Mitsui & Co. (U.S.A.), Inc.

Financial Statements as of and
for the Years Ended March 31, 2018 and 2017, and
Independent Auditors' Report

MITSUI & CO.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Mitsui & Co. (U.S.A.), Inc.:

We have audited the accompanying financial statements of Mitsui & Co. (U.S.A.), Inc. (the ''Company'') (an ultimate wholly-owned subsidiary of Mitsui & Co., Ltd.), which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the Company has extensive transactions with Mitsui & Co., Ltd. and its affiliates. Accordingly, the accompanying financial statements may not be indicative of the financial position, the results of its operations, or its cash flows which would have been attained by the Company if it had operated without such affiliations. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

New York, NY

July 23, 2018

Mitsui & Co. (U.S.A.), Inc.

Statements of Financial Position
March 31, 2018 and 2017

	Notes	2018 (In thousands)	2017
ASSETS			
Current Assets:			
Cash and cash equivalents		$ 69,300	$ 39,173
Short-term loan receivables	4, 5, 15	322,997	427,796
Current portion of long-term loan receivables	4, 5, 15	224,058	177,971
Trade and other receivables	4, 5, 6, 15	557,117	960,397
Derivative-related assets	4, 13, 15	3,172	66,580
Inventories		181,860	130,069
Advance payments to suppliers	15	2,434	205,357
Other current assets	3	47,534	19,789
Total current assets		1,408,472	2,027,132
Non-Current Assets:			
Investments in subsidiaries and associates	3	865,650	947,749
Other investments	4, 13	82,519	55,907
Long-term loan receivables, less current portion	4, 5, 15	1,040,559	939,686
Derivative-related assets	4, 13, 15	7,659	9,023
Property, plant, and equipment	7	28,557	16,663
Deferred tax assets	12	61,001	71,185
Total non-current assets		2,085,945	2,040,213
Total assets		$ 3,494,417	$ 4,067,345
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term debt	8, 15	$ 1,333,879	$ 1,184,273
Current portion of long-term debt	4, 8, 15	307,742	488,712
Trade and other payables	8, 15	359,015	449,996
Derivative-related liabilities	4, 8, 13, 15	3,200	55,672
Dividend payable	3	36,957	—
Other current liabilities	12, 15	21,782	61,270
Total current liabilities		2,062,575	2,239,923
Non-Current Liabilities:			
Long-term debt, less current portion	4, 8, 15	848,303	1,086,416
Retirement benefit liabilities	9	44,900	46,491
Other non-current liabilities	12, 15	38,849	49,197
Total non-current liabilities		932,052	1,182,104
Total liabilities		2,994,627	3,422,027
Equity:			
Common stock, no par value—authorized 2,000 shares; issued, fully paid, and outstanding 1,050 shares		350,000	350,000
Additional paid-in capital		127,699	118,934
Retained earnings		21,240	179,598
Accumulated other comprehensive income (loss)	10	851	(3,214)
Total equity		499,790	645,318
Total liabilities and equity		$ 3,494,417	$ 4,067,345

Mitsui & Co. (U.S.A.), Inc.

Statements of Comprehensive Income
Years Ended March 31, 2018 and 2017

	Notes	2018 (In thousands)	2017 (In thousands)
Revenue:			
Sale of products		$ 2,948,871	$ 3,870,887
Rendering of services		16,926	15,700
Total revenue	15	2,965,797	3,886,587
Cost of Revenue:			
Cost of products sold		(2,927,210)	(3,827,292)
Cost of services rendered		—	(2)
Total cost of revenue	7	(2,927,210)	(3,827,294)
Gross Profit		38,587	59,293
Other Income (Expenses):			
Selling, general, and administrative expenses	6, 7, 11	(156,372)	(153,100)
Other income	3, 4, 15	109,962	91,424
Other expense	3, 4, 5, 13	(102,331)	(33,990)
Total other expenses—net		(148,741)	(95,666)
Finance Income (Cost):			
Interest income	4, 15	57,438	40,360
Dividend income	4	109,371	645,511
Interest expense	4, 15	(54,625)	(36,828)
Total finance income—net		112,184	649,043
Profit before Income Taxes		2,030	612,670
Income Tax Benefit (Expense)	12	13,572	(22,648)
Profit for the Year Attributable to Owner of the Company		15,602	590,022
Other Comprehensive Income (Loss):			
Items that will not be reclassified to profit or loss:			
Remeasurements of equity instruments	10	4,869	935
Remeasurements of defined benefit plans	9, 10	1,559	8,129
Income tax relating to items not reclassified to profit or loss	10	(8,849)	(3,672)
Total other comprehensive income (loss)		(2,421)	5,392
Comprehensive Income for the Year Attributable to Owner of the Company		$ 13,181	$ 595,414

Mitsui & Co. (U.S.A.), Inc.

Statements of Changes in Equity
Years Ended March 31, 2018 and 2017

(In thousands, except number of shares)

	Notes	Common stock Shares	Common stock Amounts	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Balance as of April 1, 2016		1,050	$ 350,000	$ 118,446	$ 135,763	$ (4,325)	$ 599,884
Profit for the year					590,022		590,022
Other comprehensive income for the year	10					5,392	5,392
Dividend to owner of the Company					(550,468)		(550,468)
Capital contribution from owner of the Company	3			488			488
Transfer to retained earnings	10				4,281	(4,281)	—
Balance as of March 31, 2017		1,050	$ 350,000	$ 118,934	$ 179,598	$ (3,214)	$ 645,318
Profit for the year					15,602		15,602
Other comprehensive loss for the year	10					(2,421)	(2,421)
Dividend to owner of the Company					(130,517)		(130,517)
Dividend declared to owner of the Company	3				(36,957)		(36,957)
Transactions with related parties	15			8,765			8,765
Transfer to retained earnings	10				(6,486)	6,486	—
Balance as of March 31, 2018		1,050	$ 350,000	$ 127,699	$ 21,240	$ 851	$ 499,790

Mitsui & Co. (U.S.A.), Inc.

Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	(In thousands)	
	2018	2017
Operating Activities:		
Profit for the year	$ 15,602	$ 590,022
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Depreciation and amortization	1,412	2,139
Provision for doubtful receivables	(164)	2,540
Loss on investments—net	18,987	12,334
Loss on settlement of short-tem loan receivable (Note 5)	50,950	—
Finance income—net	(112,184)	(649,043)
Income tax (benefit) expense	(13,572)	22,648
Changes in operating assets and liabilities:		
Change in trade and other receivables	406,623	(331,480)
Change in inventories	(51,791)	(10,034)
Change in advance payments to suppliers	202,923	(141,731)
Change in trade and other payables	(91,110)	157,046
Other—net	7,591	(1,563)
Interest received	54,994	38,536
Interest paid	(54,496)	(34,723)
Dividends received	115,237	639,535
Income taxes paid	(26,330)	(5,319)
Net cash provided by operating activities	524,672	290,907
Investing Activities:		
Additional investments	(38,461)	(33,134)
Return of capital on investments	8,504	28,072
Proceeds from sales of investments	40,063	34,569
Settlement of short-term loan receivable (Note 5)	122,050	—
Net change in short-term loan receivables of three months or less	(68,201)	(37,847)
Issuance of loan receivables of more than three months	(273,896)	(551,116)
Collections of loan receivables of more than three months	128,827	187,223
Collections of finance lease receivables	—	4,325
Purchases of property, plant, and equipment	(13,607)	(1,533)
Net cash used in investing activities	(94,721)	(369,441)
Financing Activities:		
Net change in short-term debt of three months or less	14,589	(450,570)
Proceeds from debt of more than three months	65,425	116,990
Repayments of debt of more than three months	(479,838)	(37,608)
Net cash used in financing activities	(399,824)	(371,188)
Net Change in Cash and Cash Equivalents	30,127	(449,722)
Cash and Cash Equivalents at Beginning of Year	39,173	488,895
Cash and Cash Equivalents at End of Year	$ 69,300	$ 39,173

Supplemental Cash Flow Information:		
Non-cash investing and financing activities:		
Assets received from subsidiaries and associates as capital returns and in-kind dividends (Note 3)	$ —	$ 14,588
Investment received from owner of the Company as in-kind contribution (Note 3)	—	488
Payment of dividend and proceeds from debt (Note 15)	130,517	550,468
Dividend declared (Note 3)	36,957	—
Issuance and collections of loan receivables of more than three months (Note 15)	—	56,677
Proceeds and repayments of debt of more than three months (Note 15)	188,800	571,371

1. Reporting Entity

Mitsui & Co. (U.S.A.), Inc. ("Mitsui USA" or the "Company") is a company incorporated in the United States. Mitsui USA is a wholly-owned subsidiary of MBK USA Holdings, Inc. ("MUH"), which is a wholly-owned subsidiary of Mitsui & Co., Ltd. ("Mitsui Japan"). Mitsui USA was directly owned by Mitsui Japan until March 31, 2014.

Mitsui USA as well as Mitsui Japan are general trading companies (*Sogo Shosha*) which engage in trading activities worldwide. The Company is engaged in business activities such as trading in various commodities, financing for customers and suppliers relating to such trading activities, and organizing and coordinating industrial projects through its business networks. The Company conducts sales, export, import, and offshore trades in the areas of Iron & Steel Products, Mineral & Metal Resources, Infrastructure Projects, Integrated Transportation Systems, Chemicals, Energy, Foods & Retail, Consumer Service Business, and others, each having a diverse customer base, while providing general services for retailing, information and communications, technical support, transportation, and logistics and financing. The Company has significant transactions with Mitsui Japan and its affiliates.

2. Basis of Financial Statements and Summary of Significant Accounting Policies

Statement of Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Separate Financial Statements

The financial statements have been prepared in accordance with the International Accounting Standards ("IAS") 27, *Separate Financial Statements.* The financial statements present information about the Company as an individual entity and do not include accounts of its subsidiaries over which the Company has control. Investments in subsidiaries and associates are accounted for under the cost method. Associates are those over which the Company is able to exercise significant influence. The ultimate parent company of the Company, Mitsui Japan, prepares consolidated financial statements in accordance with IFRS.

The Company's financial statements are prepared on the historical cost basis, except for certain financial assets or liabilities that are measured at fair value and retirement benefit liabilities that are measured based on the accounting policies described in later sections. The financial statements are presented in U.S. dollars, which is the functional currency of the Company. All financial information presented in U.S. dollars has been rounded to the nearest thousands, except as otherwise indicated.

Use of Estimates and Judgments

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The judgments based on assumptions and estimates are reviewed on an ongoing basis.

