

AICHI CORPORATION
Audited Financial Statements
(English Translation)

March 31, 2017

Independent Auditors' Report
(English Translation*)

May 15, 2017

To the Board of Directors of AICHI CORPORATION

PricewaterhouseCoopers Aarata LLC

Sakae Toda, CPA
Designated Limited Liability Partner, Engagement Partner
Junji Ichihara, CPA
Designated Limited Liability Partner, Engagement Partner

We have audited, pursuant to Article 444 (4) of the "Corporate Law" of Japan, the consolidated financial statements, which consist of the consolidated balance sheet, consolidated statement of income, consolidated statement of change in net assets and notes to the consolidated financial statements of AICHI CORPORATION (hereinafter referred to as the "Company") for the fiscal year from April 1, 2016 to March 31, 2017.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and adopted depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of the corporate group which consists of the Company and its consolidated subsidiaries for the period covered by the consolidated financial statements in conformity with accounting principles generally accepted in Japan.

Interest

We have no interest in or relationship with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Law of Japan.

* The original audit report is in Japanese. This English translation is for readers' convenience and reading this translation is not a substitute for reading the original audit report in Japanese.

AICHI CORPORATION
Consolidated Balance Sheet
As of March 31, 2017

In Thousands of Yen

Assets

Current assets:

Cash on hand and in banks	¥	1,328,396
Deposits receivable		25,841,811
Notes and accounts receivable – trade		20,972,356
Finished goods		1,178,283
Work in process		1,403,547
Raw materials and supplies		1,263,009
Deferred tax assets		542,241
Other current assets		628,291
Less, allowance for doubtful accounts		(296)
Total current assets		53,157,641

Fixed assets:

Property, plant and equipment:

Buildings and structures		8,483,509
Machinery, equipment and vehicles		3,866,914
Tools, furniture and fixtures		444,586
Land		8,526,734
Construction in progress		644,468
Other property, plant and equipment		491,290

Total property, plant and equipment 22,457,504

Intangible assets 1,112,670

Investments and other assets:

Investment securities		5,632,105
Deferred tax assets		280,341
Other assets		1,196,832
Less, allowance for doubtful accounts		(5,129)

Total investments and other assets 7,104,149

Total fixed assets 30,674,324

Total assets ¥ 83,831,966

	<u>In Thousands of Yen</u>
Liabilities	
Current liabilities:	
Trade notes and accounts payable	¥ 15,614,807
Income taxes payable	1,503,288
Accrued bonuses to directors and corporate auditors	94,000
Allowance for product warranty	147,573
Other current liabilities	4,949,908
Total current liabilities	<u>22,309,577</u>
Long-term liabilities:	
Deferred tax liabilities for land revaluation	616,302
Accrued retirement benefits to directors and corporate auditors	78,700
Net defined benefit liability	4,058,582
Other liabilities	864,733
Total long-term liabilities	<u>5,618,318</u>
Total liabilities	<u>27,927,896</u>
Net assets	
Shareholders' equity:	
Capital stock	10,425,325
Capital surplus	9,923,342
Retained earnings	36,068,845
Less, treasury stock	(916,683)
Total shareholders' equity	<u>55,500,829</u>
Accumulated other comprehensive income:	
Net unrealized gains on available-for-sale securities	2,649,809
Less, land revaluation	(1,624,044)
Foreign currency translation adjustments	(13,242)
Remeasurements of defined benefit plans	(609,282)
Total accumulated other comprehensive income	<u>403,239</u>
Total net assets	<u>55,904,069</u>
Total liabilities and net assets	<u>¥ 83,831,966</u>

AICHI CORPORATION
Consolidated Statement of Income
Fiscal Year from April 1, 2016 to March 31, 2017

