205</b>
Remeasurements of defined benefit pension plans:			
Gains (losses) recorded in other comprehensive income during the year	<b>145</b>	<b>(47)</b>	<b>98</b>
Adjustment for the year	<b>145</b>	<b>(47)</b>	<b>98</b>
Exchange differences on translating foreign operations:			
Aggregated adjustment during the year resulting from translation of foreign currency financial statements	<b>(271)</b>	<b>54</b>	<b>(217)</b>
Reclassification to profit or loss for the year	<b>(149)</b>	<b>(63)</b>	<b>(212)</b>
Adjustment for the year	<b>(420)</b>	<b>(9)</b>	<b>(429)</b>
Cash-flow hedges:			
Unrealized gains (losses) arising during the year	<b>51</b>	<b>(13)</b>	<b>38</b>
Reclassification to profit or loss for the year	<b>(17)</b>	<b>1</b>	<b>(16)</b>
Adjustment for the year	<b>34</b>	<b>(12)</b>	<b>22</b>
Share of other comprehensive income of investments accounted for using the equity method:			
Unrealized gains (losses) arising during the year	<b>8</b>	<b>4</b>	<b>12</b>
Reclassification to profit or loss for the year	<b>38</b>	<b>-</b>	<b>38</b>
Adjustment for the year	<b>46</b>	<b>4</b>	<b>50</b>
Total other comprehensive income (loss)	<b>\$ 100</b>	<b>\$(154)</b>	<b>\$ (54)</b>

## 24 | Dividends

(1) Dividends paid during the years ended March 31, 2017 and 2016 are as follows:

Resolution	Class of shares	Amount of dividends	Dividends per share	Record date	Effective date
		Millions of Yen (Millions of U.S. Dollars)	Yen (U.S. Dollars)		
Ordinary general meeting of shareholders held on June 23, 2015	Ordinary shares	¥31,195	¥25	March 31, 2015	June 24, 2015
Board of Directors' meeting held on October 30, 2015	Ordinary shares	¥31,201	¥25	September 30, 2015	December 1, 2015
Ordinary general meeting of shareholders held on June 24, 2016	Ordinary shares	¥31,202 (\$281)	¥25 (\$0.23)	March 31, 2016	June 27, 2016
Board of Directors' meeting held on November 1, 2016	Ordinary shares	¥31,204 (\$281)	¥25 (\$0.23)	September 30, 2016	December 1, 2016

(2) Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Amount of dividends	Source of dividends	Dividends per share	Record date	Effective date
		Millions of Yen (Millions of U.S. Dollars)		Yen (U.S. Dollars)		
Ordinary general meeting of shareholders held on June 23, 2017	Ordinary shares	¥31,207 (\$281)	Retained earnings	¥25 (\$0.23)	March 31, 2017	June 26, 2017

## 25 | Share-based Payments

Information relating to the Company's share-based payments is as follows:

### Stock option plan

The Company has stock option plans for directors, executive officers, and corporate officers under the Company's qualification system. Under the plans, each stock option entitles the recipient to acquire 100 shares of common stock at an exercise price equal to the greater of (i) 105% of the average closing market price of the Company's common stock on the Tokyo Stock Exchange for the calendar month before the grant date (excluding days when there are no transactions), or (ii) the closing market price of the Company's common stock on the

Tokyo Stock Exchange on the grant date (or the closing market price on the day immediately preceding that date, if there are no transactions on that date).

The options vest 100% at the grant date. The options granted are exercisable beginning April 1 of the fiscal year after the fiscal year in which they are granted. They are exercisable for four years and three months from that date.

On May 18, 2016, the Board of Directors authorized the issue of new stock options for up to 182,000 shares of common stock. The options for 182,000 shares were granted under these authorizations. On May 17, 2017, the Board of Directors authorized the issue of new stock options for up to 205,000 shares of common stock.

The Company's stock option activities for the years ended March 31, 2017 and 2016 are as follows:

	2017			2016	
	Number of shares	Weighted average exercise price		Number of shares	Weighted average exercise price
		Yen	U.S. Dollars		Yen
Outstanding, beginning of year	496,000	¥1,400	\$13	535,200	¥1,302
Granted	182,000	1,124	10	178,000	1,532
Exercised	30,000	1,191	11	80,100	1,161
Cancelled or expired	101,000	1,358	12	137,100	1,326
Outstanding, end of year	547,000	1,328	12	496,000	1,400
Options exercisable, end of year	367,000	¥1,428	\$13	322,000	¥1,329

Stock options outstanding and exercisable as of March 31, 2017 are as follows:

Exercise price range Yen	2017						
	Outstanding				Exercisable		
	Number of shares	Weighted average exercise price		Weighted average remaining life in years	Number of shares	Weighted average exercise price	
		Yen	U.S. Dollars			Yen	U.S. Dollars
¥1,001–1,200	204,000	¥1,124	\$10	3.78	24,000	¥1,125	\$10
1,201–1,400	81,000	1,312	12	1.25	81,000	1,312	12
1,401–1,600	262,000	1,491	13	2.80	262,000	1,491	13
	547,000	¥1,328	\$12	2.94	367,000	¥1,428	\$13

The weighted-average fair value of these stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

	2017	2016
Expected life (year)	4.5	4.5
Risk-free rate (%)	0.00	0.07
Expected volatility (%)	26.68	23.58
Expected dividend yield (%)	3.99	3.72

The Company has stock-linked compensation plans for directors and executive officers. Under the plans, each stock option granted after August 1, 2006 entitles the recipient to acquire 100 shares of common stock at an exercise price equal to ¥1 (\$0.01) per share. Each stock option granted prior to July 31, 2006 entitles the recipient to acquire 1,000 shares of common stock at an exercise price equal to ¥1 per share.

The options vest 100% at the grant date. The options granted are exercisable beginning the day after leaving their

positions as both directors and executive officers of the Company. The options are exercisable for ten years from that date.

On May 18, 2016, the Board of Directors authorized the issue of new stock options under these stock-linked compensation plans for up to 250,000 shares of common stock. Options for 169,500 shares were granted under these authorizations. On May 17, 2017, the Board of Directors authorized the issue of new stock options for up to 210,000 shares of common stock based on the plans.

The Company's stock-linked compensation plans for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
	Number of shares	Number of shares
Outstanding, beginning of year	<b>892,100</b>	972,200
Granted	<b>169,500</b>	127,700
Exercised	<b>93,900</b>	207,800
Cancelled or expired	-	-
Outstanding, end of year	<b>967,700</b>	892,100
Options exercisable, end of year	<b>403,100</b>	351,600

The weighted-average fair value of these stock-linked compensation plans was estimated using the Black-Scholes option pricing model with the following assumptions:

	2017	2016
Expected life (year)	<b>3.20</b>	2.56
Risk-free rate (%)	<b>0.00</b>	0.01
Expected volatility (%)	<b>27.91</b>	22.00
Expected dividend yield (%)	<b>3.96</b>	3.79

Compensation expense incurred on the stock option plans and the stock-linked compensation plans for the years ended March 31, 2017 and 2016 are ¥173 million (\$2 million) and ¥190 million, respectively.

## 26 | Financial Instruments and Related Disclosures

### (1) Capital Management

The fundamental principles of the Companies' capital management are to maintain an appropriate level of capital and debt and equity balance to manage business risk for the purpose of maintaining management soundness and efficiency and to promote continuous growth.

The key metrics used for capital management are as follows:

- balance between risk-adjusted assets <sup>\*1</sup> and equity; and
- times of interest-bearing liabilities (net) <sup>\*2</sup> to equity (Debt-equity ratio (net))

<sup>\*1</sup> Risk-adjusted assets refer to the maximum loss exposure and are calculated by assigning assets including Trade and other receivables, Inventories, Fixed Assets and Investments risk weights, which the Companies have determined individually based on the potential risk of loss, and adding derivatives and the loss exposure related to Commitments and contingent liabilities. The maximum loss exposure is measured statistically under the variability of the market values of the assets for each related business and is calculated based on a number of subjective judgments, estimates and assumptions concerning the all-around economic circumstances and tendencies of the industry.

<sup>\*2</sup> Interest-bearing liabilities (net) is total debt less the amount of cash and cash equivalents and time deposits.

Management monitors the strategies for profits and investments and the metrics at the time of planning and reviewing the medium-term management plan.

As "Equity attributable to owners of the parent" is directly affected by the market conditions of foreign exchange rates and stock prices, the Companies hedge against the exchange rate risks of major investments denominated in foreign currencies and review stock holdings in a timely manner, in order to minimize the influence of changes in foreign exchange rates and stock prices upon "Equity attributable to owners of the parent."

The Companies are not subject to any externally imposed capital requirements (except for general requirements, such as those in the Companies Act).