Management has made the following judgments and estimates which have the most significant effect on the amounts recognized in the financial statements:

- Impairment loss on investments in subsidiaries and associates – Note 3
- Revaluation of financial instruments – Notes 4, 5, and 13
- Allowance for doubtful receivables – Note 5
- Impairment loss on property, plant, and equipment
- Measurement of defined benefit obligations – Note 9
- Recoverability of deferred tax assets – Note 12

- Fair value measurement – Note 13
- Contingent liabilities – Note 14

Summary of Significant Accounting Policies

The accounting policies described below have been applied consistently to all periods presented in these financial statements.

Foreign currency transactions

Foreign currency transactions are translated into U.S. dollars using the spot exchange rate at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured in U.S. dollar amounts using year-end exchange rates and the resulting gains and losses are recognized in earnings. During the years ended March 31, 2018 and 2017, net foreign exchange gains were $5 and $160, respectively, and included in other income in the accompanying statements of comprehensive income.

Investments in subsidiaries and associates

The Company prepares separate financial statements and accounts for investments in subsidiaries and associates at cost less impairment.

Financial instruments

The Company has early adopted IFRS 9 (2013), *Financial Instruments*. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets of the Company mainly include cash and cash equivalents, trade and other receivables, loan receivables, debt and equity instruments, and derivative instruments with a positive fair value. Financial liabilities of the Company mainly comprise of notes and loans due to financial institutions and affiliated companies, trade and other payables, and derivative instruments with a negative fair value.

Financial instruments are recognized in the accompanying statements of financial position when the Company becomes a party to the contractual provisions of the instruments. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to the purchase or sell of the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Cash equivalents – Cash equivalents are highly-liquid short-term investments with an original maturity of three months or less that are readily convertible into cash and have no significant risk of change in value. Such cash equivalents include time deposits and commercial paper with original maturities of three months or less.

Trade and other receivables and loan receivables – Trade and other receivables and loan receivables are measured at amortized cost using the effective interest method, less any impairment losses. Impairment losses on receivables are recognized using separate allowance accounts. Gains and losses are recognized in the accompanying statements of comprehensive income when the loans and receivables are derecognized or impaired.

The Company recognizes allowances for doubtful receivables on an individual basis for receivables that are considered to have been impaired based on the latest information, or upon events, such as the debtor's bankruptcy, financial failure, or failure to repay debts due to financial difficulty, even if the debtor is not yet in financial failure.

Impairment losses are measured by using the present value of expected future cash flows, discounted at the effective interest rate based on the original terms of the contract, or fair value of the collateral if its value depends on the collateral. The resulting value is compared to the carrying value of the financial asset and the difference between the two values is recognized in profit or loss. After an impairment loss is recognized, interest income continues to be recognized on the reduced carrying amount using the same discount rate used to discount the expected future cash flows when the impairment loss was measured. If the fair value of previously impaired receivables subsequently recovers due to factors occurring after the recognition of impairment, a reversal of impairment loss is recognized in profit or loss. The reversal amount is deducted from the related provision for receivables.

For receivables for which allowances are not recognized on an individual basis, the Company records an allowance for doubtful receivables collectively based primarily on the Company's credit loss experiences and the current economic environment.

Debt instruments – Debt instruments are measured at amortized cost if they meet the following two criteria. They are held for the purpose of collecting contractual cash flows and have contractual terms which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Amortized cost is calculated by using the effective interest rate method.

Equity instruments – Equity instruments (except for investments in subsidiaries and associates) are measured at fair value through profit or loss ("FVTPL"). However, for certain equity instruments held primarily for the purpose of enhancing the revenue base by maintaining or strengthening the trade relationship with the investees, the Company elects, at initial recognition, to designate these instruments at fair value through other comprehensive income ("FVTOCI"). When equity instruments measured at FVTOCI are derecognized, the accumulated other comprehensive income (loss) is directly transferred to retained earnings without being recognized in profit or loss. Dividend income received on those measured at FVTOCI is recognized in profit or loss.

Finance income and cost – Finance income and cost include interest income, interest expense, dividend income, and gain or loss from derivatives instruments that were used to hedge financial assets and liabilities. Interest income and interest expense are recognized using the effective interest method. Dividend income is recognized on the date when the right of the Company to receive the dividends vest.

Derivative instruments and hedging activities – Derivative financial instruments, such as foreign currency exchange contracts, foreign currency and interest rate swap contracts, commodity futures and forward contracts, and contingent earnouts are measured at fair value. Changes in the fair value of derivative financial instruments are recognized in profit or loss. Derivative instruments held for the purpose of eliminating the risk of changes in the fair values of hedged items are designated as fair value hedge and subject to the assessment of hedge effectiveness. To the extent that they satisfy the requirements for hedge accounting, any changes in fair value are recognized in profit or loss together with the corresponding changes in fair value of hedged item. Currently, the Company does not hold derivative instruments for cash flow hedge purposes.

Trade and other payable and debt – Trade and other payables and debt are measured at amortized cost.

Offsetting financial assets and financial liabilities – Financial assets and financial liabilities are offset and the net amount is presented in the accompanying statements of financial position when, and only when, the Company currently has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Leasing

The Company as lessor – For finance leases, unearned income is amortized to income over the lease term at a constant periodic rate of return on the net investment. Initial direct costs of finance leases are deferred and amortized using the effective interest method over the lease period. Finance lease income, net of direct amortization cost, is included in interest income. For operating leases, income is recognized as revenue from rendering of services over the term of underlying leases on a straight-line basis.

The Company as lessee – Lease expenses on operating leases are recognized over the respective lease terms on a straight-line basis.

Property, plant, and equipment

Property, plant, and equipment are recorded at cost. Depreciation of property, plant, and equipment is provided over the estimated useful lives (ranging from 3 to 33 years) of such assets using the straight-line method. Leasehold improvements are amortized using the straight-line method over the lesser of the useful life of the improvement or the remaining term of the underlying lease. Significant renewals and additions are capitalized at cost. Expenditures for improvements and betterments of operating rental properties are capitalized. Maintenance, repairs, and minor renewals and betterments are charged to expense as incurred.

Impairment of non-financial assets and investments in subsidiaries and associates

The Company periodically performs analyses to determine whether there is any indication of impairment of non-financial assets and investments in subsidiaries and associates. If any such indication exists, the recoverable amounts of the non-financial assets and the investments are estimated.

The recoverable amount of an asset or a cash-generating unit ("CGU") is the higher of its fair value, less costs of disposal, and its value in use and is determined for an individual asset when the asset generates cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and the carrying amount is written down to its recoverable amount with the impairment loss recognized in profit or loss. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed and included in other income only if there has been a change in the assumptions used to determine the recoverable amount of the asset since the last impairment loss was recognized.

Inventories

Inventories, consisting of commodities and materials for sale, are measured at the lower of cost or net realizable value. The costs of inventory of items that are not ordinarily interchangeable are assigned by using specific identification of their individual costs. For those items which are interchangeable, the costs are mainly assigned by using the weighted average cost formula.

The cost of inventories recognized as an expense during the year in respect of continuing operations was $2,831,230 and $3,618,195 during the years ended March 31, 2018 and 2017.

Revenue recognition

Revenue is recognized as follows:

Sale of products – Revenues from sale of products include those arising from the sale of various products such as metals, chemicals, foods, and general consumer merchandise. The Company acts as a principal in the sales transactions and recognizes revenues on a gross basis when all of the following conditions are satisfied:

- Significant risks and rewards of the goods have been transferred to the buyer;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services – Revenues from rendering of services include those arising from trading margins and commissions related to various trading transactions in which the Company acts as a principal or an agent. Specifically, the Company charges a commission for the performance of various services such as logistic and warehouse services, information and communication services, and technical support. For certain back-to-back sales and purchase transactions of products, the Company acts as an agent and records the net amount of sales and purchase prices as revenues. All other sales of services in which the Company acts as principal are recorded on a gross basis. The determination of whether the Company acts as a principal or agent in a transaction is based on an evaluation of the terms of a transaction with respect to exposure to the risks and rewards associated with the sale of products or rendering of services. Revenues from service-related businesses are recorded as revenue when all of 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 Company;

- The stage of completion of the transaction at the end of reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

These conditions are usually considered to have been met when the contracted services are rendered to third-party customers pursuant to the agreements.

Employee benefits

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognized immediately as part of the current service cost. When a plan amendment, settlement (eliminating all obligations for benefits already accrued), or a curtailment (reducing future obligations as a result of a significant reduction in the plan membership or a reduction in future entitlement) occurs, the obligations and related plan assets are remeasured using current actuarial assumptions and the resulting gain or loss recognized in earnings during the period in which the plan amendment, settlement, or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of plan obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligations, taking into account material changes in the obligations during the year. The expected return on plan assets is based on a long-term market return assumption that is automatically set equal to the discount rate used to value the benefit obligations, and then adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. All components of net pension cost are presented as a single net amount and included in selling, general, and administrative expenses in the accompanying statements of comprehensive income. The remeasurements of defined benefit plans are recognized in other comprehensive income (loss) and are transferred immediately to retained earnings.

Retirement benefit liabilities in the accompanying statements of financial position comprise the total of the present value of the defined benefit obligations, less the fair value of plan assets out of which the obligations are to be settled directly.

The Company and certain participating affiliated companies share the costs of the defined benefit pension plan. See Note 9 for further discussion.

The Company also has defined contribution plans. Payments to defined contribution plans are recognized as an expense when employees have rendered service.

Income taxes

The Company records income taxes based on IAS 12, *Income Taxes*.

Income taxes comprise current taxes and deferred taxes. Income tax expense is calculated based on profit before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and their tax bases, tax loss carryforwards, and tax credit carryforwards. These deferred income taxes are measured using the currently enacted or substantively enacted tax rates in effect for the year in which the temporary differences, tax loss carryforwards, or tax credit carryforwards are expected to reverse.

Deferred tax assets are recognized only with respect to unused tax losses, unused tax credits, and deductible temporary differences where it is probable to reduce future taxable income. The recoverability of deferred tax assets is reviewed at the end of each period and the Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax liabilities arising from taxable temporary differences concerning investments in subsidiaries and associates are recognized unless the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

From April 1, 2014, the Company joined the MUH federal consolidated tax group, and the Company's operations are included in the consolidated federal income tax return of MUH. The Company records its current and deferred income tax provision as if it were a separate taxable entity. The Company includes in its income tax provision the tax effect of profits and losses of partnerships and limited liability companies that do not have a tax sharing agreement with the Company.