In Thousands of Yen

Operating revenue:	
Net sales	¥ 62,608,009
Operating costs and expenses:	
Cost of sales	48,075,296
Gross profit	14,532,712
Selling, general and administrative expenses	6,725,452
Operating income	7,807,260
Non-operating income:	
Interest and dividend income	131,119
Miscellaneous incomes	187,089
	318,208
Non-operating expenses:	
Interest expense	27
Foreign exchange losses	84,011
Miscellaneous expenses	3,218
	87,257
Ordinary income	8,038,211
Extraordinary gains:	
Gain on sales of tangible fixed assets	1,319
Gain on sales of investment securities	0
	1,319
Extraordinary losses:	
Loss on sales of tangible fixed assets	7,057
Loss on retirement of tangible fixed assets	396,155
Loss on insurance cancellation	3,689
Impairment loss	187,431
	594,334
Income before income taxes	7,445,197
Income taxes-current	2,244,376
Income taxes-deferred	82,157
Net income	5,118,663
Net income attributable to owners of parent	¥ 5,118,663

AICHI CORPORATION
Consolidated Statement of Change in Net Assets
Fiscal Year from April 1, 2016 to March 31, 2017

(In Thousands of Yen)

Items	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	10,425,325	9,923,342	33,062,277	(915,770)	52,495,173
Changes of items during the period					
Cash dividends			(1,397,291)		(1,397,291)
Net income attributable to owners of parent			5,118,663		5,118,663
Reversal of revaluation reserve for land			(714,803)		(714,803)
Purchase of treasury stock				(912)	(912)
Other changes					
Total changes of items during the period	—	—	3,006,568	(912)	3,005,656
Balance at the end of current period	10,425,325	9,923,342	36,068,845	(916,683)	55,500,829

Items	Accumulated other comprehensive income		
	Net unrealized gains or losses on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustments
Balance at the beginning of current period	2,120,101	(2,338,847)	172,660
Changes of items during the period			
Cash dividends			
Net income attributable to owners of parent			
Reversal of revaluation reserve for land			
Purchase of treasury stock			
Other changes	529,708	714,803	(185,903)
Total changes of items during the period	529,708	714,803	(185,903)
Balance at the end of current period	2,649,809	(1,624,044)	(13,242)

Items	Accumulated other comprehensive income		Total net assets
	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the beginning of current period	(705,133)	(751,218)	51,743,954
Changes of items during the period			
Cash dividends			(1,397,291)
Net income attributable to owners of parent			5,118,663
Reversal of revaluation reserve for land			(714,803)
Purchase of treasury stock			(912)
Other changes	95,851	1,154,458	1,154,458
Total changes of items during the period	95,851	1,154,458	4,160,114
Balance at the end of current period	(609,282)	403,239	55,904,069

AICHI CORPORATION

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

1. Basis of consolidation

The accounts of AICHI CORPORATION (the “Company”) and all of its 2 subsidiaries are included in the consolidated financial statements.

Name of the consolidated subsidiaries

Aichi Training Center Co., Ltd.

Zhejiang Aichi Industrial Machinery Co., Ltd.

2. Application of equity method

(1) Overview of affiliates accounted for by the equity method

One affiliate is accounted for by the equity method.

Name of the affiliate

Hangzhou Aichi Engineering Vehicles Co., Ltd.

(2) Special matters concerning application procedures of the equity method

Although the fiscal year end date of Hangzhou Aichi Engineering Vehicles Co., Ltd. is December 31, when preparing the consolidated financial statements, the Company uses the affiliate’s provisional financial statements, which are calculated assuming the fiscal year end date is March 31.

3. Fiscal year of consolidated subsidiaries

Although the fiscal year end date of Zhejiang Aichi Industrial Machinery Co., Ltd. is December 31, when preparing the consolidated financial statements, the Company uses the subsidiary’s provisional financial statements, which are calculated assuming the fiscal year end date is March 31.

4. Accounting policies

(1) Valuation method of significant assets

① Inventories

Inventories are stated at cost (computed by reducing the book value to reflect deterioration in profitability).

Finished goods and work in process are evaluated using the specific identification method.

Raw materials are mainly stated at cost, cost being determined by the moving average method.

Supplies are stated at cost, cost being determined by the last purchase price method.

② Securities

Securities are classified in accordance with “Accounting Standard for Financial Instruments.”

Available-for-sale securities whose market quotations are available are stated at fair value. Net unrealized gains or losses are reported as a separate component in net assets, net of applicable income taxes. Gains and losses on disposition are computed based on the moving average method.