### (2) Financial Risk Management Policy

The Companies operate internationally, exposing them to the risk of changes in foreign exchange rates, interest rates and commodity prices. Derivative financial instruments are comprised principally of foreign exchange contracts, foreign currency swaps, interest rate swaps and commodity futures contracts utilized by the Company and certain of its subsidiaries to reduce these risks. The Companies assess foreign currency exchange rate risk, interest rate risk and commodity price risk by continuously monitoring changes in these exposures and by evaluating hedging opportunities. The Companies hold or issue commodity derivatives for trading purposes. The Companies are also exposed to credit-related losses from these derivative contracts, but it is not expected that any counterparty will fail to meet its obligations, because most of the counterparties are internationally recognized financial institutions and the contracts are diversified across a number of major financial institutions. The Companies' basic policy for fund raising activities is to secure stable, medium- to long-term funds and liquidity for our operations.

### 1. Foreign currency exchange rate risk management

The Companies operate internationally and are exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the local currencies in which the Companies operate. The Companies' strategy to manage foreign currency risks is mainly to preserve the economic value of cash flows in non-functional currencies by using foreign exchange forward contracts, foreign currency swaps, after considering the net effect of offsetting foreign currency exposures on recognized assets, liabilities and unrecognized firm commitments.

### 2. Interest rate risk management

The Companies are exposed to market risks arising from changes in interest rates in their business activities. In particular, interest rate fluctuations affect borrowing costs because a major portion of the outstanding debt instruments is floating rate instruments and short-term borrowings are refinanced from time to time.

However, the impact on borrowing costs is partially offset by returns on certain assets which are also impacted by interest rate fluctuations. In addition, the Companies are engaged in financing activities, such as automobile financing, which could be affected by interest rate fluctuations. The Companies monitor the interest rate risk arising from the assets and liabilities and the Companies' risk management structure is prepared to utilize derivatives contracts such as the interest rate swaps to manage the fluctuation in profits or losses due to drastic fluctuations in interest rates.

### 3. Credit risk management

The Companies are exposed to credit risk as a result of providing credit to our customers in the form of accounts receivable, advances, loans, guarantees and other instruments. The Companies use an original credit rating model, the Sumisho Credit Rating ("SCR"), to assess customers' credit risk. The authority level for extending credit to customers depends on the nine assigned credit ratings. In addition, the Companies regularly review the customers' credit limits and appropriately manage the credit exposure under those limits. At the same time, the

### Foreign currency sensitivity analysis

The following table represents the Companies' sensitivity analysis for foreign currency risk exposures on U.S. Dollars. The analysis shows the hypothetical impact on profit before tax in the Consolidated statement of comprehensive income that would result from a 1% appreciation of the Yen against U.S. Dollars for the risk exposures arising from foreign currency trade receivables and payables, future contracts for sale and purchase transactions, derivatives and others at the end of the year. The analysis is based on the assumption that other factors such as the outstanding balance and interest rates are constant.

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Profit before tax	<b>¥(219)</b>	¥(116)	<b>\$(2)</b>

### Interest rate sensitivity analysis

The following table represents the hypothetical impact on the Companies' profit before tax that is attributable to financial instruments which are exposed to the risk of fluctuations in interest rates in the case where the interest rate increases by 1%. The analysis is calculated by multiplying the net amounts of floating rate interest bearing financial assets and liabilities as of March 31, 2017 and 2016 by 1%, without considering future changes in the balance, currency exchange fluctuations and dispersing effects for floating rate borrowings derived from the difference in timing of refinancing and resetting of the interest rate, and is based on the assumption that all other variable factors are held constant.

The sensitivity analysis is performed for instruments that are exposed to fluctuations in market interest rates including: floating interest rate bearing debts and loans; fixed interest rate bearing debts and loans which are converted to floating rates with interest rate swap contracts and are in substance floating interest rate bearing debts and loans; cash and cash equivalents; time deposits; and receivables and payables which have not been settled at the end of the period.

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Profit before tax	<b>¥(11,849)</b>	¥(13,532)	<b>\$(107)</b>

Companies continuously perform credit evaluations on the financial conditions of customers, and based on such evaluations, obtain collateral to secure the receivables if necessary.

The Companies' receivables are from a large number of customers, spreading across diverse industries and geographical areas, therefore the Companies do not have significant concentrated credit risk exposure to any single counterparty or any group of counterparties.

The credit risk on deposits and derivatives is limited because the counterparties are internationally recognized financial institutions.

The total amounts of guarantees, and financing commitments, and the carrying amount of financial assets recorded in the Consolidated statement of financial position, net of impairment losses, represent the Companies' maximum exposure to credit risk without taking account of any collateral obtained.

#### 4. Commodity price risk management

The Companies trade in commodities such as physical precious and base metals, energy products, agricultural products, engage in investments in metal mining, and oil and gas development. As a result of these activities, the Companies are exposed to risk of price fluctuations of commodities. The

The Companies use the VaR for the purpose of risk management by each organization and do not eliminate inter-company transactions.

Millions of Yen				
2017				
	At year-end	High	Low	Average
VaR	<b>¥6,956</b>	<b>¥8,331</b>	<b>¥5,840</b>	<b>¥6,795</b>

Millions of Yen				
2016				
	At year-end	High	Low	Average
VaR	¥5,698	¥5,705	¥3,354	¥4,646

Millions of U.S. Dollars				
2017				
	At year-end	High	Low	Average
VaR	<b>\$63</b>	<b>\$75</b>	<b>\$53</b>	<b>\$61</b>

The Companies estimate VaR mainly using the historical simulation method. As VaR is measured by estimating statistically gains and losses on the current portfolio during the defined periods by applying the fluctuations in market rates and prices in the past, the actual results may differ significantly from the calculations above. In addition, the Companies periodically conduct back testing in which estimated quantitative risks are compared with actual gains or losses to verify the accuracy of the VaR measurement model. The actual value of gains or losses almost fell within our VaR threshold in the back testing during the twelve months ended December 31, 2016 which was the most recent period for which back testing was conducted. Based on the back testing, management believes the VaR model has provided reasonably accurate measurements.

Companies intend to reduce the risk related to the fluctuation of commodity prices by hedge-selling commodities, matching the volume and timing of selling and purchasing of commodities, or by using derivatives. The Companies use derivatives for trading purposes within defined position limits and loss limits.

#### Commodity price risk sensitivity analysis

The Companies use the Value-at-Risk ("VaR") method to measure the market risk for principal market-sensitive commodity transactions.

The following table sets forth the year-end, high, low, and average VaR figures (which are generally calculated using a three-day holding period and a confidence level of 99%) as of the end of each month for the years ended March 31, 2017 and 2016:

#### 5. Liquidity risk management

The Companies' basic policy for financing operation is to secure stable medium- to long-term funds and sufficient liquidity for the operations. Management has been monitoring liquidity risk by setting various worst case scenarios including financial market turmoil. The Companies secure necessary liquidity from the cash flows from operations, by borrowing from financial institutions with which the Companies have good relationships, bonds issued in the capital markets, and issuance of commercial paper.

The Companies deposit these funds with highly creditable financial institutions which are generally given high credit ratings by credit rating agencies.

The Companies have several unused long-term committed lines of credit with leading domestic and international financial institutions and several uncommitted lines of credit to reduce the liquidity risk.

The Companies' remaining contractual maturities for non-derivative financial liabilities (excluding lease obligations and some other liabilities) as of March 31, 2017 and 2016 are as follows:

	Millions of Yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
<b>2017</b>				
Bonds and borrowings	¥ 659,257	¥1,499,094	¥1,259,975	¥3,418,326
Trade and other payables	1,009,521	19,487	34,228	1,063,236
Financial guarantee contracts	78,540	38,662	49,709	166,911
<b>2016</b>				
Bonds and borrowings	¥ 737,457	¥1,617,479	¥1,296,007	¥3,650,943
Trade and other payables	903,874	37,422	34,824	976,120
Financial guarantee contracts	69,918	31,503	61,902	163,323

	Millions of U.S. Dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
<b>2017</b>				
Bonds and borrowings	\$5,939	\$13,505	\$11,351	\$30,795
Trade and other payables	9,095	176	308	9,579
Financial guarantee contracts	708	348	448	1,504

The Companies' liquidity analysis for derivatives as of March 31, 2017 and 2016 is summarized in the table below. The table is based on the contractual future cash inflows and outflows of derivative instruments. The net contractual cash inflows and outflows of gross-settled derivative instruments are presented as net cash flows on a transaction-by-transaction basis. When receipt and payment of cash are not fixed, the amount disclosed was calculated based on the projected interest rates by reference to the yield curves at the end of the reporting period.