The Company recognizes uncertain tax positions in income taxes in the financial statements when it is probable that an economic outflow would occur if the tax positions were examined and challenged by tax authorities.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that outflows of resources embodying economic benefits will be required to settle the obligation, and the reliable estimates of the amount of the obligation can be made. Provisions are measured as the best estimate of the amount of expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

Financial guarantees

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantee contracts are initially recognized at fair value and are subsequently measured at the greater of the best estimate of the likely outflow and the amount initially recognized less, where appropriate, cumulative amortization.

New Accounting Standards

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contract with customers. The core principle of this standard is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also requires extensive disclosures related to revenue recognition. In September 2015, the IASB deferred the effective date. This standard is effective for the Company from the fiscal year beginning April 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of adoption of this standard on its financial statements.

In July 2014, the IASB issued amendments to IFRS 9, *Financial Instruments*, mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income measurement category for certain debt instruments. These amendments are effective for the Company from the fiscal year beginning April 1, 2018, with earlier application permitted. The Company is currently evaluating the impact of adoption of these amendments on its financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*. IFRS 16 requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income. IFRS 16 does not introduce any significant change in lessor accounting, and accordingly, a lessor continues to classify its leases as operating leases or finance leases. This standard is effective for the Company from the fiscal year beginning April 1, 2019, with earlier application permitted. The Company is currently evaluating the impact of adoption of this standard on its financial statements.

In June 2017, the IASB issued IFRS Interpretations Committee ("IFRIC") Interpretation 23, *Uncertainty over Income Tax Treatments*. IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes*, when there is uncertainty over income tax treatments. This Interpretation is effective for the Company from the fiscal year beginning April 1, 2019, with earlier application permitted. The Company is currently evaluating the impact of adoption of this Interpretation on its financial statements.

(In thousands, except where otherwise noted)

In October 2017, the IASB issued amendments to IFRS 9, *Financial Instruments*. These amendments allow particular prepayable financial assets to be recorded at amortized cost, or, depending on the business model, at FVTOCI if certain conditions are met. The amendments also clarify accounting for financial liabilities following a modification or exchange. These amendments are effective from the fiscal year beginning April 1, 2019, with earlier application permitted. The Company is currently evaluating the impact of adoption of these amendments on its financial statements.

3. Investments in Subsidiaries and Associates

The Company prepares separate financial statements and records investments in subsidiaries and associates at cost less impairment. The changes in the investments in subsidiaries and associates for the years ended March 31, 2018 and 2017 consisted of the following:

	Investments in subsidiaries	Investments in associates	Total
Balance at April 1, 2016	$ 806,515	$ 209,899	$ 1,016,414
Additions	19,297	3,169	22,466
Disposals	—	(13,656)	(13,656)
Capital returns	(32,812)	(2,244)	(35,056)
Impairment	(22,400)	(5,743)	(28,143)
Reclassification	(80,108)	65,832	(14,276)
Balance at March 31, 2017	$ 690,492	$ 257,257	$ 947,749
Additions	6,941	2,189	9,130
Disposals	—	(13,430)	(13,430)
Impairment	(36,300)	(4,542)	(40,842)
Reclassification	(36,957)	—	(36,957)
Balance at March 31, 2018	$ 624,176	$ 241,474	$ 865,650

The following are significant activities reflected in the table above:

Additions

Additions to investments in subsidiaries during the year ended March 31, 2018 mainly relate to additional capital contributions to Mitsui Plastics, Inc. and United Grain Corporation of approximately $5.4 million and $1.5 million, respectively.

Additions to investments in associates during the year ended March 31, 2018 mainly relate to the capital injections to Peterson Ventures Partners II, LP of approximately $1.4 million.

Additions to investments in subsidiaries during the year ended March 31, 2017 mainly relate to the establishment of a wholly owned subsidiary, Westport Petroleum, LLC (“WPL”), with an initial investment of approximately $11.0 million. In connection with the establishment of WPL, Mitsui Japan transferred its 20% ownership interest in Westport Petroleum, Inc. (“WPI”) to the Company, which became the sole owner of WPI. The carrying amount of approximately $0.5 million associated with the ownership interest in WPI transferred by Mitsui Japan is reflected in additional paid-in capital. WPI merged with WPL during the year and was dissolved with WPL as the surviving entity.

Disposals

Disposals in investments in associates during the year ended March 31, 2018 included the partial sale of the Company’s shares in Penske Automotive Group Inc. and sale of all shares in Aethon, Inc. to third parties for a selling price of approximately $20.0 million and $16.0 million, respectively. The Company recorded gains on these sales of approximately $22.6 million in other income in the accompanying statement of comprehensive income for the year ended March 31, 2018.

Disposals in investments in associates during the year ended March 31, 2017 included the sale of all the Company's shares in PK USA, Inc. and Seymour Tubing, Inc. to third parties for a selling price of approximately $12.6 million and $18.9 million, respectively. The Company recorded gains on these sales of approximately $18.1 million in other income in the accompanying statement of comprehensive income for the year ended March 31, 2017.

Capital Returns

During the year ended March 31, 2017, the Company received returns of capital on its investments in MIT Wind Power, Inc. ("MIT Wind") and Engine Leasing 1-6 LLCs, wholly-owned subsidiaries, in the amount of $10.0 million and approximately $16.6 million, respectively. The return of capital on Engine Leasing 1-6 LLCs included approximately $8.3 million of in-kind distribution.

Impairments

During the year ended March 31, 2018, the Company recorded impairment losses on its investments in MIT Wind and WPL of approximately $20.1 million and $14.1 millions, respectively. The impairment was recognized due to increased operating costs.

During the year ended March 31, 2017, the Company recorded an impairment loss on its investment in Champions Cinco Pipe & Supply LLC ("CCPS") of approximately $22.4 million. CCPS was established in August 2016 by a merger between Champions Pipe and Supply, Inc. and Cinco Pipe and Supply, LLC, both of which were wholly owned by the Company. The impairment was recognized due to reduced product demand from continuous decline in oil prices.

The fair value of the investments was estimated using the discounted cash flow method and categorized as Level 3 in the fair value hierarchy. The significant unobservable inputs used for these fair value measurements were the discount rate and projected cash flows. See Note 13 regarding the fair value hierarchy.

The impairment losses were included in other expense in the accompanying statements of comprehensive income for the years ended March 31, 2018 and 2017.

Reclassification

On March 22, 2018, the Board of Directors of the Company approved an in-kind dividend of all of its shares in Hydro Capital Corporation ("HCC"), a wholly-owned subsidiary, distributed to MUH on April 1, 2018. The Company's investment in HCC of approximately $37.0 million was reclassified to and included in other current assets in the accompanying statement of financial position at March 31, 2018.

On May 11, 2016, Novus International, Inc. ("Novus"), a 65%-owned subsidiary, issued additional shares to MUH in exchange for a 43% interest. The Company's interest in Novus decreased to 37% and the carrying amount of $80.1 million was reclassified from subsidiary to associate.

(In thousands, except where otherwise noted)

Details of the significant investments in subsidiaries and associates at March 31, 2018 and 2017 were as follows:

Subsidiaries:

Name of investees	Principal place of business	Proportion of ownership interest (%)	
		2018	2017
Game Changer Holdings Inc.	United States	100	100
Hydro Capital Corporation	Mexico[1]	100	100
Intercontinental Terminals Company LLC	United States	100	100
MBK Real Estate Holdings Inc.	United States	100	100
MIT Wind Power, Inc.	United States	100	100
Mitsui de Mexico, S. de R.L. de. C.V.	Mexico	100	100
Mitsui Foods, Inc.	United States	100	100
Mitsui Plastics, Inc.	United States	100	100
United Grain Corporation of Oregon	United States	80	80
Westport Petroleum LLC	United States	100	100

[1] Hydro Capital Corporation is incorporated in the United States.

Associates:

Name of investees	Principal place of business	Proportion of ownership interest (%)	
		2018	2017
Aethon, Inc.	United States	—	37
Android Industries, LLC	United States	33	33
AWC Investments, Inc.	United States	29	29
MAG Aliança Automóveis do Brasil SSC	Brazil	50	50
Novus International, Inc.	United States	37	37
Penske Automotive Group, Inc.	United States	3[2]	4[2]
Road Machinery LLC	Mexico[3]	50	50
Yorozu Automotiva do Brasil Ltda.	Brazil	30	30

[2] Mitsui Japan also owns shares of Penske Automotive Group, Inc. Mitsui USA has significant influence over the entity jointly with Mitsui Japan.
[3] Road Machinery LLC is organized in the United States.

(In thousands, except where otherwise noted)

4. Financial Instruments and Related Matters

Trade and Other Receivables and Derivative-related Assets

Trade and other receivables and derivative-related assets as of March 31, 2018 and 2017 were measured at amortized cost, except for derivative assets, and consisted of the following:

	2018	2017
Current:		
Trade and other receivables:		
Customers	$ 247,080	$ 695,416
Parent and affiliates	311,774	269,597
Allowance for doubtful receivables	(1,737)	(4,616)
Total	$ 557,117	$ 960,397
Derivative-related assets:		
Derivative assets	3,172	49,868
Margin deposits	—	16,712
Total	$ 3,172	$ 66,580
Non-current:		
Derivative-related assets—Derivative assets	$ 7,659	$ 9,023

Other Investments

The carrying amounts of other investments as of March 31, 2018 and 2017 were as follows:

	2018	2017
Equity instruments measured at FVTPL	$ 28,473	$ 29,729
Debt instruments measured at FVTPL	13,000	—
Equity instruments measured at FVTOCI	41,046	26,178
Total	$ 82,519	$ 55,907

Equity and Debt Instruments Measured at FVTPL

The fair value of equity and debt instruments measured at FVTPL as of March 31, 2018 and 2017 was as follows:

	2018	2017
Unlisted securities	$ 41,473	$ 29,729

There were no individually significant equity and debt instruments measured at FVTPL as of March 31, 2018 and 2017.

Gains (Losses) on Equity and Debt Instruments Measured at FVTPL

The Company recorded a net loss of $773 and $2,018 on sales and valuation of equity and debt instruments measured at FVTPL for the years ended March 31, 2018 and 2017, respectively. Net loss on equity and debt instruments measured at FVTPL are included in other expense in the accompanying statements of comprehensive income for the years ended March 31, 2018 and 2017.

(In thousands, except where otherwise noted)

Equity Instruments Measured at FVTOCI

The fair value of equity instruments measured at FVTOCI as of March 31, 2018 and 2017 was as follows:

	2018	2017
Publicly listed securities	$ 4,174	$ 3,159
Unlisted securities	36,872	23,019
Total	$ 41,046	$ 26,178

There were no individually significant equity instruments measured at FVTOCI as of March 31, 2018 and 2017.