Available-for-sale securities whose market quotations are not available are stated at cost, cost being determined by the moving average method.

(2) Method of depreciation or amortization

- ① Property, plant and equipment (except for lease assets) are depreciated mainly on the declining-balance method. In addition, buildings (except for its accessory structures) acquired on and after April 1, 1998 and accessory structures of buildings and structures acquired on and after April 1, 2016 are depreciated on the straight-line method.
- ② Intangible assets (except for lease assets) are amortized based on the straight-line method. In addition, software for internal use is amortized on the straight-line method over estimated useful lives (5 years).
Goodwill is amortized on the straight-line method over eight years.
- ③ Depreciation of leased assets regarding finance leases other than those for which the ownership of the leased items is transferred to the lessee is computed with the straight-line method over the lease period with no residual value.
- ④ Long-term prepaid expenses are charged to income on the straight-line method.

(3) Significant allowances and provisions

- ① Allowance for doubtful accounts
The Company provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivable balances. The Company reviews individual financial condition for doubtful or troubled receivables and provides for losses on uncorrectable amounts. In addition, general reserve for other accounts receivable is provided based on historical loss experience for certain past periods.
- ② Accrued bonuses to directors and corporate auditors
The Company provides for estimated payment of bonuses to directors and corporate auditors.
- ③ Allowance for product warranty
The Company provides for estimated warranty costs based on the Company's prior experience and estimated costs to be incurred individually for certain products.
- ④ Accrued retirement benefits to directors and corporate auditors
The Company provides for estimated cost for retirement benefits to directors and corporate auditors based on the amount which would be payable under internal rules if all directors and corporate auditors retired at fiscal year end date.

(4) Retirement benefits

- ① Method of attributing projected benefit obligation to periods
In calculating retirement benefit obligation, projected benefit obligation attributed to the current fiscal year is determined using the benefit formula basis.
- ② Calculation treatment for actuarial gains or losses and prior service costs
Prior service costs are amortized as incurred by the straight-line method over a fixed period (10 years), which are shorter than the average remaining years of service of the employees.
Actuarial gains or losses are amortized in the fiscal year following the fiscal year in which the gain or loss is recognized primarily by the straight-line method over a fixed period (10 years), which is shorter than the average remaining years of service of the employees.

(5) Hedge accounting

Hedge accounting is applied for foreign currency forward contracts when certain conditions are met.

(6) Consumption taxes

Consumption taxes are separately recorded at each transaction.

Changes in Accounting Policies

In line with the revisions to the Corporation Tax Act of Japan, the Company adopted the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force (PITF) No. 32, June 17, 2016) effective from the consolidated fiscal year ended March 31, 2017. Accordingly, the depreciation method for accessory structures of buildings and structures acquired on and after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change to profit and loss for the consolidated fiscal year ended March 31, 2017 is immaterial.

Notes to Consolidated Balance Sheet

	<u>In Thousands of Yen</u>
(1) Accumulated depreciation of property, plant and equipment	¥ 16,551,820
(2) Land revaluation	

Pursuant to the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001), the Company revalued lands for business activities on March 31, 2002.

Pursuant to the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 24, March 31, 1999), the effect of this revaluation has been recorded as deferred tax liabilities for land revaluation in liabilities and as land revaluation in net assets.

Revaluation was carried out based on an amount rationally calculated using the land value for local government tax and roadside land assessment as prescribed in Article 2, Paragraph 3 and Article 2, Paragraph 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (No. 119 of the 1998 Cabinet Order, promulgated on March 31, 1998), respectively.

Revaluation date	March 31, 2002
Difference between the market value on the land revaluation date above and the carrying amount of the land after the revaluation	¥(2,657,943) thousand

Notes to Consolidated Statement of Income

	<u>In Thousands of Yen</u>
Amount of reduction in book value of inventories held for normal sales purpose due to the lowered earnings	
Cost of sales	¥ (48,892)

Notes to Consolidated Statement of Change in Net Assets

(1) Class and number of issued shares

Class of stock	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	79,453,250	—	—	79,453,250

(2) Stock acquisition rights, etc.