		Millions of Yen			
		Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
<b>2017</b>					
Interest rate contracts	cash receipt	¥ 9,758	¥ 26,352	¥18,674	¥ 54,785
	/ (payment)	(1,031)	(2,908)	(1,904)	(5,843)
Foreign exchange contracts	cash receipt	24,676	6,147	1,978	32,801
	/ (payment)	(13,609)	(5,532)	(1,074)	(20,215)
Commodity contracts	cash receipt	52,934	28,678	564	82,176
	/ (payment)	(50,266)	(24,598)	(547)	(75,411)
<b>2016</b>					
Interest rate contracts	cash receipt	¥ 12,512	¥ 34,704	¥25,039	¥ 72,255
	/ (payment)	(2,200)	(5,654)	(2,553)	(10,407)
Foreign exchange contracts	cash receipt	62,155	12,427	1,570	76,152
	/ (payment)	(11,836)	(5,258)	(615)	(17,709)
Commodity contracts	cash receipt	81,571	32,001	689	114,261
	/ (payment)	(71,344)	(30,850)	(651)	(102,845)

		Millions of U.S. Dollars			
		Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
<b>2017</b>					
Interest rate contracts	cash receipt	\$ 88	\$ 238	\$168	\$ 494
	/ (payment)	(10)	(26)	(17)	(53)
Foreign exchange contracts	cash receipt	222	56	18	296
	/ (payment)	(122)	(50)	(10)	(182)
Commodity contracts	cash receipt	477	258	5	740
	/ (payment)	(453)	(221)	(5)	(679)

### (3) Fair Value of Financial Instruments

#### 1. Fair value measurements

The fair values of financial assets and liabilities are determined as follows:

Quoted market prices, if available, are used as fair values of financial instruments. If quoted market prices are not available, fair values of such financial instruments are measured by using appropriate measurement techniques such as discounted future cash flow method or others.

#### Cash and cash equivalents, time deposits and marketable securities

The carrying amounts of these instruments approximate their fair value due to their short-term maturities.

#### Other investments

The fair values of marketable securities are estimated using quoted market prices. Fair values of unlisted investments in common stock are determined by discounted future cash flow method, valuation models based on revenue, profitability and net assets of investees, market values of comparable companies, and other valuation approaches.

#### Trade and other receivables, trade and other payables

The fair values of current and non-current trade receivables and payables, except for loans with floating rates whose carrying amounts approximate fair value, are estimated using discounted future cash flow analysis, using interest rates currently being offered for loans or accounts receivables with similar terms to borrowers or customers of similar credit quality and remaining maturities.

#### 2. Financial instruments measured at amortized cost

The fair values of financial instruments measured at amortized cost as of March 31, 2017 and 2016 are as follows: Financial instruments measured at amortized cost that are included in "Marketable securities" and "Other investments" are disclosed in Note 6.

#### Bonds and borrowings

The fair values of bonds and borrowings, except for debt with floating rates whose carrying amount approximates fair value, are estimated using discounted future cash flow analysis using interest rates currently available for similar types of borrowings with similar terms and remaining maturities.

#### Guarantee of third party debt

The fair values of financial guarantees are estimated based on the premiums received or receivable from guarantors in arm's length transactions with unrelated parties.

#### Interest rate swaps, currency swap agreements and currency option contracts

The fair values of interest rate swaps, currency swap agreements and currency option contracts are estimated by obtaining quotes from brokers and other appropriate valuation techniques based on information available to the Companies.

#### Foreign exchange forward contracts

The fair values of foreign exchange forward contracts are estimated based on quoted market prices for contracts with similar terms.

#### Interest rate future contracts and bond future contracts

The fair values of interest rate future contracts and bond future contracts are estimated by using quoted market prices.

#### Commodity forwards, futures and swap contracts

The fair values of commodity forwards, futures and swap contracts are mainly estimated using quoted market prices.

	Millions of Yen	
	2017	
	Carrying amounts	Fair value
Financial assets measured at amortized cost:		
Trade and other receivables	¥1,654,154	¥1,660,537
Financial liabilities measured at amortized cost:		
Bonds and borrowings	3,418,326	3,430,437
Trade and other payables	1,071,638	1,071,691

	Millions of Yen	
	2016	
	Carrying amounts	Fair value
Financial assets measured at amortized cost:		
Trade and other receivables	¥1,714,122	¥1,720,998
Financial liabilities measured at amortized cost:		
Bonds and borrowings	3,650,943	3,670,241
Trade and other payables	988,307	988,602

	Millions of U.S. Dollars	
	2017	
	Carrying amounts	Fair value
Financial assets measured at amortized cost:		
Trade and other receivables	<b>\$14,902</b>	<b>\$14,960</b>
Financial liabilities measured at amortized cost:		
Bonds and borrowings	<b>30,795</b>	<b>30,905</b>
Trade and other payables	<b>9,654</b>	<b>9,655</b>

### 3. Financial instruments measured at fair value

International Financial Reporting Standard No. 13 *Fair Value Measurement* requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities;

Level 2 inputs are inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair values of financial assets and liabilities measured at fair value, grouped by fair value hierarchy as of March 31, 2017 and 2016 are as follows:

2017	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities and other investments				
Financial assets measured at FVTPL	<b>¥ 6,435</b>	<b>¥ 1</b>	<b>¥14,843</b>	<b>¥ 21,279</b>
Financial assets measured at FVTOCI	<b>339,168</b>	<b>-</b>	<b>75,375</b>	<b>414,543</b>
Trade and other receivables measured at FVTPL	<b>-</b>	<b>24,706</b>	<b>-</b>	<b>24,706</b>
Other financial assets (derivatives)				
Derivatives designated as hedges	<b>-</b>	<b>71,727</b>	<b>-</b>	<b>71,727</b>
Derivatives not designated as hedges	<b>7,567</b>	<b>90,059</b>	<b>21</b>	<b>97,647</b>
Total	<b>¥353,170</b>	<b>¥ 186,493</b>	<b>¥90,239</b>	<b>¥ 629,902</b>
Liabilities:				
Trade and other payables measured at FVTPL	<b>¥ -</b>	<b>¥ (78,782)</b>	<b>¥ -</b>	<b>¥ (78,782)</b>
Other financial liabilities (derivatives)				
Derivatives designated as hedges	<b>-</b>	<b>(15,957)</b>	<b>-</b>	<b>(15,957)</b>
Derivatives not designated as hedges	<b>(10,842)</b>	<b>(74,633)</b>	<b>(3)</b>	<b>(85,478)</b>
Total	<b>¥ (10,842)</b>	<b>¥(169,372)</b>	<b>¥ (3)</b>	<b>¥(180,217)</b>

2016	Millions of Yen			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Securities and other investments				
Financial assets measured at FVTPL	¥ 10,194	¥ 1	¥ 19,188	¥ 29,383
Financial assets measured at FVTOCI	297,546	–	82,504	380,050
Trade and other receivables measured at FVTPL	–	29,383	–	29,383
Other financial assets (derivatives)				
Derivatives designated as hedges	–	83,170	–	83,170
Derivatives not designated as hedges	28,102	151,016	434	179,552
<b>Total</b>	<b>¥335,842</b>	<b>¥ 263,570</b>	<b>¥102,126</b>	<b>¥ 701,538</b>
<b>Liabilities:</b>				
Trade and other payables measured at FVTPL	¥ –	¥ (79,080)	¥ –	¥ (79,080)
Other financial liabilities (derivatives)				
Derivatives designated as hedges	–	(17,933)	–	(17,933)
Derivatives not designated as hedges	(31,712)	(81,206)	(99)	(113,017)
<b>Total</b>	<b>¥ (31,712)</b>	<b>¥(178,219)</b>	<b>¥ (99)</b>	<b>¥(210,030)</b>

2017	Millions of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Securities and investments				
Financial assets measured at FVTPL	<b>\$ 58</b>	<b>\$ 0</b>	<b>\$134</b>	<b>\$ 192</b>
Financial assets measured at FVTOCI	<b>3,056</b>	<b>–</b>	<b>679</b>	<b>3,735</b>
Trade and other receivables measured at FVTPL	–	<b>222</b>	–	<b>222</b>
Other financial assets (derivatives)				
Derivatives designated as hedges	–	<b>646</b>	–	<b>646</b>
Derivatives not designated as hedges	<b>68</b>	<b>812</b>	<b>0</b>	<b>880</b>
<b>Total</b>	<b>\$3,182</b>	<b>\$ 1,680</b>	<b>\$813</b>	<b>\$ 5,675</b>
<b>Liabilities:</b>				
Trade and other payables measured at FVTPL	<b>\$ –</b>	<b>\$ (710)</b>	<b>\$ –</b>	<b>\$ (710)</b>
Other financial liabilities (derivatives)				
Derivatives designated as hedges	–	<b>(144)</b>	–	<b>(144)</b>
Derivatives not designated as hedges	<b>(98)</b>	<b>(672)</b>	<b>(0)</b>	<b>(770)</b>
<b>Total</b>	<b>\$ (98)</b>	<b>\$(1,526)</b>	<b>\$ (0)</b>	<b>\$(1,624)</b>