Derecognized Equity Instruments Measured at FVTOCI

During the years ended March 31, 2018 and 2017, the Company disposed of certain equity instruments measured at FVTOCI because it determined such equity instruments no longer met the Company's business strategies. The fair value at the date of derecognition and cumulative loss on disposal—net related to those equity instruments were as follows:

	2018	2017
Fair value of the equity instruments at the date of derecognition	$ —	$ 2,973
Cumulative losses on disposition—net	(1,000)	(905)

The Company received no dividends from those disposed equity instruments measured at FVTOCI during the years ended March 31, 2018 and 2017.

Finance Income and Cost

The finance income and finance cost for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Interest income:		
Amortized cost	$ 57,318	$ 40,360
Debt instruments measured at FVTPL	120	—
Total	$ 57,438	$ 40,360
Dividend income:		
Subsidiaries and associates	$ 109,153	$ 645,375
Equity instruments measured at FVTPL	171	1
Equity instruments measured at FVTOCI	47	135
Total	$ 109,371	$ 645,511
Interest expense:		
Amortized cost	$ (54,625)	$ (37,131)
Derivatives	—	303
Total	$ (54,625)	$ (36,828)

Fee income and expense arising from financial assets measured at amortized cost were immaterial for the years ended March 31, 2018 and 2017.

Fair Value of Long-term Loan Receivables and Long-term Debt

The carrying amounts of long-term loan receivables and long-term debt with floating rates approximate their respective fair value. The fair value of long-term loan receivables and long-term debt with fixed rates is estimated by discounted cash flow analysis, using interest rates currently available for similar types of loan receivables and debt with similar terms and remaining maturities. These amounts are classified as Level 2 in the fair value hierarchy.

(In thousands, except where otherwise noted)

The carrying amounts and fair value of long-term loan receivables and long-term debt as of March 31, 2018 and 2017 were as follows:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loan receivables, including current portion	$ 1,264,617	$ 1,277,358	$ 1,117,657	$ 1,145,762
Long-term debt, including current portion	1,156,045	1,153,416	1,575,128	1,582,671

Capital Management and Financial Risk Management

(1) Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern. The Board of Directors manages the level of dividends to the shareholder to maintain an optimal capital structure. No changes were made in the objectives, policies, or processes during the years ended March 31, 2018 and 2017. The capital of the Company consists of equity attributable to MUH.

(2) Credit risk

Credit risk is the risk of loss resulting from counterparty default arising on all credit exposures. The Company's credit risk is primarily attributable to its trade and loan receivables. The Company manages its credit risk by having and applying a strict credit approval process, with different levels of management having a varying credit approval limit. The Company has an established credit department which controls and monitors credit. Each counterparty is appraised annually and the credit limit and company rating are updated, if appropriate. In addition, certain counterparties are covered by credit insurance policies. See Note 5 for further analysis of allowance for doubtful receivables.

The credit risk on liquid funds and derivative instruments are limited because the counterparties are financial institutions and other parties with high credit ratings assigned by international credit rating agencies and other counterparties which have to pass through a credit approval process before credit lines are approved.

There was no significant concentration of trade receivables at March 31, 2018. Approximately 46% of trade receivables were derived from three customers in China and Switzerland at March 31, 2017. The receivable balance with one of these customers was secured by letters of credit issued by established international banks and the remaining two customers had strong financial position.

The carrying amounts of financial assets recorded in the financial statements, net of any allowances for losses, and the financial guarantees represent the Company’s maximum exposure to credit risk.

(3) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations as they become due because of insufficient financial resources. The Company manages liquidity risk by maintaining adequate reserves and banking facilities and continually monitoring forecast and actual cash flows by the use of the cash management arrangement utilized by various affiliated companies.

In its funding strategy, the Company’s objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings from third-party financial institutions and an affiliated company which specializes in financing services. See Note 8 for liquidity risk analysis for each class of financial liabilities and Notes 8 and 15 for information on lines of credit.

(4) Interest rate risk

The Company is exposed to interest rate risk arising from floating-rate assets and liabilities. An increase in interest rates may adversely affect its operating results.

The impact on profit before income taxes assuming a 1% rise in interest rates is a lower profit of approximately \$8.4 million and \$11.5 million for the years ended March 31, 2018 and 2017, respectively. This sensitivity analysis is calculated by multiplying the net amounts of floating-rate financial assets and liabilities as of March 31, 2018 and 2017 by 1%, without considering future changes in the balance, the effect of exchange rate fluctuations, or the diversification effect of the timing of refinancing/interest rate revisions of floating-rate debts and assuming that all other variables are constant.

The instruments that are included in the sensitivity analysis include floating-rate interest-bearing loan receivables and debt, fixed-rate interest-bearing loan receivables and debt, and cash and cash equivalents.

(5) Foreign currency exchange rate risk

The Company has limited exposure to foreign currency exchange rate risk as most of its receivables and payables arising from transactions such as purchases and sales of products and services and financial transactions are denominated in U.S. dollars. The Company effectively eliminated the foreign currency exchange rate risk from its Japanese-yen denominated borrowing by using a cross-currency swap contract. The Japanese-yen borrowing and cross-currency swap contract matured during the year ended March 31, 2018. The impact on profit before income taxes assuming a 1% rise in exchange rate of any currency is not material for the years ended March 31, 2018 and 2017.

(6) Commodity price risk

The Company trades in commodities and, as a result, it is exposed to the risk of price fluctuations. The Company uses the Value at Risk ("VaR") method to measure the price risk for certain commodities for which historical price fluctuations are significant. VaR is a statistical measure of the potential maximum loss in the fair value of a given portfolio over a certain holding period and within a certain confidence level. The Company calculates VaR by using a 10-day holding period and a confidence level of 99%. The VaR was \$0 million and \$5.6 million as of March 31, 2018 and 2017, respectively. Those figures do not take into account correlations among various commodities. The actual results may differ significantly from VaR as VaR is based on certain assumptions and calculated using historical fluctuations of each risk component.

(7) Contingent earnouts

The Company holds contingent development and sales earnouts, which are recorded as derivatives. The earnouts will be received at various times based on achievements of various clinical and regulatory milestones as well as earnout payments based on achievements of various sales milestones. The fair value of such payments is adjusted to reflect the estimated risk with the relative uncertainty of both the timing and achievement of individual development and sales earnouts.

Derivative Instruments and Hedging Activities

The Company manages foreign currency exchange rates and commodity price risks associated with individual transactions by using various derivative instruments.

Foreign currency exchange rate risk hedging activities

The Company mitigated the fluctuation of the fair value of a long-term debt, the hedged item which matured during the year ended March 31, 2018, with a cross-currency swap contract. The cross-currency swap contract offset the impact of future changes in foreign exchange rates designated as the hedged risk, which were a component of the fair value of the underlying Japanese-yen denominated long-term debt. The carrying amounts of the Japanese-yen denominated long-term debt, which had been recognized in the statements of financial position until maturity, was \$45,268 as of March 31, 2017. The Company applied fair value hedge accounting on the cross-currency swap contract and hedged item until their maturity. At March 31, 2018, the Company does not hold derivative instruments for fair value hedge purposes. The Company also uses foreign exchange forward contracts to reduce the risks from foreign currency-denominated receivables and payables. Those foreign exchange forward contracts and hedged items do not qualify for hedge accounting and changes in fair value, which are not significant, are recognized in earnings.

(In thousands, except where otherwise noted)

Commodity price risk hedging activities

The Company uses exchange-traded futures to manage its net position of agricultural commodity forward purchase and sales contracts to reduce price risk caused by market fluctuations in agricultural commodities, such as soy beans and corn. The Company does not apply hedge accounting on such contracts and hedged items. During the year ended March 31, 2018, a soy beans business was transferred to Mitsui Japan, which significantly reduced the Company's exposure to commodity price risk.

The following table presents the fair value of the derivative instrument designated as hedging instrument, the cross-currency swap contract, as of March 31, 2018 and 2017:

		2018		2017	
		Assets	Liabilities	Assets	Liabilities
Foreign exchange contract	Current	$ —	$ —	$ 128	$ —

The following table presents the notional amount of the cross-currency swap contract as of March 31, 2018 and 2017:

	2018	2017
Foreign exchange contract—		
Not later than 1 year	$ —	$ 45,098

For the cross-currency swap contract, the interest received in Japanese-yen is based on a fixed interest rate of 1.745% and the interest paid in U.S. dollars is based on the 6 month London Interbank Offered Rate ("LIBOR") rate plus 23 bps. The 6 month LIBOR rate at March 31, 2017 was 1.423%.

The following table presents the fair value of derivative instruments not designated as hedging instruments as of March 31, 2018 and 2017:

		2018		2017	
		Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts	Current	$ 117	$ 145	$ 66	$ 190
Commodity contracts	Current	3,055	3,055	59,396	65,204
Contingent earnouts	Non-current	7,659	—	9,023	—
Total		$ 10,831	$ 3,200	$ 68,485	$ 65,394

Current and non-current derivative assets and current and non-current derivative liabilities are included in derivative-related assets and derivative-related liabilities on the accompanying statements of financial position, respectively.

The differences between the amounts of derivative assets and derivative liabilities stated above and those stated in the accompanying statements of financial position result from netting derivative assets and derivative liabilities with cash collateral. See Note 13 for netting adjustments.

Offset of Financial Assets and Liabilities

A financial asset and a financial liability, including collateral, are offset and the net amount is presented in the accompanying statements of financial position of the Company when, and only when, the Company currently has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(In thousands, except where otherwise noted)

The following table presents the gross amounts of recognized financial assets and liabilities, amounts set-off, amounts presented in the accompanying statements of financial position, and net amounts as of March 31, 2017. No financial assets and liabilities were set-off in the accompanying statement of financial position as of March 31, 2018. The net amounts presented below are net of those amounts that are covered by enforceable netting arrangements (offsetting arrangements and collateral), but do not qualify for the net presentation in the accompanying statements of financial position.

	2017	
	Financial Assets	Financial Liabilities
Gross amounts of recognized financial assets and liabilities	$ 68,613	$ 65,394
Gross amounts of financial assets and liabilities set-off in the accompanying statement of financial position	(9,722)	(9,722)
Net amounts of financial assets and liabilities presented in the accompanying statement of financial position	58,891	55,672
Related amounts not set-off in the accompanying statement of financial position (including collateral) *	(11,741)	(11,741)
Exposure on a net basis	$ 47,150	$ 43,931

* The Company has the right to set-off, which is enforceable only in the event of default, insolvency, or bankruptcy of its customers.