There is no applicable item.

(3) Cash dividends

① Amount of cash dividends

Resolution	Class of stock	Amount of cash dividends	Cash dividends per share	Record date	Effective date of distribution
Annual general shareholders' meeting on June 23, 2016	Common stock	(Thousands of Yen) 698,647	(Yen) 9.00	March 31, 2016	June 24, 2016
Board meeting on October 27, 2016	Common stock	698,644	9.00	September 30, 2016	November 28, 2016

② Dividends whose record date falls in the fiscal year ended March 31, 2017, but the effective date of distribution falls in the fiscal year ending March 31, 2018

Resolution (Planned)	Class of stock	Resource of dividends	Amount of cash dividends	Cash dividends per share	Record date	Effective date of distribution
Annual general shareholders' meeting on June 22, 2017	Common stock	Retained earnings	(Thousands of Yen) 698,637	(Yen) 9.00	March 31, 2017	June 23, 2017

Notes to Financial Instruments

(1) Status of financial instruments held by the Group

The Group's fund management is limited primarily to short-term deposits while working capital and capital investments are financed by the Group's own fund without involving borrowings from banks or other financial institutions.

Credit risk of customers in respect to notes and accounts receivable – trade is mitigated by credit control. Investment securities held by the Group are mainly company shares, and the fair values of listed stocks are verified on a quarterly basis.

Regarding derivative transactions, we use forward exchange contracts in order to mitigate the exchange risks associated with export transactions in the normal course of our business.

(2) Fair value of financial instruments

Consolidated balance sheet amounts, fair values and their differences as of March 31, 2017 are as follows.

(In Thousands of Yen)

	Consolidated balance sheet amounts	Fair values	Differences
① Cash on hand and in banks	1,328,396	1,328,396	—
② Deposits receivable	25,841,811	25,841,811	—
③ Notes and accounts receivable – trade	20,972,356		
Allowance for doubtful accounts (※)	(296)		
	20,972,060	20,972,060	—
④ Investment securities			
Available-for-sale securities	5,198,545	5,198,545	—
Total assets	53,340,814	53,340,814	—
⑤ Trade notes and accounts payable	15,614,807	15,614,807	—
⑥ Income taxes payable	1,503,288	1,503,288	—
Total liabilities	17,118,096	17,118,096	—
⑦ Derivative transactions	45,820	45,743	(76)

(※) Allowance for doubtful accounts corresponding to notes and accounts receivable – trade is deducted.

Notes:

- ① Cash on hand and in banks, ② Deposits receivable and ③ Notes and accounts receivable – trade
These are settled on short-term basis where their book values approximate their fair values, thus they are stated at book values.

Accounts receivable – trade under designated hedge accounting (“Furiate-shori”) are evaluated at an amount accounted for integrally with the forward exchange contracts.

- ④ Investment securities

Fair values of shares are based on stock exchange quoted prices.

Unlisted shares (with consolidated balance sheet amount of ¥433,560 thousand) are not included in “Available-for-sale securities in ④ Investment securities,” as their fair values appear extremely difficult to determine because they do not have market prices and it is impossible to estimate future cash flows.

- ⑤ Trade notes and accounts payable and ⑥ Income taxes payable

These are settled on short-term basis where their book values approximate their fair values, thus they are stated at book values.

⑦ Derivative transactions

Fair values of these are based on the account statements from the concerned financial institutions.

The fair values of forward exchange contracts under designated hedge accounting (“Furiate-shori”) are included in the amount of accounts receivable – trade as they are accounted for integrally with accounts receivable – trade which are hedged items.

Notes to Rental Property

Disclosure is omitted as the information is insignificant.

Per Share Information

	In Yen	
Net assets per share	¥	720.17
Net income per share		65.94

Notes to Subsequent Event

There is no applicable item.

Other Notes

(Additional information)

The Company adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) effective from the consolidated fiscal year ended March 31, 2017.

Notice to Readers:

The amounts in thousands of yen in the accompanying financial statements are stated, omitting any fractional sums.