Reconciliation between the beginning and ending balance of financial assets measured at fair value on a recurring basis using Level 3 inputs for the year ended March 31, 2017 is as follows:

2017	Millions of Yen		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Net other financial assets (liabilities)
Balance, beginning of year	<b>¥19,188</b>	<b>¥ 82,504</b>	<b>¥ 335</b>
Purchases	<b>1,960</b>	<b>9,004</b>	<b>–</b>
Comprehensive income			
Profit or loss for the year	<b>(457)</b>	<b>–</b>	<b>(74)</b>
Other comprehensive income	<b>–</b>	<b>(11,606)</b>	<b>–</b>
Disposals	<b>(5,254)</b>	<b>(3,287)</b>	<b>–</b>
Settlements	<b>(594)</b>	<b>(1,240)</b>	<b>(243)</b>
Balance, end of year	<b>¥14,843</b>	<b>¥ 75,375</b>	<b>¥ 18</b>
Loss for the year included in earnings relating to financial instruments still held at the end of year	<b>¥ (652)</b>	<b>¥ –</b>	<b>¥ (69)</b>

	Millions of U.S. Dollars		
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI	Net other financial assets (liabilities)
<b>2017</b>			
Balance, beginning of year	\$173	\$ 743	\$ 3
Purchases	18	81	-
Comprehensive income			
Profit or loss for the year	(4)	-	(1)
Other comprehensive income	-	(104)	-
Disposals	(47)	(30)	-
Settlements	(6)	(11)	(2)
Balance, end of year	\$134	\$ 679	\$ 0
Loss for the year included in earnings relating to financial instruments still held at the end of year	\$ (6)	\$ -	\$(1)

The above profits or losses for the year were included in “Sales of tangible products,” “Cost of tangible products sold” and “Gain (loss) on securities and other investments, net” in the Consolidated statement of comprehensive income.

#### (4) Derivatives and Hedge Accounting

##### Fair-value hedges

Fair-value hedge is a type of hedge that eliminates the risk of changes in the fair values of assets and liabilities or firm commitments. The Companies use commodity futures contracts and foreign exchange forward contracts to hedge the changes in fair values on firm commitments. The Companies use interest rate swaps to hedge the changes in fair values on fixed rate borrowings used to fund assets earning interest at variable rates. Changes in the fair values of derivatives designated as fair-value hedges are recognized in profit or loss and are offset by corresponding changes in the fair values of the hedged item to the extent the hedge is effective. For the years ended March 31, 2017 and 2016, net gains or losses for hedged items were net gains of ¥17,363 million (\$156 million) and net losses of ¥16,185 million, respectively, and net gains or losses for hedging instruments were net losses of ¥17,363 million (\$156 million) and net gains of ¥16,185 million, respectively.

##### Cash-flow hedges

Cash-flow hedge is a type of hedge that uses derivatives to offset the variability of expected future cash flows. The Companies use commodity future contracts and foreign exchange forward contracts to hedge the variability of cash flows related to forecasted transactions and interest rate swaps to hedge the variability of cash flows related to floating-rate borrowings. The Companies recognized changes in the fair values of derivative instruments that are designated and qualified as cash-flow hedges in other comprehensive income in Other components of equity. Such amounts are reclassified into profit or loss in the period when the hedged items are recognized in profit or loss. For the years ended March 31, 2017 and 2016, net derivative gains or losses

(net of the related tax) that were expected to be reclassified into profit or loss within the next fiscal year were net losses of ¥2,558 million (\$23 million) and net losses of ¥5,671 million, respectively.

##### Hedges of net investments in foreign operations

The Companies use currency swaps and foreign currency borrowings to hedge the foreign currency risk of the net investments in foreign operations. The Companies recognized changes in fair values of derivatives designated as hedging instruments and exchange differences in foreign currency borrowings designated as hedging instruments in other comprehensive income in Other components of equity to the extent the hedge is effective.

##### Derivatives not designated as hedges

The Companies use derivatives to hedge exposures when it makes economic sense to do so, including circumstances in which the hedging relationship does not qualify for hedge accounting.

The Companies use foreign exchange forward contracts to economically hedge the fluctuations of foreign exchange rates on foreign currency assets, liabilities and unrecognized firm commitments. The Companies also enter into commodity forwards, futures and swap contracts to economically hedge their inventories and unrecognized firm commitments against market price fluctuations. Certain commodity derivatives are entered into for trading purposes to the extent approved by management. These derivatives do not qualify for hedge accounting and any changes in their fair values are recognized in profit or loss.

The fair values of derivative instruments as of March 31, 2017 and 2016 are as follows:

2017	Millions of Yen				
	Fair-value hedges	Cash-flow hedges	Hedges of net investment in foreign operations	Derivatives not designated as hedges	Total
[Derivative assets]					
Interest rate contracts	¥54,011	¥ 229	¥ -	¥ 157	¥ 54,397
Foreign exchange contracts	-	13,745	1,384	17,672	32,801
Commodity contracts	54	2,304	-	79,818	82,176
Total	¥54,065	¥ 16,278	¥ 1,384	¥ 97,647	¥ 169,374
Other financial assets (current)					66,550
Other financial assets (non-current)					91,937
Total					¥ 158,487
[Derivative liabilities]					
Interest rate contracts	¥ (510)	¥ (5,142)	¥ -	¥ (157)	¥ (5,809)
Foreign exchange contracts	(25)	(6,611)	(2,552)	(11,027)	(20,215)
Commodity contracts	(61)	(1,056)	-	(74,294)	(75,411)
Total	¥ (596)	¥(12,809)	¥(2,552)	¥(85,478)	¥(101,435)
Other financial liabilities (current)					(53,264)
Other financial liabilities (non-current)					(40,599)
Total					¥ (93,863)

Other than the above, the Companies have foreign currency borrowings of ¥59,228 million (\$534 million) that are designated as hedging instruments to hedge the net investments in foreign operations.

The differences between the amounts of derivative assets and derivative liabilities stated above and those stated in the Consolidated statement of financial position were resulted from a financial liability for the put option granted to the non-controlling shareholder and offsetting derivative assets and derivative liabilities with deposits.

The amounts of "Other financial assets and liabilities" in the Consolidated statement of financial position that are subject to enforceable master netting arrangements or similar arrangements are ¥37,980 million (\$342 million).

2016	Millions of Yen				
	Fair-value hedges	Cash-flow hedges	Hedges of net investment in foreign operations	Derivatives not designated as hedges	Total
[Derivative assets]					
Interest rate contracts	¥71,772	¥ 16	¥ -	¥ 521	¥ 72,309
Foreign exchange contracts	47	3,882	7,274	64,949	76,152
Commodity contracts	68	111	-	114,082	114,261
Total	¥71,887	¥ 4,009	¥7,274	¥ 179,552	¥ 262,722
Other financial assets (current)					132,886
Other financial assets (non-current)					120,737
Total					¥ 253,623
[Derivative liabilities]					
Interest rate contracts	¥ (1,145)	¥ (8,733)	¥ -	¥ (518)	¥ (10,396)
Foreign exchange contracts	(57)	(1,372)	(94)	(16,186)	(17,709)
Commodity contracts	(64)	(6,468)	-	(96,313)	(102,845)
Total	¥ (1,266)	¥(16,573)	¥ (94)	¥(113,017)	¥(130,950)
Other financial liabilities (current)					(66,195)
Other financial liabilities (non-current)					(64,384)
Total					¥(130,579)

Other than the above, the Companies had foreign currency borrowings of ¥66,544 million that were designated as hedging instruments to hedge the net investments in foreign operations.

The differences between the amounts of derivative assets and derivative liabilities stated above and those stated in the Consolidated statement of financial position were resulted from a financial liability for the put option granted to the non-controlling shareholder and offsetting derivative assets and derivative liabilities with deposits.

The amounts of "Other financial assets and liabilities" in the Consolidated statement of financial position that were subject to enforceable master netting arrangements or similar arrangements were ¥46,181 million.