5. Receivables and Related Allowances

Changes in Allowance for Doubtful Receivables

The analysis of the changes in allowance for doubtful receivables for the years ended March 31, 2018 and 2017 is as follows:

	Total
Balance at April 1, 2016	$ 2,140
Provision for doubtful receivables	2,540
Credits charged-off	(64)
Balance at March 31, 2017	$ 4,616
Provision for doubtful receivables	(164)
Credits charged-off	(2,715)
Balance at March 31, 2018	$ 1,737

(In thousands, except where otherwise noted)

Credit Quality Indicators

To assess the adequacy of the allowance for loans receivables, the Company performs a quarterly analysis of receivables using credit quality indicators, performing receivables, and nonperforming receivables. Receivables that meet one of the following conditions are classified as nonperforming receivables:

- Counterparties who have filed a petition for liquidation, adjustments, rehabilitation, or reorganization under bankruptcy codes;
- Counterparties whose debts have not been collected for more than one year since the original due date; or
- Counterparties experiencing suspension or discontinuance of business, as well as those whose ability to fulfill their obligations is doubtful based on an internal review of their financial conditions.

The Company classifies loans receivables other than nonperforming receivables as performing receivables.

To assess the adequacy of the allowance on trade and other receivables, the Company performs a quarterly analysis of dates past due.

The amounts of recorded investments in receivables classified by credit quality indicators as of March 31, 2018 and 2017 were as follows:

	2018	2017
Loan receivables:		
Performing:		
Loan receivables	$ 1,587,614	$ 1,545,453
Total	$ 1,587,614	$ 1,545,453
Other receivables:		
Less than 30 days past due (including not past due)	$ 569,985	$ 1,241,358
30-89 days past due	1,755	838
90 days or more past due	379	3,777
Total	$ 572,119	$ 1,245,973

Impaired Receivables

All of the loan receivables are classified as performing and there were no impaired loan receivables at March 31, 2018 and 2017. In addition, there were no past due or non-accrual loan receivables at March 31, 2018 and 2017.

Trade and other receivables that were classified as impaired amounted to $242 and $2,770 as of March 31, 2018 and 2017, respectively. Substantially all of the impaired receivables were provided for with an allowance for doubtful receivables.

Settlement of Short-term Loan Receivable

During the year ended March 31, 2018, in conjunction with a sale of the Company’s interest in a subsidiary to a third party, the Company settled with the buyer a short-term loan receivable from the subsidiary of $173.0 million. The Company recorded a loss of approximately $51.0 million from the settlement of the short-term loan receivable in other expense in the accompanying statement of comprehensive income for the year ended March 31, 2018.

(In thousands, except where otherwise noted)

6. Leases

The Company leases real estate, rolling stock, and storage tanks under operating leases. Most of the storage tanks under operating leases are subleased to third parties and certain office spaces are subleased to affiliated companies.

The following is a schedule of future minimum lease payments under noncancellable operating leases as of March 31, 2018 and 2017:

	2018	2017
Not later than 1 year	$ 16,310	$ 14,916
Later than 1 year and not later than 5 years	55,639	50,854
Later than 5 years	140,865	140,374
Total	$ 212,814	$ 206,144

The following is a schedule of future minimum sublease payments to be received under noncancellable operating leases as of March 31, 2018 and 2017:

	2018	2017
Not later than 1 year	$ 5,025	$ 5,092
Later than 1 year and not later than 5 years	6,560	11,856
Later than 5 years	—	396
Total	$ 11,585	$ 17,344

Rental expenses incurred for operating leases for the years ended March 31, 2018 and 2017 were $16,762 and $16,597, respectively. Sublease rental income for the years ended March 31, 2018 and 2017 was $5,225 and $5,250, respectively.

7. Property, Plant, and Equipment

The changes in acquisition cost, accumulated depreciation, and the carrying amount of property, plant, and equipment for the years ended March 31, 2018 and 2017 were as follows:

Acquisition cost:

	Land and buildings	Equipment and fixtures	Construction in progress	Software	Total
Balance at April 1, 2016	$ 25,333	$ 7,972	$ 29	$ 6,391	$ 39,725
Additions	—	56	1,555	17	1,628
Disposals	—	(735)	—	—	(735)
Reclassification	322	63	(385)	—	—
Balance at March 31, 2017	$ 25,655	$ 7,356	$ 1,199	$ 6,408	$ 40,618
Additions	24	53	13,516	14	13,607
Disposals	(1,072)	(3,674)	—	—	(4,746)
Reclassification	9,570	1,943	(11,513)	—	—
Balance at March 31, 2018	$ 34,177	$ 5,678	$ 3,202	$ 6,422	$ 49,479

(In thousands, except where otherwise noted)

Accumulated depreciation:

	Land and buildings	Equipment and fixtures	Construction in progress	Software	Total
Balance at April 1, 2016	$ 9,592	$ 6,539	$ —	$ 6,343	$ 22,474
Depreciation/amortization expense	1,661	458	—	20	2,139
Disposals	—	(658)	—	—	(658)
Balance at March 31, 2017	$ 11,253	$ 6,339	$ —	$ 6,363	$ 23,955
Depreciation/amortization expense	986	409	—	17	1,412
Disposals	(814)	(3,631)	—	—	(4,445)
Balance at March 31, 2018	$ 11,425	$ 3,117	$ —	$ 6,380	$ 20,922

Carrying amount:

	Land and buildings	Equipment and fixtures	Construction in progress	Software	Total
Balance at March 31, 2017	$ 14,402	$ 1,017	$ 1,199	$ 45	$ 16,663
Balance at March 31, 2018	22,752	2,561	3,202	42	28,557

Of the total depreciation and amortization expense, $1,134 and $1,022 is included in selling, general, and administrative expenses in the accompanying statements of comprehensive income for the years ended March 31, 2018 and 2017, respectively. The remaining $279 and $1,116 of expense is included in cost of revenue in the accompanying statements of comprehensive income for the years ended March 31, 2018 and 2017, respectively.

The amount of contractual commitments for the acquisition of property, plant and equipment as of March 31, 2018 is $7,754. Such amount as of March 31, 2017 was immaterial.

8. Financial Liabilities

Short-term Debt

Short-term debts as of March 31, 2018 and 2017 were comprised of the following:

	2018		2017	
		Interest Rate		Interest Rate
Affiliates	$ 1,333,879	1.54%	$ 979,292	0.66%
Commercial paper	—		204,981	1.07%
Total	$ 1,333,879		$ 1,184,273	

The interest rates represent weighted-average rates in effect as of March 31, 2018 and 2017.

At March 31, 2018 and 2017, unused lines of credit for short-term financing from third-party financial institutions were $645 and $520 million, respectively.

(In thousands, except where otherwise noted)

Long-term Debt

Long-term debts as of March 31, 2018 and 2017 consisted of the following:

	2018		2017	
		Interest Rate		Interest Rate
Affiliates	$ 1,156,045	1.52% to 3.59%	$ 1,529,860	1.52% to 2.94%
Financial institution	-		45,268	1.75%
Total long-term debt	1,156,045		1,575,128	
Less current portion	(307,742)		(488,712)	
Long-term debt, less current portion	$ 848,303		$ 1,086,416	

The long-term debt from financial institution is debt denominated in Japanese-yen.

Trade and Other Payables and Derivative-related Liabilities

Trade and other payables and derivative-related liabilities as of March 31, 2018 and 2017 were measured at amortized cost, except for derivative liabilities, and consisted of the following:

	2018	2017
Current:		
Trade and other payables:		
Trade creditors	$ 136,969	$ 239,293
Parent and affiliates	203,119	191,459
Accrued expenses	18,927	19,244
Total	$ 359,015	$ 449,996
Derivative-related liabilities	3,200	55,672

Liquidity Risk Analysis

Non-derivative financial liabilities

The contractual maturities of financial liabilities, excluding derivative liabilities, as of March 31, 2018 and 2017 were as follows:

	2018			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Short-term debt	$ 1,333,879	$ —	$ —	$ 1,333,879
Trade and other payables	359,015	—	—	359,015
Long-term debt (including current portion)	307,742	821,301	27,002	1,156,045

	2017			
	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Short-term debt	$ 1,184,273	$ —	$ —	$ 1,184,273
Trade and other payables	449,996	—	—	449,996
Long-term debt (including current portion)	488,712	1,052,526	33,890	1,575,128

(In thousands, except where otherwise noted)

Derivative instruments

The following tables reflect expected net cash receipts and payments from derivative financial instruments. If amounts to be received or paid are not fixed, the amounts are calculated using forward currency exchange rates and interest rates estimated in reference to the yield curve as of March 31, 2018 and 2017.

		2018			
		Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Foreign exchange contracts:	Receipts	$ 118	$ —	$ —	$ 118
	Payments	(146)	—	—	(146)
Commodity contracts:	Receipts	3,055	—	—	3,055
	Payments	(3,055)	—	—	(3,055)

		2017			
		Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
Foreign exchange contracts:	Receipts	$ 193	$ —	$ —	$ 193
	Payments	(190)	—	—	(190)
Commodity contracts:	Receipts	59,396	—	—	59,396
	Payments	(65,204)	—	—	(65,204)

9. Employee Benefits

The Company sponsors a non-contributory defined benefit pension plan covering employees with a vested benefit (except Japanese nationals assigned in the United States by Mitsui Japan) of the Company and certain affiliated companies (collectively, “Group Companies”). The pension plan is classified as a defined benefit plan that shares risks between entities under common control in accordance with IAS 19, *Employee Benefits*. The Company amended the pension plan, effective January 1, 2007, to freeze participation in the pension plan. The Plan is governed by the Mitsui & Co. (U.S.A.), Inc. Pension Committee (the Committee). The Committee, which is comprised of employees of the Company, is mainly responsible for establishing the overall objectives, creating an investment policy and other administrative matters that fall under its fiduciary responsibilities.

In addition to providing pension benefits, the Company provides certain healthcare benefits for retired employees.