Independent Auditors' Report
(English Translation*)

May 15, 2017

To the Board of Directors of AICHI CORPORATION

PricewaterhouseCoopers Aarata LLC

Sakae Toda, CPA
Designated Limited Liability Partner, Engagement Partner
Junji Ichihara, CPA
Designated Limited Liability Partner, Engagement Partner

We have audited, pursuant to Article 436 (2) i of the "Corporate Law" of Japan, the financial statements, which consist of the balance sheet, statement of income, statement of change in net assets and notes to the financial statements, and the supplementary schedules of AICHI CORPORATION (hereinafter referred to as the "Company") for the 69th fiscal year from April 1, 2016 to March 31, 2017.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected and adopted depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements and the supplementary schedules.

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

Audit Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations for the period covered by the financial statements and the supplementary schedules in conformity with accounting principles generally accepted in Japan.

Interest

We have no interest in or relationship with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Law of Japan.

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AICHI CORPORATION
Balance Sheet
As of March 31, 2017

In Thousands of Yen

Assets

Current assets:

Cash on hand and in banks	¥	623,580
Deposits receivable		25,841,811
Notes receivable – trade		3,368,299
Electronically recorded monetary claims		1,440,953
Accounts receivable – trade		16,218,813
Finished goods		1,149,531
Work in process		1,337,084
Raw materials and supplies		921,668
Deferred tax assets		505,905
Short-term loans receivable		897,520
Other current assets		602,793
Total current assets		52,907,960

Fixed assets:

Property, plant and equipment:

Buildings		7,087,761
Structures		980,334
Machinery and equipment		3,556,218
Vehicles		10,322
Tools, furniture and fixtures		410,735
Land		8,526,734
Construction in progress		640,040
Other property, plant and equipment		491,290
Total property, plant and equipment		21,703,438

Intangible assets:

Water supply utility rights		556
Telephone rights to use public facility (depreciable)		4
Software		589,503
Goodwill		101,750
Other intangible assets		77,462
Total intangible assets		769,276

Investments and other assets:

Investment securities		5,632,105
Investments in subsidiaries and affiliates		30,000
Investments in partnerships		1,220
Investments in affiliated partnerships		1,234,069
Deferred tax assets		48,084
Long-term prepaid expenses		98,407
Lease deposits		61,571
Other assets		133,068
Less, allowance for doubtful accounts		(5,129)
Total investments and other assets		7,233,396
Total fixed assets		29,706,111
Total assets	¥	82,614,071

Liabilities**Current liabilities:**

Notes payable – trade	¥	2,128,254
Electronically recorded obligations – operating		9,054,582
Accounts payable – trade		4,518,966
Accounts payable – other		1,869,302
Income taxes payable		1,502,720
Accrued expenses		1,383,091
Accrued consumption taxes		731,670
Deposits received		172,536
Deferred income		285
Accrued bonuses to directors and corporate auditors		94,000
Allowance for product warranty		147,573
Notes payable – equipment		339,102
Electronically recorded obligations – equipment		219,620
Other current liabilities		156,643
Total current liabilities		<u>22,318,350</u>

Long-term liabilities:

Deferred tax liabilities for land revaluation		616,302
Accrued retirement benefits to directors and corporate auditors		78,700
Accrued retirement benefits		3,160,354
Other liabilities		864,733
Total long-term liabilities		<u>4,720,090</u>
Total liabilities		<u>27,038,440</u>

Net assets**Shareholders' equity:**

Capital stock		10,425,325
Capital surplus:		
Additional paid-in capital		9,941,842
Total capital surplus		<u>9,941,842</u>
Retained earnings:		
Other retained earnings		35,099,381
Retained earnings carried forward to the following period		35,099,381
Total retained earnings		<u>35,099,381</u>
Less, treasury stock		<u>(916,683)</u>
Total shareholders' equity		<u>54,549,865</u>

Valuation and translation adjustments:

Net unrealized gains on available-for-sale securities		2,649,809
Less, land revaluation		(1,624,044)
Total valuation and translation adjustments		<u>1,025,765</u>
Total net assets		<u>55,575,631</u>
Total liabilities and net assets	¥	<u>82,614,071</u>