2017	Millions of U.S. Dollars				Total
	Fair-value hedges	Cash-flow hedges	Hedges of net investment in foreign operations	Derivatives not designated as hedges	
[Derivative assets]					
Interest rate contracts	\$487	\$ 2	\$ -	\$ 1	\$ 490
Foreign exchange contracts	-	124	12	160	296
Commodity contracts	0	21	-	719	740
Total	\$487	\$ 147	\$ 12	\$ 880	\$1,526
Other financial assets (current)					600
Other financial assets (non-current)					828
Total					\$1,428
[Derivative liabilities]					
Interest rate contracts	\$ (4)	\$ (47)	\$ -	\$ (2)	\$ (53)
Foreign exchange contracts	(0)	(60)	(23)	(99)	(182)
Commodity contracts	(1)	(9)	-	(669)	(679)
Total	\$ (5)	\$(116)	\$(23)	\$(770)	\$ (914)
Other financial liabilities (current)					(480)
Other financial liabilities (non-current)					(366)
Total					\$ (846)

## 27 | Exchange Difference Gains and Losses

Gains and losses resulting from translating assets and liabilities denominated in a currency other than the functional currency of the reporting entity or from settling such items are included in profit or loss as they arise. Net foreign exchange gains of ¥180 million (\$2 million) and ¥2,605 million are included in the Consolidated statement of comprehensive income for the years ended March 31, 2017 and 2016, respectively.

## 28 | Selling, General and Administrative Expenses

The components of Selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Employee benefits expenses	¥367,431	¥397,886	\$3,310
Equipment expenses	117,548	127,368	1,059
Travel and transportation expenses	25,974	28,676	234
Outsourcing expenses	56,627	58,898	510
Advertising expenses	19,220	24,568	173
Amortization expenses	20,300	22,710	183
Impairment losses on receivables	2,278	10,396	21
Others	84,381	92,222	760
Selling, general and administrative expenses	¥693,759	¥762,724	\$6,250

Equipment expenses disclosed above mainly include rental expenses and depreciation of property, plant and equipment.

## 29 | Finance Income and Costs

The components of Finance income and costs for the years ended March 31, 2017 and 2016 are as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Interest income:			
Financial assets measured at amortized cost	<b>¥ 23,283</b>	¥ 27,303	<b>\$ 210</b>
Derivatives	<b>2,726</b>	2,421	<b>24</b>
Total	<b>26,009</b>	29,724	<b>234</b>
Interest expense:			
Financial liabilities measured at amortized cost	<b>(39,265)</b>	(45,486)	<b>(354)</b>
Derivatives	<b>11,527</b>	13,135	<b>104</b>
Total	<b>(27,738)</b>	(32,351)	<b>(250)</b>
Dividends:			
Financial assets measured at FVTPL	<b>99</b>	1,910	<b>1</b>
Financial assets measured at FVTOCI	<b>9,273</b>	8,713	<b>84</b>
Total	<b>9,372</b>	10,623	<b>85</b>
Gain (loss) on securities and other investments, net:			
Financial assets measured at FVTPL	<b>31</b>	(1,943)	<b>0</b>
Others	<b>12,842</b>	74,156	<b>116</b>
Total	<b>¥ 12,873</b>	¥ 72,213	<b>\$ 116</b>

Others of "Gain (loss) on securities and other investments, net" are mainly gains and losses on investments in subsidiaries and associates. Gain (loss) of ¥17,060 million (\$154 million) and ¥46,685 million such as deconsolidation of subsidiaries are recognized for the year ended March 31, 2017 and 2016, respectively.

In addition to the above, gains or losses on revaluation of derivatives not designated as hedges for the years ended March 31, 2017 and 2016 are losses of ¥8,522 million (\$77

million) and gains of ¥20,186 million in "Revenues" and "Cost," and losses of ¥739 million (\$7 million) and gains of ¥414 million in "Other, net," respectively.

Interest income from financial assets measured at amortized cost for the years ended March 31, 2017 and 2016 are ¥28,624 million (\$258 million) and ¥81,940 million in "Revenues," respectively, and interest expense from financial liabilities measured at amortized cost are ¥8,236 million (\$74 million) and ¥27,189 million in "Cost," respectively.

## 30 | Income Tax Expense

Income tax expense for the years ended March 31, 2017 and 2016 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Current tax	<b>¥ 48,336</b>	¥50,065	<b>\$ 435</b>
Deferred tax	<b>(22,440)</b>	1,484	<b>(202)</b>
Total	<b>¥ 25,896</b>	¥51,549	<b>\$ 233</b>

The Company is subject to mainly national corporate tax, inhabitant tax and deductible business tax, which in aggregate resulted in an applicable income tax rate of 31.0% and

33.0% for the years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The reconciliation between the applicable income tax rate in Japan and the Companies' average effective income tax rate in the Consolidated statement of comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

	%	
	2017	2016
The applicable income tax rate in Japan	<b>31.0</b>	33.0
Tax effect on equity-accounted investees	<b>(14.3)</b>	(6.5)
Tax effect on expenses not deductible for tax purposes	<b>0.6</b>	5.2
Difference in applicable tax rate of foreign subsidiaries	<b>2.3</b>	(4.9)
Reassessment of the recoverability of deferred tax assets	<b>(7.2)</b>	11.0
Others—net	<b>(0.2)</b>	(1.0)
The Companies' average effective income tax rate	<b>12.2</b>	36.8

### 31 | Earnings per share

A calculation of the basic and diluted earnings per share (attributable to owners of the parent) for the years ended March 31, 2017 and 2016 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Profit for the year attributable to owners of the parent	<b>¥170,889</b>	¥74,546	<b>\$1,540</b>

	Number of shares	
	2017	2016
Weighted-average shares—basic	<b>1,248,188,266</b>	1,247,994,051
Dilutive effect of: Stock options	<b>948,307</b>	939,524
Weighted-average shares—diluted	<b>1,249,136,573</b>	1,248,933,575

	Yen		U.S. Dollars
	2017	2016	2017
Earnings per share (attributable to owners of the parent):			
Basic	<b>¥136.91</b>	¥59.73	<b>\$1.23</b>
Diluted	<b>136.81</b>	59.69	<b>1.23</b>

### 32 | Cash Flow Information

Supplemental disclosure of cash flow information for the years ended March 31, 2017 and 2016 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
Non-cash investing and financing activities:			
Finance lease obligations incurred	<b>¥ 9,237</b>	¥15,355	<b>\$ 83</b>
Acquisition of securities through debt-equity swap	-	76,993	-
Acquisition of subsidiaries:			
Total consideration paid	<b>(91,391)</b>	(6,334)	<b>(823)</b>
Cash and cash equivalents included in assets acquired	<b>7,911</b>	16,552	<b>71</b>
Acquisition of subsidiaries, net of cash and cash equivalents acquired	<b>¥(83,480)</b>	¥10,218	<b>\$(752)</b>

Refer to Note 5 for fair value of assets and liabilities as of the acquisition date.

The total consideration received in respect of sales of subsidiaries for the year ended March 31, 2017 was ¥16,497 million (\$149 million). Each major class of assets and liabilities at the point of sale is as follows:

	Millions of Yen	Millions of U.S. Dollars
Cash and cash equivalents	¥ 44,255	\$ 399
Trade and other receivables	3,790	34
Property, plant and equipment	2,693	24
Intangible assets	3,905	35
Other assets	5,742	52
Current liabilities	(53,354)	(481)
Non-current liabilities	(1,985)	(18)

The total consideration received in respect of sales of subsidiaries for the year ended March 31, 2016 was ¥69,725 million. Each major class of assets and liabilities at the point of sale is as follows:

	Millions of Yen
Cash and cash equivalents	¥ 21,382
Trade and other receivables	257,644
Property, plant and equipment	74,268
Intangible assets	3,058
Other assets	30,722
Current liabilities	(119,052)
Non-current liabilities	(166,454)

One of the major subsidiaries disposed of during the year ended March 31, 2016 was P. T. Oto Multiartha and P. T. Summit Oto Finance ("Oto Group"). In March 2016, the Company transferred portions of common shares of Oto Group to Sumitomo Mitsui Banking Corporation. This resulted in loss of control of Oto Group and they become entities accounted for using the equity method.