(In thousands, except where otherwise noted)

Changes in Defined Benefit Obligations and Plan Assets

The following table sets forth the changes in the Company's defined benefit obligations and plan assets for the years ended March 31, 2018 and 2017:

	Pension plan		Post-retirement welfare plan	
	2018	2017	2018	2017
Change in defined benefit obligations:				
Defined benefit obligations at beginning of year	$ 120,787	$ 123,454	$ 16,016	$ 15,634
Service cost	2,551	2,779	652	661
Interest expense	4,933	4,934	711	704
Actuarial (gain) loss – financial assumption changes	4,781	(99)	1,514	523
Actuarial (gain) loss – demographic assumption changes	1,054	(1,594)	(180)	(393)
Actuarial (gain) loss – experience adjustments	(438)	652	(735)	(747)
Plan participants' contributions	—	—	230	324
Benefits paid from plan assets	(5,142)	(9,339)	(489)	(690)
Plan amendments	(366)	—	—	—
Defined benefit obligations at end of year	128,160	120,787	17,719	16,016
Change in plan assets:				
Fair value of plan assets at beginning of year	90,312	83,372	—	—
Interest income	3,754	3,463	—	—
Return on plan assets (excluding interest income)	7,555	6,470	—	—
Contributions by the employer	5,000	6,986	259	366
Plan participants' contributions	—	—	230	324
Benefits paid from plan assets	(5,142)	(9,339)	(489)	(690)
Others	(500)	(640)	—	—
Fair value of plan assets at end of year	100,979	90,312	—	—
Net defined benefit liabilities at end of year	$ 27,181	$ 30,475	$ 17,719	$ 16,016

Components of Net Defined Benefit Costs

During the year ended March 31, 2018, the Company amended the pension plan to provide all deferred vested participants the option of a lump sum in lieu of annuity payments. Net defined benefit costs of the Company's defined benefit plans for the years ended March 31, 2018 and 2017 included the following components:

	Pension plan		Post-retirement welfare plan	
	2018	2017	2018	2017
Service cost	$ 2,551	$ 2,779	$ 652	$ 661
Interest expense	4,933	4,934	711	704
Interest income	(3,754)	(3,463)	—	—
Plan amendments	(366)	—	—	—
Others	500	640	—	—
Net defined benefit costs	$ 3,864	$ 4,890	$ 1,363	$ 1,365

Information about Shared Risks under Common Control

There is no contractual agreement or stated policy for charging to individual Group Companies the net defined benefit costs for the pension plan as a whole measured in accordance with IAS 19. For the years ended March 31, 2018 and 2017, contributions and plan expenses are shared among the participating Group Companies based on their respective headcount. During the years ended March 31, 2018 and 2017, the Company received from Group Companies approximately $0.8 million and $0.7 million, respectively, for their share of the contributions to the pension plan. The Company recorded such contributions received from Group Companies as a reduction of net defined benefit costs.

(In thousands, except where otherwise noted)

Assumptions

The weighted-average assumptions used to determine the Company's defined benefit obligations as of March 31, 2018 and 2017 were as follows:

	2018	2017
Pension plan:		
Discount rate	4.0%	4.2%
Rate of increase in future compensation levels	3.0	3.0
Post-retirement welfare plan—		
Discount rate	4.0	4.5

The Company determines the discount rates each year as of the measurement date, based on a review of interest rates associated with high-quality fixed-income corporate bonds.

The rate of increase in future compensation levels was 3.0% in determining the defined benefit obligation of the pension plan for the years ended March 31, 2018 and 2017. The rate of increase in future compensation levels was not applied in determining the defined benefit obligation of the post-retirement welfare plan, because the benefit formula of the post-retirement welfare plan does not contain factors relating to compensation levels.

The following tables illustrate the sensitivity to changes in assumptions for the pension plan and the post-retirement welfare plan:

	Impact of change in assumption on defined benefit obligations as of March 31, 2018	
	Pension plan	Post-retirement welfare plan
0.5% decrease in discount rate	$7,359 increase	$1,775 increase
0.5% increase in discount rate	$6,684 decrease	$1,543 decrease
1.0% decrease in salary increase rate	$2,991 decrease	—
1.0% increase in salary increase rate	$3,200 increase	—
1.0% decrease in health care trend rate	—	$2,716 decrease
1.0% increase in health care trend rate	—	$3,496 increase

	Impact of change in assumption on defined benefit obligations as of March 31, 2017	
	Pension plan	Post-retirement welfare plan
0.5% decrease in discount rate	$7,764 increase	$1,536 increase
0.5% increase in discount rate	$6,991 decrease	$1,339 decrease
1.0% decrease in salary increase rate	$3,013 decrease	—
1.0% increase in salary increase rate	$3,189 increase	—
1.0% decrease in health care trend rate	—	$2,357 decrease
1.0% increase in health care trend rate	—	$3,045 increase

The discount rate sensitivity was measured by adjusting the discount rate up and down by 0.5% for the pension plan and the post-retirement welfare plan as of March 31, 2018 and March 31, 2017 respectively. The sensitivity due to the salary increase rate was measured by adjusting the salary increase assumption up and down by 1.0% for the pension plan. The sensitivity due to health care trend rate was measured by adjusting the health care trend rate assumption up and down by 1.0% for the post-retirement welfare plan.

(In thousands, except where otherwise noted)

Plan Assets

The Company's investment objective is to meet current and future benefit payment needs while maximizing total investment returns (income and appreciation) after inflation within the constraints of diversification and prudent risk taking. The Company invests primarily in a diversified portfolio of equity and fixed income securities that provide for long-term growth within reasonable and prudent levels of risk. The asset allocation targets established by the Company are strategic and intended to reduce exposure to risk assets in favor of long duration fixed income securities as the funded status of the pension plan improves. The portfolio is maintained to provide adequate liquidity to meet associated liabilities and minimize long-term expense and provide prudent diversification among asset classes. The pension plan employs a diversified mix of actively managed investments around a core of passively managed exposures in each asset class. Assets are rebalanced periodically to their strategic targets to maintain the pension plan's strategic risk/reward characteristics.

The fair value of the pension plan assets as of March 31, 2018 and 2017 by asset class was as follows:

	2018			2017		
	Quoted market price in an active market			Quoted market price in an active market		
Asset Class	Available	Not available	Total	Available	Not available	Total
Equity instruments (US)	$ —	$ 27,136	$ 27,136	$ —	$ 29,165	$ 29,165
Equity instruments (Non-US)	—	22,136	22,136	—	24,426	24,426
Debt securities	—	44,823	44,823	—	29,758	29,758
Life insurance company general accounts	—	6,854	6,854	—	6,933	6,933
Cash and deposits	30	—	30	30	—	30
Total	$ 30	$ 100,949	$ 100,979	$ 30	$ 90,282	$ 90,312

Equity instruments and debt securities above are included in collective trust funds. Collective trust funds are stated at the aggregate market value of units of participation. Such value reflects accumulated contributions, dividends, and realized and unrealized investment gains or losses apportioned to such contributions. The insurance contract is primarily valued at the present value of the future benefit payments owed by the insurance company to the pension plan's participants.

Cash Flows

Contributions

The Company expects to contribute $5.0 million and $0.5 million to the pension plan and the post-retirement welfare plan, respectively, for the year ending March 31, 2019. The funding of the pension plan is through a combination of contributions received from the employer and investment income generated by the pension plan's investments. The funding level is designed to comply with requirements of the Employee Retirement Income Security Act of 1974, the 21st Century Act and the Highway and Transportation Funding Act of 2014, the Pension Protection Act of 2006, and the Internal Revenue Code. These requirements include minimum funding levels. The Company creates and implements the funding policy and monitors the funding level with the assistance of the pension plan's enrolled actuary and investment consultant.

Maturity profile

The weighted average duration of the benefit payments for the pension plan is 11.1 years and 11.5 years as of March 31, 2018 and 2017, respectively. The weighted average duration of the benefit payments for the post-retirement welfare plan is 18.7 years and 16.8 years as of March 31, 2018 and 2017, respectively.

In addition to the above defined pension plan and post-retirement welfare plan, Mitsui USA has a defined contribution plan. The defined contribution plan expense was approximately $0.9 million for each of the years ended March 31, 2018 and 2017.

(In thousands, except where otherwise noted)

10. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Remeasurements of equity instruments:		
Balance at beginning of year	$ (3,214)	$ (4,325)
Increase during the year	3,293	566
Transfer to retained earnings	772	545
Balance at end of year	$ 851	$ (3,214)
Remeasurements of defined benefit plans:		
Balance at beginning of year	$ —	$ —
Increase (decrease) during the year	(5,714)	4,826
Transfer to retained earnings	5,714	(4,826)
Balance at end of year	$ —	$ —
Total:		
Balance at beginning of year	$ (3,214)	$ (4,325)
Increase (decrease) during the year	(2,421)	5,392
Transfer to retained earnings	6,486	(4,281)
Balance at end of year	$ 851	$ (3,214)

Each component of other comprehensive income and related tax expense for the years ended March 31, 2018 and 2017 was as follows:

	2018			2017		
	Pre-tax	Tax effect*	Net	Pre-tax	Tax effect	Net
Items that will not be reclassified to profit or loss:						
Remeasurements of equity instruments	$ 4,869	$ (1,576)	$ 3,293	$ 935	$ (369)	$ 566
Remeasurements of defined benefit plans	1,559	(7,273)	(5,714)	8,129	(3,303)	4,826
Total	$ 6,428	$ (8,849)	$(2,421)	$ 9,064	$(3,672)	$ 5,392

*: Tax effect includes adjustment due to the Tax Cuts and Jobs Act enacted on December 22, 2017. See note 12.

11. Selling, General, and Administrative Expenses

Selling, general, and administrative expenses for the years ended March 31, 2018 and 2017 consisted of the following:

	2018	2017
Personnel expenses	$ 92,222	$ 90,859
Professional service expenses	18,251	14,615
Travel and entertainment expenses	14,516	15,023
Other	31,383	32,603
Total	$ 156,372	$ 153,100

(In thousands, except where otherwise noted)

12. Income Taxes

Income tax expense (benefit) recognized for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Current:		
Federal	$ (13,422)	$ 22,678
State and local	(1,485)	6,983
Total current	(14,907)	29,661
Deferred	1,335	(7,013)
Total	$ (13,572)	$ 22,648

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Statutory U.S. federal tax rate	31.6 %	35.0 %
Increase (decrease) in tax rate resulting from:		
State income taxes, net of federal benefit	81.4	0.8
Non-deductible expenses	59.2	0.3
Dividend received deduction	(1,800.5)	(31.3)
Return to provision true-up	10.5	(4.9)
Investment basis difference	174.0	4.4
Reserves for tax contingencies	121.3	(0.7)
Revaluation of deferred balances	513.1	—
Transition tax	172.6	—
Others—net	(31.8)	0.1
Effective income tax rate	(668.6) %	3.7 %

The tax effects of significant temporary differences and carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	2018	2017
Deferred tax assets:		
Allowance for doubtful receivables and other reserves	$ 4,786	$ 8,291
Inventories	189	280
Investment basis	19,171	20,160
Accrued expenses	2,835	3,767
Liabilities of defined benefit plans	10,211	20,055
Net operating loss carryforward and credit carryforward	29,118	20,958
Transaction costs	1,945	3,097
Other	3,771	4,484
Total deferred tax assets	$ 72,026	$ 81,092
Deferred tax liabilities:		
Depreciation and amortization	(9,249)	(3,915)
Deferred gain	(1,776)	(5,992)
Net deferred tax assets	$ 61,001	$ 71,185

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). In accordance with IAS 12 – *Income Taxes*, the impact of a change in tax law is recorded in the period of enactment or substantial enactment. The principal elements of the Tax Act relevant to the Company's financial statements for the year ended March 31, 2018, were:

- A reduction of the U.S. federal corporate tax rate;
- The requirement to pay a one-time transition tax on accumulated earnings of certain foreign subsidiaries that were previously deferred ("transition tax");
- Bonus depreciation that will allow for full expensing of qualified property; and
- Elimination of the net operating loss carryback period and permission of an indefinite carryforward period.