AICHI CORPORATION
Statement of Income
Fiscal Year from April 1, 2016 to March 31, 2017

In Thousands of Yen

Operating revenue:	
Net sales	¥ 62,308,750
 Operating costs and expenses:	
Cost of sales	<u>47,856,424</u>
Gross profit	<u>14,452,325</u>
Selling, general and administrative expenses	<u>6,545,000</u>
Operating income	7,907,324
 Non-operating income:	
Interest and dividend income	269,822
Miscellaneous incomes	<u>55,521</u>
	325,343
 Non-operating expenses:	
Interest expense	72
Foreign exchange losses	31,098
Miscellaneous expenses	<u>1,855</u>
	<u>33,027</u>
Ordinary income	8,199,641
 Extraordinary gains:	
Gain on sales of tangible fixed assets	17,987
Gain on sale of investment securities	<u>0</u>
	17,988
 Extraordinary losses:	
Loss on sales of tangible fixed assets	6,960
Loss on retirement of tangible fixed assets	396,009
Loss on insurance cancellation	3,689
Impairment loss	<u>187,431</u>
	<u>594,091</u>
Income before income taxes	7,623,538
Income taxes-current	2,243,239
Income taxes-deferred	<u>(11,849)</u>
Net income	<u>¥ 5,392,147</u>

AICHI CORPORATION
Statement of Change in Net Assets
Fiscal Year from April 1, 2016 to March 31, 2017

(In Thousands of Yen)

Items	Shareholders' equity		
	Capital stock	Capital surplus	
		Additional paid-in capital	Total capital surplus
Balance at the beginning of current period	10,425,325	9,941,842	9,941,842
Changes of items during the period			
Cash dividends			
Net income for the year			
Reversal of revaluation reserve for land			
Purchase of treasury stock			
Other changes			
Total changes of items during the period	—	—	—
Balance at the end of current period	10,425,325	9,941,842	9,941,842

Items	Shareholders' equity			
	Retained earnings		Treasury stock at cost	Total shareholders' equity
	Other retained earnings	Total retained earnings		
Balance at the beginning of current period	31,819,328	31,819,328	(915,770)	51,270,725
Changes of items during the period				
Cash dividends	(1,397,291)	(1,397,291)		(1,397,291)
Net income for the year	5,392,147	5,392,147		5,392,147
Reversal of revaluation reserve for land	(714,803)	(714,803)		(714,803)
Purchase of treasury stock			(912)	(912)
Other changes				
Total changes of items during the period	3,280,053	3,280,053	(912)	3,279,140
Balance at the end of current period	35,099,381	35,099,381	(916,683)	54,549,865

Items	Valuation and translation adjustments			Total net assets
	Net unrealized gains or losses on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at the beginning of current period	2,120,101	(2,338,847)	(218,746)	51,051,978
Changes of items during the period				
Cash dividends				(1,397,291)
Net income for the year				5,392,147
Reversal of revaluation reserve for land				(714,803)
Purchase of treasury stock				(912)
Other changes	529,708	714,803	1,244,511	1,244,511
Total changes of items during the period	529,708	714,803	1,244,511	4,523,652
Balance at the end of current period	2,649,809	(1,624,044)	1,025,765	55,575,631

AICHI CORPORATION
Notes to Financial Statements

Significant Accounting Policies

(1) Valuation of securities

Securities are classified in accordance with “Accounting Standard for Financial Instruments.”

Investments in subsidiaries and affiliates are stated at cost, cost being determined by the moving average method.

Available-for-sale securities whose market quotations are available are stated at fair value. Net unrealized gains or losses are reported as a separate component in net assets, net of applicable income taxes. Gains and losses on disposition are computed based on the moving average method.

Available-for-sale securities whose market quotations are not available are stated at cost, cost being determined by the moving average method.

(2) Valuation of inventories

Inventories are stated at cost (computed by reducing the book value to reflect deterioration in profitability).

Finished goods and work in process are evaluated using the specific identification method.

Raw materials are evaluated using the moving average method.

Supplies are stated at cost, cost being determined by the last purchase price method.