### 33 | Related Party Transactions

#### Compensation for directors

The remuneration for directors for the years ended March 31, 2017 and 2016 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2017	2016	2017
1. Monthly remuneration	¥714	¥720	\$6
2. Bonuses resolved at the 149th ordinary general meeting of shareholders	149	–	1
3. Bonuses resolved at the 148th ordinary general meeting of shareholders	–	67	–
4. Expenses recognized for the grant of the 15th of stock option issued on August 2, 2016	5	–	0
5. Expenses recognized for the grant of the 14th of stock option issued on July 31, 2015	–	7	–
6. Expenses recognized for the grant of the 11th of stock option (stock-linked compensation plan) issued on August 2, 2016	55	–	1
7. Expenses recognized for the grant of the 10th of stock option (stock-linked compensation plan) issued on July 31, 2015	19	62	0
8. Expenses recognized for the grant of the 9th of stock option (stock-linked compensation plan) issued on August 1, 2014	–	22	–
Total	¥942	¥878	\$8

## 34 | Subsidiaries

The Companies' subsidiaries as of March 31, 2017 are as follows:

Business segment	Name of subsidiary	Place of incorporation and operation	Proportion of voting power held by the Companies (%)	
Metal Products	Sumisho Metalex Corporation	Chuo-ku, Tokyo	100.00	
	SC Pipe Solutions Co., Ltd.	Chuo-ku, Tokyo	100.00	
	Nippon Katan Co., Ltd.	Hirakata, Osaka	100.00	
	Sumitomo Corporation Global Metals Co., Ltd.	Chuo-ku, Tokyo	100.00	
	SC Metal Pty. Ltd.	Melbourne, Australia	100.00 (10.00)	
	Sumisho Steel Corporation (Hong Kong) Limited	Hong Kong, China	100.00 (10.00)	
	ERYNGIUM Ltd.	Glasgow, England	100.00 (70.00)	
	SC Pipe Services Inc.	Houston, U.S.	100.00 (100.00)	
	K + S GmbH	Sachsenheim, Germany	100.00 (40.00)	
	SC Steel Investment, LLC	Wilmington, U.S.	100.00	
	Edgen Group Inc.	Baton Rouge, U.S.	100.00 (100.00)	
	Servilamina Summit Mexicana S.A. de C.V.	Queretaro, Mexico	100.00	
	Tianjin Hua Zhu Metal Products Co., Ltd.	Tianjin, China	68.11 (6.81)	
	Others (70 Companies)			
	Transportation & Construction Systems	KIRIU Corporation	Ashikaga, Tochigi	100.00 (0.24)
		SMS Construction and Mining Systems Inc.	Acheson, Canada	100.00 (35.14)
		Tecnología Para La Construcción Y Minería S.L.	Madrid, Spain	100.00 (60.00)
SMS International Corporation		Plant City, U.S.	100.00 (100.00)	
Triton Navigation B.V.		Amsterdam, Netherlands	100.00 (100.00)	
Toyota Ukraine		Kiev, Ukraine	100.00	
Sumitec International, Ltd.		Moscow, Russia	100.00 (100.00)	
SC Construction Machinery (Shanghai) Corporation		Shanghai, China	100.00 (10.00)	
TBC Corporation		Palm Beach Gardens, U.S.	100.00 (100.00)	
P.T. Summit Auto Group		Jakarta, Indonesia	100.00	
Sumisho Aero Engine Lease B.V.		Amsterdam, Netherlands	90.00 (22.50)	
Summit Motors Vladivostok		Vladivostok, Russia	100.00 (100.00)	
Others (101 Companies)				

Business segment	Name of subsidiary	Place of incorporation and operation	Proportion of voting power held by the Companies (%)
Environment & Infrastructure	Summit Energy Corporation	Chuo-ku, Tokyo	100.00
	Sumitomo Shoji Machinex Co., Ltd.	Chuo-ku, Tokyo	100.00
	Sumisho Global Logistics Co., Ltd.	Chuo-ku, Tokyo	100.00
	P.T. Central Java Power	Jakarta, Indonesia	100.00
			(25.00)
	Perennial Power Holdings Inc.	New York, U.S.	100.00
			(100.00)
	Summit Southern Cross Power Holdings Pty. Ltd.	Sydney, Australia	100.00
	Summit Water Limited	London, England	100.00
			(30.00)
	Summit Renewable Energy Europe Limited	London, England	100.00
		(30.00)	
	Others (60 Companies)		
Media, ICT, Lifestyle Related Goods & Services	SCSK Corporation	Koto-ku, Tokyo	51.11
	Summit, Inc.	Suginami-ku, Tokyo	100.00
	Sumisho Brand Management Corporation	Chiyoda-ku, Tokyo	100.00
			(0.92)
	IG Kogyo Co., Ltd.	Higashine, Yamagata	65.68
	S.C. Cement Co., Ltd.	Chuo-ku, Tokyo	100.00
	Tomod's	Bunkyo-ku, Tokyo	100.00
	Summit Grain Investment (Australia) Pty Ltd	Sydney, Australia	100.00
			(30.00)
	Presidio Ventures, Inc.	Santa Clara, U.S.	100.00
			(100.00)
	Emerald Grain Pty Ltd	Melbourne, Australia	100.00
			(100.00)
	Summit Forests New Zealand Limited	Auckland, New Zealand	100.00
	Sumitomo Corporation Equity Asia Limited	Hong Kong, China	100.00
			(20.00)
Fyffes PLC	Dublin, Ireland	100.00	
		(100.00)	
	Others (146 Companies)		
Mineral Resources, Energy, Chemical & Electronics	Sumitomo Shoji Chemicals Co., Ltd.	Chuo-ku, Tokyo	100.00
	Sumitronics Corporation	Chuo-ku, Tokyo	100.00
	Serra Azul Iron Ore, LLC	Chuo-ku, Tokyo	100.00
	Sumi Agro Europe Limited	London, England	100.00
			(20.00)
	Interacid Trading S.A.	Lausanne, Switzerland	100.00
			(30.00)
	Minera San Cristobal S.A.	La Paz, Bolivia	100.00
			(100.00)
	Sumisho Coal Australia Pty. Ltd.	Sydney, Australia	100.00
	SC Minerals America, Inc.	Denver, U.S.	100.00
			(15.25)
	Petro Summit Pte. Ltd.	Singapore	100.00
		(20.00)	
Summit Oil and Gas USA Corporation	New York, U.S.	100.00	

Business segment	Name of subsidiary	Place of incorporation and operation	Proportion of voting power held by the Companies (%)	
Mineral Resources, Energy, Chemical & Electronics	Summit Discovery Resources II LLC	Houston, U.S.	100.00 (100.00)	
	Inversiones SC Sierra Gorda Limitada	Santiago, Chile	100.00 (0.04)	
	Comercial Metales Blancos AB	Goeteborg, Sweden	100.00	
	Summit Shale International Corporation	New York, U.S.	100.00	
	Summit Rural Western Australia Pty. Ltd.	Kwinana, Australia	100.00 (20.00)	
	SC Sierra Gorda Finance B.V.	Amsterdam, Netherlands	100.00	
	Sumitomo Corporation Global Commodities Limited	London, England	100.00 (32.67)	
	SCAP C Pty Ltd	Sydney, Australia	100.00	
	Summit Exploration and Production Limited	London, England	100.00 (15.00)	
	Pacific Summit Energy LLC	Irvine, U.S.	100.00 (100.00)	
	Summit Discovery Resources III LLC	Houston, U.S.	100.00 (100.00)	
	Summit Ambatovy Mineral Resources Investment B.V.	Amsterdam, Netherlands	100.00	
	Others (72 Companies)			
	Overseas Subsidiaries and Branches	Sumitomo Corporation of Americas	New York, U.S.	100.00 (100.00)
		Sumitomo Corporation Europe Holding Limited	London, England	100.00 (100.00)
Sumitomo Corporation (China) Holding Ltd.		Beijing, China	100.00	
Sumitomo Corporation Asia & Oceania Pte. Ltd		Singapore	100.00 (100.00)	
Sumitomo Corporation Do Brasil S.A.		Sao Paulo, Brazil	100.00 (8.63)	
Sumitomo Corporation Taiwan Ltd.		Taipei, Taiwan	100.00 (100.00)	
Sumitomo Corporation (Central Eurasia) LLC		Moscow, Russia	100.00	
Sumitomo Corporation Korea Ltd.		Seoul, Korea	100.00	
Sumitomo Corporation Middle East FZE		Dubai, U.A.E.	100.00 (100.00)	
Others (131 Companies)				
Others	Sumitomo Shoji Financial Management Co., Ltd.	Chuo-ku, Tokyo	100.00	
	Yasato Kosan Co., Ltd.	Chuo-ku, Tokyo	100.00	
	Others (6 Companies)			

The percentage in the parenthesis under "Proportion of voting power held by the Companies" indicates the indirect ownership out of the total ownership noted above.

## 35 | Commitments and Contingent Liabilities

### (1) Commitments

The Companies customarily enter into long-term purchase commitments for certain items, principally ocean transport vessels and industry materials, either at fixed prices or at variable prices adjustable to market. Such purchase commitments are in most instances matched with counter-party sales contracts. Long-term purchase contracts with Equity-accounted investees at fixed prices or at variable prices adjustable to market amounted to ¥413,063 million (\$3,721 million) as of March 31, 2017. Scheduled deliveries are at various dates through 2024. The Companies also had financing commitments in connection with loan, investments in equity capital and had contracts for

the use of equipment, the aggregate amount of ¥1,217,028 million (\$10,964 million), ¥134,285 million (\$1,210 million) out of this aggregate amount with Equity-accounted investees, as of March 31, 2017.