The Tax Act reduces the federal corporate tax rate to 21% in the fiscal year ended March 31, 2018. Section 15 of the Internal Revenue Code stipulates that the Company's fiscal year ended March 31, 2018 will have a blended corporate tax rate of 31.55%, which is based on the applicable tax rates before and after the Tax Act and the number of days in the year.

In connection with these elements of the Tax Act, the Company recognized an expense of approximately $13.9 million as follows:

- A charge of approximately $3.5 million, which represents the transition tax
- Re-measurement of U.S. deferred tax assets and liabilities using a rate of 21%, which, under the Tax Act, is expected to be in place when such deferred assets and liabilities reverse in the future. In connection with this re-measurement, the Company recorded a deferred tax expense of approximately $10.4 million.

Other provisions of the Tax Act did not have a significant impact on the Company's financial statements for the year ended March 31, 2018, but may impact the effective tax rate in subsequent periods.

The Tax Act has significant complexity. Although the Company believes that the effects of the change in tax law incorporated herein are substantially complete, the impact may be adjusted in future periods if additional information is obtained of further clarification or guidance is issued by the U.S. Treasury Department and the IRS regarding this application of the law. The Company has recorded the tax impact from the Tax Act using the best estimates based on reasonable and supportable assumptions and available inputs and underlying information as of the reporting date. As of the date of this financial statement, the Company does not believe potential adjustments in future periods would materially impact the Company's financial condition or results of operations.

The Company is included in the consolidated federal income tax return of MUH beginning with the year ended March 31, 2015. The Company had filed a consolidated federal income tax return as the Mitsui USA consolidated tax group through the year ended March 31, 2014. Although the Company had federal net operating loss carryforwards, computed on a stand-alone basis, as of March 31, 2014, no deferred tax asset has been recorded since the Company's net operating losses were fully utilized by other members of the Mitsui USA consolidated tax group in prior years. For the year ended March 31, 2018, the Company generated a federal net operating loss of approximately $108 million, which can be carried forward indefinitely, and recorded a deferred tax asset of approximately $24.5 million as it is probable that the net operating loss carryforward will be realized in the forseeable future.

The Company files certain state returns on a stand-alone basis and has state net operating loss carryforwards of approximately $75.9 million and $61.3 million as of March 31, 2018 and 2017, respectively, which will expire primarily between the years ending March 31, 2019 and March 31, 2039. The Company has determined, at March 31, 2018 and 2017, it is probable that state net operating losses will be realized. Accordingly, the Company has recorded deferred tax assets of approximately $4.6 million and $4.9 million for the entire state net operating loss carryforwards as of March 31, 2018 and 2017, respectively.

The Company also has foreign tax credit carryforwards of approximately $18.5 million and $33.3 million as of March 31, 2018 and 2017, respectively. If not used, these credits will generally expire between the years ending March 31, 2019 and March 31, 2029. The Company has recorded deferred tax assets of approximately $16.0 million related to the foreign tax credit carryforwards as of March 31, 2017. However, the Company has reevaluated the realizability of the foreign tax credit carryforwards at March 31, 2018, and it is not probable that foreign tax credit carryforwards will be realized. Accordingly, the Company has not recorded the deferred tax assets related to the foreign tax credit carryforwards as of March 31, 2018.

The carrying amount of deferred tax assets is reviewed at each reporting period date and adjusted to reflect changes in the Company's assessment that it is probable that all or part of the deferred tax assets will be realized.

The Company had a liability for uncertain tax positions of approximately $13.0 million, including interest and penalties of approximately $1.1 million and $0.6 million, respectively, as of March 31, 2018. As of March 31, 2017, the Company had a liability for uncertain tax positions of approximately $10.5 million, including interest and penalties of approximately $1.1 million and $0.8 million, respectively. These amounts are reported in other non-current liabilities in the accompanying statements of financial position. The Company recognizes unrecognized tax benefits and the related interest and penalties as a component of income tax expense (benefit).

The Company is subject to income taxes in the U.S. and withholding taxes in various foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state, local, and foreign income tax examinations for years ended before March 31, 2015.

13. Fair Value Measurement

IFRS 13, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 establishes the fair value hierarchy that may be used to measure fair value, which is provided as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability.

The Company recognizes transfers of assets or liabilities between levels of the fair value hierarchy when the transfers occur.

(In thousands, except where otherwise noted)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and 2017 were as follows:

	2018				
	Fair value measurements using			Netting	Total fair
	Level 1	Level 2	Level 3	adjustments	value
Assets:					
Other investments:					
Equity and debt instruments measured at FVTPL	$ —	$ —	$ 41,473	$ —	$ 41,473
Equity instruments measured at FVTOCI	4,174	—	36,872	—	41,046
Total other investments	4,174	—	78,345	—	82,519
Derivative assets:					
Foreign exchange contracts	—	117	—	—	117
Commodity contracts	—	3,055	—	—	3,055
Contingent earnouts	—	—	7,659	—	7,659
Total derivative assets	—	3,172	7,659	—	10,831
Total assets	$ 4,174	$ 3,172	$ 86,004	$ —	$ 93,350
Liabilities:					
Derivative liabilities:					
Foreign exchange contracts	$ —	$ 145	$ —	$ —	$ 145
Commodity contracts	—	3,055	—	—	3,055
Total derivative liabilities	$ —	$ 3,200	$ —	$ —	$ 3,200

	2017				
	Fair value measurements using			Netting	Total fair
	Level 1	Level 2	Level 3	Adjustment[1]	value
Assets:					
Other investments:					
Equity instruments measured at FVTPL	$ —	$ —	$ 29,729	$ —	$ 29,729
Equity instruments measured at FVTOCI	3,159	—	23,019	—	26,178
Total other investments	3,159	—	52,748	—	55,907
Derivative assets:					
Foreign exchange contracts	—	194	—	—	194
Commodity contracts	16,964	42,432	—	(9,722)	49,674
Contingent earnouts	—	—	9,023	—	9,023
Total derivative assets[2]	16,964	42,626	9,023	(9,722)	58,891
Total assets	$ 20,123	$ 42,626	$ 61,771	$ (9,722)	$ 114,798
Liabilities:					
Derivative liabilities:					
Foreign exchange contracts	$ —	$ 190	$ —	$ —	$ 190
Commodity contracts	9,821	55,383	—	(9,722)	55,482
Total derivative liabilities	$ 9,821	$ 55,573	$ —	$ (9,722)	$ 55,672

[1] Amounts of netting adjustments include the net amount when, and only when, the Company currently has a legally enforceable right to set-off the recognized amounts as well as intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.
[2] The differences between the amounts of derivative assets stated above and those stated in the accompanying statements of financial position result from cash collateral that is not measured at fair value. See Note 4 for the amounts of margin deposits used as cash collateral for certain derivative assets.

No assets or liabilities were transferred between Levels 1 and 2 during the years ended March 31, 2018 and 2017.

(In thousands, except where otherwise noted)

Primary valuation techniques used for each financial instrument measured at fair value on a recurring basis are as follows:

Other investments: Publicly-listed securities are measured using quoted market prices and classified as Level 1. Unlisted securities are measured at fair value using the income approach, the market approach, the cost approach, and other appropriate valuation techniques considering various assumptions. Under the income approach, fair value is determined by the discounted cash flow method or multiples analysis. Under the market approach, fair value may be determined by reference to a recent transaction involving investee companies or by reference to observable valuation measures for investees that are determined by the Company to be comparable. Under the cost approach, fair value may be determined by recent rounds of equity financing. The degree to which these inputs are observable in the relevant markets determines whether the investment is classified as Level 2 or 3.

Derivative instruments: Exchanged-traded derivative commodity contracts are measured using quoted market prices from the Chicago Board of Trade and are classified as Level 1. Certain derivative commodity contracts are measured using observable inputs of the quoted prices obtained from the market, financial information providers, and brokers, and are classified as Level 2. Derivative foreign exchange contracts and derivative interest rate contracts are measured by discounted cash flow analysis using foreign exchange and interest rates and are classified as Level 2. Contingent earnouts are measured by discounted cash flow analysis using discount rates and the probability of milestone achievement and are classified as Level 3.

The reconciliation of equity and debt instruments measured at FVTPL on a recurring basis using significant unobservable inputs (Level 3) for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Balance at beginning of year	$ 29,729	$ 13,171
Losses—net	(773)	(2,013)
Purchases	19,331	6,042
Sales	(6,629)	—
Capital returns	(185)	(1,628)
Transfers into Level 3	—	14,157
Balance at end of year	$ 41,473	$ 29,729
Net change in unrealized losses still held at end of the year	$ (2,175)	$ (2,012)

Losses—net related to equity and debt instruments measured at FVTPL were included in other expense in the accompanying statements of comprehensive income.

The reconciliation of equity instruments measured at FVTOCI on a recurring basis using significant unobservable inputs (Level 3) for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Balance at beginning of year	$ 23,019	$ 18,437
Other comprehensive income (loss)	3,853	(532)
Purchases	10,000	5,114
Balance at end of year	$ 36,872	$ 23,019

Other comprehensive income (loss) related to equity instruments measured at FVTOCI was included in remeasurements of equity instruments in the accompanying statements of comprehensive income.

(In thousands, except where otherwise noted)

The reconciliation of contingent earnouts measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Balance at beginning of year	$ 9,023	$ 9,762
Remeasurement losses[1]	(1,364)	(167)
Settlement	—	(572)
Balance at end of year	$ 7,659	$ 9,023
Net change in unrealized losses still held at end of year	$ (1,364)	$ (167)

[1] The remeasurement losses related to contingent earnouts were included in other expense in the accompanying statements of comprehensive income.