(3) Method of depreciation or amortization

Property, plant and equipment (except for lease assets) are depreciated mainly on the declining-balance method. In addition, buildings (except for its accessory structures) acquired on and after April 1, 1998 and accessory structures of buildings and structures acquired on and after April 1, 2016 are depreciated on the straight-line method.

Intangible assets (except for lease assets) are amortized on the straight-line method. In addition, software for internal use is amortized on straight-line method over estimated useful lives (5 years). Goodwill is amortized on the straight-line method over eight years.

Depreciation of leased assets regarding finance leases other than those for which the ownership of the leased items is transferred to the lessee is computed with the straight-line method over the lease period with no residual value.

Long-term prepaid expenses are charged to income on the straight-line method.

(4) Allowances and provisions

① Allowance for doubtful accounts

The Company provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivable balances. The Company reviews individual financial condition for doubtful or troubled receivables and provides for losses on uncorrectable amounts. In addition, general reserve for other accounts receivable is provided based on historical loss experience for certain past periods.

② Accrued bonuses to directors and corporate auditors

The Company provides for estimated payment of bonuses to directors and corporate auditors.

- ③ Allowance for product warranty
The Company provides for estimated warranty costs based on the Company's prior experience and estimated costs to be incurred individually calculated for certain products.
- ④ Accrued retirement benefits to directors and corporate auditors
The Company provides for estimated cost for retirement benefits to directors and corporate auditors based on the amount which would be payable under internal rules if all directors and corporate auditors retired at fiscal year end date.
- ⑤ Accrued retirement benefits
The Company provides for estimated cost for future severance payments to employees based on actuarial present value of retirement benefit obligation and pension plan assets.
 - 1) Method of attributing projected benefit obligation to periods
In calculating retirement benefit obligation, projected benefit obligation attributed to the current fiscal year is determined using the benefit formula basis.
 - 2) Calculation treatment for actuarial gains or losses and prior service costs
Prior service costs are amortized as incurred by the straight-line method over a fixed period (10 years), which are shorter than the average remaining years of service of the employees.
Actuarial gains or losses are amortized in the fiscal year following the fiscal year in which the gain or loss is recognized by the straight-line method over a fixed period (10 years), which is shorter than the average remaining years of service of the employees.

(5) Hedge accounting

Hedge accounting is applied for foreign currency forward contracts when certain conditions are met.

(6) Other

- ① Accounting treatment for retirement benefits
The accounting treatment for unrecognized actuarial differences for retirement benefits and unrecognized prior service costs differ from that of the consolidated financial statements.
- ② Consumption taxes
Consumption taxes are separately recorded at each transaction.

Changes in Accounting Policies

In line with the revisions to the Corporation Tax Act of Japan, the Company adopted the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force (PITF) No. 32, June 17, 2016) effective from the fiscal year ended March 31, 2017. Accordingly, the depreciation method for accessory structures of buildings and structures acquired on and after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change to profit and loss for the fiscal year ended March 31, 2017 is immaterial.

Notes to Balance Sheet

	<u>In Thousands of Yen</u>	
(1) Accumulated depreciation of property, plant and equipment	¥	16,041,609
(2) Receivables from and payables to subsidiaries and affiliates:		
Short-term receivables	¥	27,675,266
Short-term payables	¥	248,371
(3) Land revaluation		

Pursuant to the Law Concerning Revaluation of Land (Law No. 34, March 31, 1998) and the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 19, March 31, 2001), the Company revalued land used for business activities on March 31, 2002.

Pursuant to the Law to Partially Amend the Law Concerning Revaluation of Land (Law No. 24, March 31, 1999), the effect of this revaluation has been recorded as deferred tax liabilities for land revaluation in liabilities and as revaluation reserve for land in net assets.

Revaluation was carried out based on an amount rationally calculated using the land value for local government tax and roadside land assessment as prescribed in Article 2, Paragraph 3 and Article 2, Paragraph 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (No. 119 of the 1998 Cabinet Order, promulgated on March 31, 1998), respectively.