For finance and operating lease commitments to which the Companies are the lessees, refer to Note 8.

### (2) Guarantees

The Companies enter into various guarantee agreements. These agreements arise in transactions related to enhancing the credit standings of equity-accounted investees, suppliers, and buyers.

The following table provides the undiscounted maximum amount of potential future payments for each major group of guarantees as of March 31, 2017:

	Millions of Yen	Millions of U.S. Dollars
	2017	2017
Guarantees of indebtedness to:		
Equity-accounted investees	¥117,259	\$1,057
Third parties	49,652	447
Total	¥166,911	\$1,504

#### 1. Guarantees for Indebtedness of Equity-accounted investees

The Companies provide guarantees on certain equity-accounted investees' borrowings from banks, payables to suppliers and other indebtedness. These guarantees mature through 2032. Guarantees with third party guarantee aggregated to ¥4,810 million (\$43 million) as of March 31, 2017. The Companies would be obliged to reimburse the banks for losses, if any, if an equity-accounted investee defaults on a guaranteed loan.

#### 2. Guarantees for Indebtedness of Third Parties

The Companies also provide guarantees for indebtedness of third parties. These guarantees are arranged mainly with suppliers and customers and mature through 2042. The Companies must pay if a guaranteed party defaults on a guaranteed indebtedness. Some of these guarantees are also collateralized by borrower assets.

Management does not expect to incur losses on the above commitments and guarantees in excess of established allowances.

#### (3) Litigation and others

On December 30, 2011, Minera San Cristobal S.A. ("MSC"), which is a consolidated subsidiary of the Company in Plurinational State of Bolivia ("Bolivia"), received a correction notice relating to its withholding tax returns from Bolivian Tax Authority.

MSC appealed to the Supreme Court for the revocation of corrected amount of tax payment order issued by the General Authority of Taxes. In addition, MSC offered the appropriate fixed assets as a collateral in accordance with the procedure stipulated in the related Bolivian law. The estimated corrected tax amount in the year ended March 31, 2016 was approximately \$185 million. On July 4, 2016, the amended tax code and its regulations, including measures for the reduction and exemption of delayed interests and penalties, were promulgated in Bolivia. Based on the consideration among the local specialists, MSC withdrew its appeal to the Supreme Court in order to apply the amended tax code and its regulations. Consequently, in the year ended March 31, 2017, the loss of the corrected tax amount approximately \$106 million (¥10,886 million) was recognized as "Other, net" in the consolidated statements of comprehensive income and the same amount was already paid.

In addition to the above, the Companies are also involved in certain legal actions and claims incidental to its business. In the opinion of management, none of these actions or claims will have a material adverse effect on the financial position or results of operations of the Companies.

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## **36 | Subsequent Events**

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There are no subsequent events to be disclosed as of June 23, 2017, the date the consolidated financial statements were approved.

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## **37 | Approval of Consolidated Financial Statements**

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The Consolidated financial statements were approved by Kuniharu Nakamura, Representative Director, President and Chief Executive Officer, and Koichi Takahata, CFO, on June 23, 2017.



## **Independent Auditor's Report**

To the Board of Directors of  
Sumitomo Corporation:

We have audited the accompanying consolidated financial statements of Sumitomo Corporation and its subsidiaries, which comprise the consolidated financial statement of financial position as at March 31, 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Corporation and its subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2(3) to the consolidated financial statements.

*KPMG AZSA LLC*

June 23, 2017  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

## Reference Information [Risk factors]

Sumitomo Corporation and Subsidiaries

The factors described below may conceivably materially affect investors' decisions as risks relating to us. Unless otherwise specified, information concerning the future presented herein are forecasts based on our decisions, targets, certain premises or assumptions as of the last day (March 31, 2017) of the consolidated fiscal year and may differ materially from the actual results.

### RISKS RELATED TO OUR BUSINESS

#### The risk of our revenues and profitability fluctuating from period to period unexpectedly

Our results of operations for any quarter, half year or year are not necessarily indicative of results to be expected in future periods. Our operating results have historically been, and we expect they will continue to be, subject to quarterly, half yearly and yearly fluctuations as a result of a number of factors, including:

- changes in prevailing economic and other conditions relating to our businesses;
- variations in costs, sales prices and volume of our products and services, and the mix of products and services we offer;
- changes in customer demand and/or our supply chains, which in turn will often depend upon market conditions for the relevant products, the success of our customers' or suppliers' businesses, industry trends, and other factors;
- changes in the level of performance of our strategic investments, which in turn will affect our gains and losses on sales of such investments or may result in the write-off or impairment of such investments;
- changes in our asset prices, including equity, real estate and other assets, which in turn will affect our gains and losses on sales of such assets or may result in the write-off or impairment of such assets;
- changes in the financial and commodity markets; and
- changes in the credit quality of our customers.

As such, you should not rely on comparisons of our historical results of operations as an indication of our future performance.

#### The risk that we may not be able to achieve the managerial targets set forth in our medium-term business plans

As part of our efforts to strengthen our position as a leading global business enterprise, we intend to increase our profitability and our earnings base and to improve our financial strength and the efficiency and effectiveness of our operations. As part of these continuing efforts, we set and implement a medium-term business plan. In the medium-term business plan, we set certain quantitative and qualitative targets and undertake efforts to achieve such targets while monitoring the status of progress. The targets are set based on the gathering and analysis of information deemed appropriate at the time of such target-setting. However, since we may not be able to always gather all the necessary information, we may revise the targets or may not be able to achieve the targets due to changes in the operating environment and other factors.

In our business plan, we use two key management measures that we call "risk-adjusted assets" and "risk-adjusted return ratio," which are targets set for each of our industry-based business units and for our company as a whole. These targets involve a certain statistical confidence level, estimates and assumptions. Since they are different from return on assets or any other measure of performance calculated based on the financial statements, they may not be useful to all investors in making investment decisions.

#### The risk that economic conditions may change adversely for our business

We undertake operations through our offices in over 60 countries, including Japan. Since we are engaged in business activities and other transactions in a broad range of industrial sectors in Japan and abroad, we are affected by not only general Japanese economic conditions but also the economic conditions of the relevant countries in which we operate and the world economy as a whole.

In some countries in which we operate, we confront deflation, currency depreciation, liquidity crises, or have some concerns that such conditions would occur in the future.

Moreover, key countries for our operations are under the threat of possible terrorist attacks and political instability. If such case occurs, economic conditions surrounding our operations in those countries may be adversely impacted.

These changes in economic conditions in key countries for our operations may adversely affect our results of operations and financial condition.

#### **Risks associated with intense competition**

The markets for many of the industries in which we are involved are intensely competitive. For many of our businesses, we are involved at all levels of the supply chain and compete with companies that are engaged in certain of the same businesses as we are, but that are more concentrated in individual business segments. We also compete with other integrated trading companies in Japan which often establish and pursue similar strategic business plans as ours. Our competitors may have stronger relationships and associations with our current or potential customers, suppliers, counterparties and business partners. Our competitors may also have greater financial, technical, marketing, distribution, information, human and other resources than we do and may be stronger in certain of the market segments in which we operate.

In this intensely competitive environment, our results of operations will be adversely affected if we are unable to:

- anticipate and meet market trends to timely satisfy our customers' changing needs;
- maintain relationships with our customers and suppliers;
- maintain our global and regional network of associated companies and business partners;
- obtain financing to carry out our business plans on reasonable terms or at all; and
- adapt our cost structure to constantly changing market conditions so as to maintain our cost competitiveness.

#### **Credit risk arising from customers and counterparties**

Our business is exposed to credit risks as we extend credit to our customers in the forms of accounts receivable, advances, loans, guarantees and other instruments. Our customers include companies in which we hold equity interest. For such customers, we are exposed to both credit risk as well as investment risk. We also enter into various swaps and other derivative transactions primarily for hedging purposes and have counterparty risk in relation to such contracts. Our business, results of operations and financial conditions may be adversely affected if our customers or counterparties fail to meet their financial or contractual obligations to us.

We undertake efforts to manage credit risk by carrying out credit checks on customers based on our internal credit rating system, obtaining collateral or guarantees, and having a diversified customer base. We make allowances for doubtful receivables based on certain assumptions, estimates and assessments about the credit worthiness of our customers, the value of collateral we hold and other items.

However, such efforts may not be sufficient to avoid loss that may arise from credit risk. Furthermore, these assumptions, estimates and assessments might not be correct. In addition, if general economic conditions deteriorate, if other factors which were the basis for our assumptions, estimates and assessments change, or if we are adversely affected by other factors to an extent worse than anticipated, our actual losses could materially exceed our allowances.