The valuation techniques and significant unobservable inputs used for Level 3 assets measured at fair value on a recurring basis as of March 31, 2018 and 2017 were as follows:

	2018		
	Balance	Unobservable inputs	Range
Equity and debt instruments measured at FVTPL:			
Income approach/market approach	$ 19,473	Discount rate	12.5% – 25.4%
		EBITDA multiple	3x
		Revenue multiple	19.0x – 20.0x
Cost approach	22,000	—	
Total FVTPL	41,473		
Equity instruments measured at FVTOCI:			
Income approach/market approach	$ 13,876	Revenue multiple	5.2x – 6.0x
Cost approach	22,996	Volatility	22%
Total FVTOCI	36,872		
Contingent earnouts—			
Income approach	$ 7,659	Discount rate	7.0% – 14.5%
		Probability of milestone achievement	0.49% – 61.0%

	2017		
	Balance	Unobservable inputs	Range
Equity instruments measured at FVTPL:			
Income approach/market approach	$ 19,229	Discount rate	12.5% – 25.4%
		EBITDA multiple	8.5x
Cost approach	10,500	—	
Total FVTPL	29,729		
Equity instruments measured at FVTOCI:			
Income approach/market approach	$ 13,876	Discount rate	17%
		Revenue multiple	6.0x – 6.5x
Cost approach - precedent transaction method	9,143	Volatility	24%
Total FVTOCI	23,019		
Contingent earnouts—			
Income approach	$ 9,023	Discount rate	6.0% – 13.0%
		Probability of milestone achievement	0.49% – 61.0%

For recurring fair value measurements, increases (decreases) in discount rates and volatility would result in a lower (higher) fair value whereas increases (decreases) in the multiples and probability of milestone achievement would result in a higher (lower) fair value.

(In thousands, except where otherwise noted)

14. Contingent Liabilities

Guarantees

The Company provides various types of guarantees to the benefit of affiliated companies, and third parties principally to enhance their credit standings, and would be required to execute payments if a guaranteed party failed to fulfill its obligation with respect to a borrowing or trade payable.

The Company evaluates the risks involved for each guarantee in an internal screening procedure before issuing a guarantee and regularly monitors outstanding positions and records an adequate allowance to cover losses expected from probable performance under these agreements.

The Company believes that the likelihood to perform guarantees which would materially affect the Company's financial position, results of operations, or cash flows is remote at March 31, 2018 and 2017.

The following table summarizes the maximum potential amount of future payments and outstanding amount of the Company's guarantees as of March 31, 2018 and 2017. The maximum potential amount of future payments represents the amount without consideration of possible recoveries under recourse provisions or from collateral held or pledged that the companies could be obliged to pay if there were defaults by guaranteed parties. Such amounts bear no relationship to the anticipated losses on these guarantees and indemnifications and, in the aggregate, they greatly exceed anticipated losses.

	2018	
	Maximum potential amount of future payments	Outstanding amount
Type of guarantees:		
Guarantees for subsidiaries	$ 475,302	$ 74,683
Guarantees for associates and other affiliates	92,284	43,107
Total	$ 567,586	$ 117,790

	2017	
	Maximum potential amount of future payments	Outstanding amount
Type of guarantees:		
Guarantees for subsidiaries	$ 345,502	$ 40,843
Guarantees for associates and other affiliates	77,412	37,041
Total	$ 422,914	$ 77,884

The table below summarizes the maximum potential amount of future payments for the Company's guarantees by the remaining contractual periods as of March 31, 2018 and 2017.

	2018	2017
Not later than 1 year	$ 411,546	$ 381,710
Later than 1 year and not later than 5 years	106,853	9,112
Later than 5 years	49,187	32,092
Total	$ 567,586	$ 422,914

Letter of Credit

At March 31, 2018 and 2017, the Company had commercial letters of credit outstanding of approximately $12.6 million and $21.5 million, respectively.

(In thousands, except where otherwise noted)

Litigation

Various claims and legal actions are pending against the Company in respect to contractual obligations and other matters arising out of the conduct of the Company's business. Appropriate provision has been recorded for the estimated loss on claims and legal actions. In the opinion of management, any additional liabilities will not materially affect the financial position, results of operations, or cash flows of the Company.

15. Related Party Transactions

During the year, the Company has various transactions with related parties in the normal course of business. The related party balances and transactions included within the financial statements as of March 31, 2018 and 2017 and for the years ended March 31, 2018 and 2017 are as follows:

Statements of financial position:

	2018	2017
Trade and other receivables:		
Parent	$ 250,333	$ 237,526
Subsidiaries	4,763	3,264
Associates	3,446	3,299
Other affiliates	53,232	25,508
Short-term loan receivables and current portion of long-term loan receivables:		
Subsidiaries	511,481	596,677
Other affiliates	35,574	9,090
Long-term loan receivables, less current portion:		
Subsidiaries	667,232	571,000
Associates	364,327	362,436
Other affiliates	9,000	6,250
Derivative-related assets:		
Parent	—	1,446
Subsidiaries	1,819	5
Other affiliates	—	2,347
Advance payment to suppliers— Other affiliates	—	191,146
Trade and other payables:		
Parent	149,708	115,550
Subsidiaries	9,755	15,946
Associates	493	429
Other affiliates	43,163	59,534
Short-term debt and current portion of long-term debt:		
Parent	1,139,252	829,209
Subsidiaries	41,044	12,843
Associates	22,829	48,051
Other affiliates	438,496	532,633
Long-term debt, less current portion—		
Other affiliates	848,303	1,086,416
Tax due to MUH and subsidiaries*	20,302	82,081
Derivative-related liabilities:		
Parent	3,055	392
Subsidiaries	17	505
Other affiliates	—	28,928
Dividend payable	36,957	—

* The Company started to file federal consolidated tax returns with MUH from the tax year ended March 31, 2015. Tax due to MUH and subsidiaries represents the payables between the Company and MUH or subsidiaries based on tax sharing agreements. Tax due to MUH and subsidiaries are included in other current liabilities and other non-current liabilities in the accompanying statements of financial position. Due to the Tax Act, the Company remeasured tax due to MUH and subsidiaries using the reduce tax rate and recognized the tax benefit as additional paid-in capital of $8,765 in the accompanying statement of changes in equity during the year ended March 31, 2018. Current income tax payable to MUH was $0 and approximately $42.9 million, at March 31, 2018 and 2017, respectively, included in other current liabilities in the accompanying statements of financial position.

(In thousands, except where otherwise noted)

Statements of comprehensive income:

	2018	2017
Revenue from related parties:		
Parent	$ 105,118	$ 130,954
Subsidiaries	1,649	993
Other affiliates	11,482	58,564
Purchases from related parties:		
Parent	383,610	348,508
Subsidiaries	233,727	533,366
Associates	—	13
Other affiliates	86,389	1,479,914
Service income included in other income:		
Parent	61,423	53,730
Subsidiaries	3,592	4,420
Associates	800	340
Other affiliates	8,098	6,318
Interest income:		
Parent	2,032	1,630
Subsidiaries	27,013	18,327
Associates	14,004	12,561
Other affiliates	3,677	3,081
Interest expense:		
Parent	11,034	2,821
Subsidiaries	318	181
Associates	631	324
Other affiliates	34,463	29,151

The Company has trading relationships such as sales and purchase of goods with Mitsui Japan and its subsidiaries and other affiliated companies. The Company enters into certain commodity derivatives transactions with related parties in order to hedge market risks. Gains and losses on such derivatives transactions are included in purchases from related parties in the above table.

The Company provides short-term and long-term financing to subsidiaries and affiliates. The Company manages a centralized cash management arrangement whereby subsidiaries and affiliates deposit excess cash for overnight investing and borrow funds to meet daily working capital needs. For most of the investing and financing transactions with related parties, interest accrues at a mutually agreed-upon rate, typically the LIBOR plus a margin.

The Company provided approximately $2,621 million and $2,388 million line of credit to subsidiaries and affiliates effective on March 31, 2018 and 2017, respectively. Those lines of credit generally expire within a year.

The Company had available line of credit of $1,856 million and $2,651 million with an affiliate effective on March 31, 2018 and 2017, respectively. The lines of credit expire within a year. The Company may enter into financing agreements with affiliates for additional credit facilities. See Note 8 for more details on debt with affiliates and other parties.

During the year ended March 31, 2017, the Company renewed loan receivables with original maturities of more than three months with certain affiliates in the amount of $58,363 without cash settlement. During the years ended March 31, 2018 and 2017, the Company renewed debt with original maturities of more than three months with a subsidiary of Mitsui Japan in the total amount of $188,800 and $571,371, respectively, without cash settlement. During the years ended March 31, 2018 and 2017, the Company paid a dividend of $130,517 and $550,468, respectively, to MUH and, simultaneously, obtained short-term debt from MUH at the same amount without cash settlement. At March 31, 2018, the Company has an in-kind dividend payable to MUH of $37.0 million. See Note 3 for further details.

The Company provides various types of guarantees to the benefit of subsidiaries and affiliates. See Note 14 for more details on guarantees. The Company's loan receivables guaranteed by Mitsui Japan are $527,672 and

$459,108 at March 31, 2018 and 2017, respectively. The Company's debt guaranteed by Mitsui Japan was $44,567 at March 31, 2017.

The Company performs certain administrative services for Mitsui Japan, MUH, and other affiliates and receives service fees based on various service agreements. Service fee income is included in other income in the accompanying statements of comprehensive income.

The Company has extensive transactions with Mitsui Japan and its subsidiaries and affiliates. Accordingly, the accompanying financial statements may not be indicative of the financial position, the results of its operations, or its cash flows which would have been attained by the Company if it had operated without such affiliations.

Remunerations for members of the Board of Directors, who are considered as key management personnel, for the years ended March 31, 2018 and 2017 were $1,823 and $1,735, respectively.

16. Ultimate Parent and Controlling Party

Mitsui Japan is the Company's ultimate parent and controlling party. Copies of the consolidated financial statements of Mitsui Japan that comply with IFRS are available from:

Mitsui & Co., Ltd.
Corporate Communications Division
1-3, Marunouchi 1-chome, Chiyoda-ku
Nippon Life Marunouchi Garden Tower
Tokyo 100-8631, Japan

17. Authorization of Issuance of Financial Statements

The issuance of the financial statements was authorized by Katsurao Yoshimori, President and Chief Executive Officer, and Masao Kurihara, Chief Financial Officer, on July 23, 2018.

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