Revaluation date	March 31, 2002
Difference between the market value on the land revaluation date above and the carrying amount of the land after the revaluation	¥(2,657,943) thousand

Notes to Statement of Income

	<u>In Thousands of Yen</u>	
(1) Transactions with subsidiaries and affiliates:		
Operating transaction		
Net sales	¥	3,527,140
Goods purchased	¥	3,526,653
Selling, general and administrative expenses	¥	29,413
Non-operating transaction	¥	25,530
(2) Write-down due to decreased profitability of inventories held for sale in the ordinary course of business		
Cost of sales	¥	(45,989)

Notes to Statement of Change in Net Assets

Class and number of treasury stock

Class of stock	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	1,825,799	1,078	-	1,826,877

(Major cause of movement)

Increase of treasury stock is due to acquisition of shares less than one unit.

Deferred Tax Assets and Liabilities

(1) The significant components of deferred tax assets and liabilities were as follows:

	<u>In Thousands of Yen</u>
Deferred tax assets	
Inventories	30,640
Accrued enterprise tax and office tax payable	91,555
Allowance for product warranty	45,290
Accrued retirement benefits	963,813
Accrued bonus	285,460
Buildings, structures, machinery and equipment	39,392
Land	568,729
Investment securities	173,620
Others	327,907
Subtotal	<u>2,526,409</u>
Valuation allowance	<u>(982,991)</u>
Total deferred tax assets	1,543,417

	<u>In Thousands of Yen</u>
Deferred tax liabilities	
Net unrealized gains on available-for-sale securities	¥ (981,378)
Others	<u>(8,049)</u>
Total deferred tax liabilities	<u>(989,428)</u>
Deferred tax assets (Net)	553,989

(2) Deferred tax assets in relation to revaluation reserve for land

	<u>In Thousands of Yen</u>
Deferred tax assets	
Unrealized loss on land revaluation	923,260
Valuation allowance	<u>(923,260)</u>
Deferred tax assets (Net)	—
Deferred tax liabilities	
Unrealized gain on land revaluation	¥ (616,302)
Deferred tax liabilities (Net)	<u>(616,302)</u>

Related Party Transactions

Related party transactions are as follows:

(1) Parent company and major corporate shareholders, etc.

Type	Name of the related company	Capital (in thousands of Yen)	Description of business or occupation	Equity ownership percentage	Relationship of related company		Nature of transactions	Transaction amount (in thousands of Yen)	Account	Balance at year-end (in thousands of Yen)
					Interlocking directorate	Business relationship				
Parent company	Toyota Industries Corporation	80,462,672	Manufacture and sale of automobiles, industrial vehicles, and textile machinery, etc.	(owned) direct 52.2%	Cross-company transfer 2 persons Employee 1 person	Sale of specially equipped vehicles as well as sale and purchase of their parts; deposits of funds	Deposits receivable ※	3,415,658	Deposits receivable	25,841,811

Note: Commercial terms and condition

※ The Company charged interest on deposits receivable in accordance with market interest rates.

(2) Subsidiaries, etc.

Type	Name of the related company	Capital (in thousands of US Dollars)	Description of business or occupation	Equity ownership percentage	Relationship of related company		Nature of transactions	Transaction amount (in thousands of Yen)	Account	Balance at year-end (in thousands of Yen)
					Interlocking directorate	Business relationship				
Subsidiary	Zhejiang Aichi Industrial Machinery Co., Ltd.	15,000	Manufacture and sale of special machinery	(owning) direct 100.0%	Executive Officers 2 persons Employees 4 persons	Sale and purchase of special machinery and parts; working capital loans	Loans receivable on working capital ※	3,920	Short-term loans receivable	897,520

Note: Commercial terms and condition

※ The Company charged interest on loans receivable on working capital in accordance with market interest rates.

Per Share Information

	In Yen	
Net assets per share	¥	715.94
Net income per share		69.46

Notes to Subsequent Event

There is no applicable item.

Notes to Companies to Which the Restriction on Consolidated Dividends Applies

There is no applicable item.

Other Notes

(Additional information)

The Company adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) effective from the fiscal year ended March 31, 2017.

Notice to Readers:

The amounts in thousands of yen in the accompanying financial statements are stated, omitting any fractional sums.