### Risks related to investment activities and our strategic business alliances

In connection with our corporate strategy and the development of our business opportunities, we have acquired or made investments in newly established or existing companies and intend to continue to do so in the future. We sometimes extend credit, through such as credit sales, loans, and guaranties, to the companies in which we invest. As our business investments sometimes require the commitment of substantial capital resources, in some instances, we may be required to contribute additional funds. We may not be able to achieve the benefits we expect from such investments. In addition, since a substantial portion of our business investments is illiquid, we may not be able to exit from such investments at the time or in the manner we would like.

We sometimes enter into partnerships, joint ventures or strategic business alliances with various third parties. In some cases, we cannot control the operations and assets of the companies in which we invest nor can we make major decisions in relation to such investments without the consent of other shareholders or participants, or cannot do the same at all. Our business could be adversely affected in such cases, or if we are unable to continue with one or more of our partnerships, joint ventures or strategic business alliances.

In order to mitigate these risks, we in principle invest only in projects that meet our investment criteria which reflect the specific business risks associated to each case. At the same time, for the large and/or the important projects that could have a major impact on the entire company, the Business Unit Investment Committee and Company Investment Committee that includes Corporate Group members would be held at the investment targeting stage and at the decision-making stage to analyze the project risks including the specialist's view point prior to implementation of the investment. Also, there is a procedure for post-closing monitoring of the investment, which is a fundamental part of investment risk control, through tracking of results of investments in comparison to initial business plans.

### Risk related to mineral resources, oil and gas development projects

Our business in mineral resources, oil and gas development projects involve the following risks. Any occurrence of these events could have an adverse effect on our operating results and financial conditions.

- development of projects may face schedule delays or cost overruns compared to original plans;
- we appoint an expert to estimate the reserves before participating the project, but it may significantly differ after operating;
- production may be lower than originally planned or production cost may increase due to difficulties in technical conditions; and
- the plan may not be able to perform due to governmental regulations such as delay of acquiring/renewal of approval, tax reform, takeover of business property, infringement.

### Fluctuations of interest rates, foreign currency exchange rates, and commodity prices

We rely on debt financing in the form of loans from financial institutions or the issuance of corporate bonds and commercial paper to finance our operations. We also often extend credit to our customers and suppliers in the form of loans, guarantees, advances and other financing means. For example, through several subsidiaries, we are engaged in motor vehicle financing and leasing businesses in Japan and other countries. Revenues and expenses and the fair price of our assets and liabilities arising from such business transactions, in some cases, are affected by interest rate fluctuations.

Foreign currency exchange rate fluctuations can affect the yen value of our investments denominated in foreign currencies as well as revenues and expenses and our foreign currency-denominated assets and liabilities arising from business transactions and investments denominated in foreign currencies. Exchange rate fluctuations can also affect the yen value of the foreign currency financial statements of our foreign subsidiaries. Although we attempt to reduce such interest rate fluctuations and foreign currency exchange risks, primarily by using various derivative instruments, we are not able to fully insulate ourselves from the effects of interest rate fluctuations and exchange rate fluctuations.

As a participant in the global commodities markets, we trade in a variety of commodities, including mineral, metal, chemical, energy and agricultural products. As such, we may be adversely affected by the fluctuations in the prices of the relevant commodities. Although we attempt to reduce our exposure to price volatility by hedge-selling commodities, matching the quantity and timing of buying and selling, and utilizing derivative instruments for hedging purposes, we are not able to fully insulate ourselves from the effects of commodity price movements.

#### **Risks related to declines in real estate market or impairment loss on fixed assets, etc.**

Our real estate business involves developing, renting and managing of and providing services to office buildings and commercial and residential properties in Japan and abroad. If the real estate market deteriorates, our results of operations and financial condition could be materially adversely affected.

Also, if land prices and rental values decline, we may be forced to write down the value of our properties as well as the value of land and buildings held for lease and land held for development. Not only real estate but also our property holdings are exposed to impairment risk. As such, our business, operating results and financial condition could be adversely affected.

#### **Risks related to continued volatility of equity markets in Japan and elsewhere**

A significant portion of our investments consists of marketable equity securities, particularly those of Japanese issuers. Our results of operation and financial conditions may be adversely affected if the Japanese equity market declines in the future because we would incur impairment losses for equity securities.

#### **Risks regarding uncertainty about retirement benefit obligation**

Declines in the global stock and other markets would reduce the value of our plan assets, and could necessitate additional funding of the plan by us. This could adversely affect our results of operations and financial condition.

#### **Concentration of risk exposure in specific fields**

Some parts of our operations and businesses are concentrated in a few particular markets, entities, and regions. As a result, if these operations and businesses do not perform as we expect or if the economic conditions in these markets and regions deteriorate unexpectedly, it could have a disproportionately negative effect on our businesses and results of operations. For example, we are involved in a large power plant project, the automobile lease and finance business, liquefied natural gas projects and other business activities in Indonesia. As such, risk exposure is concentrated there.

#### **Risks stemming from restrictions on access to liquidity and capital**

We rely on debt financing in the form of loans from financial institutions or the issuance of corporate bonds and commercial paper etc. to finance our operations. If financial markets are in turmoil and financial institutions reduce their lendings to us and there is a significant downgrade of our credit ratings by one or more credit rating agencies, we may not be able to access funds when we need them on acceptable terms, our access to debt capital markets may become more restricted or the cost of financing our operations through indebtedness may increase. This could adversely affect our results of operations and financial condition.

#### **Risks regarding laws and regulations**

Our operations are subject to extensive laws and regulations covering a wide range of fields in Japan and many other countries. These laws and regulations govern, among other things, tariffs and other taxation, business and investment approvals, import and export activities (including restrictions based on national security interests), antitrust and competition, unfair trade practices, currency exchange, distributor protection, consumer protection and environmental protection. In some of the countries in which we operate, our operations may subject us to additional or future relevant laws and regulations. Also particularly in developing countries with relatively nascent legal systems, our burden of compliance may further increase due to factors such as the lack of laws and regulations, unexpected interpretations of existing laws and regulations and changing practices of regulatory, judicial and administrative bodies. Failure to

comply with current or future laws and regulations could lead to penalties and fines against us and restrictions in our operations or damage to our reputation. If that occurs, our business, results of operations and financial condition could be materially adversely affected.

#### **Risks related to legal actions, etc.**

We are party to a number of legal actions and other disputes in Japan and abroad. In performing our business, lawsuits arising incidentally and claims that do not develop into lawsuits may be brought against us.

Due to the inherent uncertainty of litigation, it is not possible to predict the ultimate outcome of the actions in which we are involved at this time. There can be no assurance that we will prevail in any action or that we will not be materially adversely affected by such action in the future.

#### **Risks regarding noncompliance by officers and employees with applicable laws and regulations and internal policies and regarding management of our information and communications systems**

Due to our size, as well as the diversity and geographic breadth of our activities, our day-to-day operations are necessarily decentralized. The nature of our operations requires extensive internal controls and management oversight to ensure compliance by our employees with applicable laws and regulations and our internal policies. There can be no assurance that we will succeed in preventing misconduct by our employees through our internal control and compliance systems. Employee misconduct could have a material adverse effect on our results of operations, expose us to legal and financial risks and compromise our reputation.

We are dependent on the proper functioning of our information and communications systems to maintain our global operations. System malfunction and external cyber attacks may result in disruptions of our operations.

#### **There is no assurance that our risk management systems will effectively minimize various types of risks in our operations to appropriate levels.**

Our extensive and diverse businesses expose us to various types of risks. We conduct our business through industry-based business units and regional operations, domestic and overseas. At the same time, we are expanding our business activities into new areas. Accordingly, in addition to the risks and uncertainties that we face as a whole as an integrated trading company, each of our industry-based business units and regional operations may be subject to risks inherent in or relating to each industry, market and/or geographic focus.

Our existing risk management systems, which consist of various elements from risk measurement methodology and information system to internal rule and organization structure, may not work satisfactorily with respect to various risks. Furthermore, we may have no experience or only limited experience with the risks relating to our new business activities, products and services.

In such cases, our new business activities, products and services may require the introduction of more complex management systems and additional management resources, such as human resources.

Moreover, a shortage of management resources, such as human resources, may lead to a restriction of business operation.

#### **Natural Disasters and other risks**

Natural disasters, such as an earthquake, tsunami, heavy rain or flood, or infectious diseases, such as the new influenza occur in the region or the countries where we operate may adversely affect our operations and results. We have implemented measures such as developing disaster contingency manual, creating Business Continuity Plan (BCP), introducing a safety confirmation system of employees, stocking necessary goods in case of disaster, conducting emergency drills, reinforcing earthquake resistance of buildings and systems, and making a back-up of data. However, despite of these measures, there is no assurance that damage from disasters can be completely avoided.



◆ **Sumitomo Corporation**

<http://www.sumitomocorp.co.jp/english/>



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