

## CONSOLIDATED FINANCIAL STATEMENTS

### GLORY LTD. and Consolidated Subsidiaries

#### Consolidated Balance Sheet March 31, 2020

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 14)	¥ 70,922	¥ 75,149	\$ 651,796
Short-term investments (Notes 4 and 14)	2,661	734	24,455
Receivables (Note 14):			
Trade notes	7,317	4,993	67,245
Electronically recorded monetary claims - operating	1,617	917	14,860
Trade accounts	42,286	52,176	388,622
Unconsolidated subsidiaries and associated company	3	5	27
Other	1,234	1,856	11,340
Investments in leases (Notes 13 and 14)	1,339	1,838	12,305
Inventories (Note 5)	51,682	48,527	474,974
Other current assets	3,000	2,518	27,570
Allowance for doubtful accounts	(656)	(574)	(6,028)
<b>Total current assets</b>	<b>181,408</b>	<b>188,143</b>	<b>1,667,199</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	11,816	11,717	108,592
Buildings and structures	36,314	36,360	333,737
Machinery and equipment	14,206	13,935	130,557
Furniture and fixtures	53,382	57,512	490,598
Right-of-use assets	4,332		39,812
Construction in progress	1,207	202	11,092
<b>Total</b>	<b>121,258</b>	<b>119,728</b>	<b>1,114,401</b>
Accumulated depreciation	(82,755)	(84,899)	(760,545)
<b>Net property, plant and equipment</b>	<b>38,503</b>	<b>34,829</b>	<b>353,855</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4 and 14)	6,627	9,356	60,904
Investments in unconsolidated subsidiaries and associated company (Note 14)	1,725	2,945	15,853
Software	5,793	5,336	53,239
Goodwill	43,246	44,245	397,445
Customer relationships	17,968	19,108	165,131
Deferred tax assets (Note 10)	8,128	7,965	74,699
Asset for retirement benefits (Note 7)	478	1,466	4,392
Other investments and other assets	4,907	4,983	45,096
Allowance for doubtful accounts	(25)	(152)	(229)
<b>Total investments and other assets</b>	<b>88,850</b>	<b>95,255</b>	<b>816,560</b>
<b>TOTAL</b>	<b>¥ 308,763</b>	<b>¥ 318,228</b>	<b>\$ 2,837,634</b>

See notes to consolidated financial statements.

<u>LIABILITIES AND EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u> <u>(Note 1)</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 6 and 14)	¥ 24,931	¥ 23,369	\$ 229,124
Current portion of long-term debt (Notes 6 and 14)	20	4,476	183
Current portion of long-term lease obligations (Notes 6, 13 and 14)	1,562	561	14,355
Payables (Note 14):			
Trade notes	1,242	1,131	11,414
Electronically recorded obligations-operating	7,154	7,461	65,747
Trade accounts	10,103	9,882	92,849
Unconsolidated subsidiaries and associated company	28	33	257
Other	6,697	7,026	61,547
Income taxes payable (Note 14)	1,520	3,006	13,969
Accrued expenses	15,190	16,307	139,601
Deferred income	11,933	11,299	109,668
Provision for stock grant to directors and executive officers (Note 8)	39	86	358
Other current liabilities	5,196	5,825	47,752
Total current liabilities	<u>85,623</u>	<u>90,467</u>	<u>786,903</u>
<b>LONG-TERM LIABILITIES:</b>			
Bonds (Notes 6 and 14)	20,000	20,000	183,806
Long-term debt (Notes 6 and 14)	46		422
Liability for retirement benefits (Note 7)	3,243	3,031	29,804
Long-term lease obligations (Notes 6, 13 and 14)	3,045	1,085	27,984
Deferred tax liabilities (Note 10)	5,193	6,075	47,725
Provision for stock grant to directors and executive officers (Note 8)	260	240	2,389
Other long-term liabilities	4,206	4,070	38,654
Total long-term liabilities	<u>35,996</u>	<u>34,503</u>	<u>330,815</u>
<b>CONTINGENT LIABILITIES (Note 16)</b>			
<b>EQUITY (Notes 9 and 18):</b>			
Common stock, Authorized: 150,000,000 shares in 2020 and 2019; Issued: 63,638,210 shares in 2020 and 68,638,210 shares in 2019	12,892	12,892	118,481
Capital surplus	15,961	20,938	146,686
Retained earnings	163,070	172,219	1,498,667
Treasury stock - at cost (Note 8) 2,866,029 shares in 2020 and 7,865,917 shares in 2019	(9,312)	(23,884)	(85,580)
Accumulated other comprehensive income:			
Unrealized (loss) gain on available-for-sale securities	(455)	219	(4,181)
Foreign currency translation adjustments	5,194	7,673	47,734
Defined retirement benefit plans	(2,154)	(820)	(19,795)
Total	185,196	189,238	1,702,012
Noncontrolling interests	1,946	4,018	17,884
Total equity	<u>187,143</u>	<u>193,257</u>	<u>1,719,906</u>
<b>TOTAL</b>	<u>¥ 308,763</u>	<u>¥ 318,228</u>	<u>\$ 2,837,634</u>

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Income Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥ 224,170	¥ 235,762	\$ 2,060,196
COST OF SALES (Note 12)	<u>137,109</u>	<u>147,274</u>	<u>1,260,077</u>
Gross profit	87,061	88,488	800,119
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 12)	<u>69,134</u>	<u>67,912</u>	<u>635,364</u>
Operating income	<u>17,927</u>	<u>20,576</u>	<u>164,755</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	336	323	3,087
Interest expense	(734)	(601)	(6,745)
Foreign currency exchange loss – net	(863)	(17)	(7,931)
Share of loss of entities accounted for using equity method	(1,217)	(56)	(11,184)
Other – net	<u>43</u>	<u>337</u>	<u>395</u>
Other expenses - net	<u>(2,435)</u>	<u>(14)</u>	<u>(22,378)</u>
INCOME BEFORE INCOME TAXES	15,491	20,562	142,367
INCOME TAXES (Note 10):			
Current	(5,885)	(6,854)	(54,085)
Deferred	<u>384</u>	<u>(152)</u>	<u>3,529</u>
Total income taxes	<u>(5,501)</u>	<u>(7,007)</u>	<u>(50,556)</u>
NET INCOME	9,990	13,554	91,811
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(1,028)</u>	<u>(1,298)</u>	<u>(9,447)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 8,961</u>	<u>¥ 12,256</u>	<u>\$ 82,354</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.u):			
Basic net income	¥148.31	¥198.71	\$1.36
Cash dividends applicable to the year	66.00	64.00	0.60

See notes to consolidated financial statements.

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Comprehensive Income Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 9,990	¥ 13,554	\$ 91,811
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	(672)	(692)	(6,175)
Foreign currency translation adjustments	(2,542)	1,603	(23,361)
Defined retirement benefit plan	(1,333)	(650)	(12,250)
Share of other comprehensive income (loss) of associated company accounted for using the equity method	<u>(2)</u>	<u>5</u>	<u>(18)</u>
Total other comprehensive income (loss)	<u>(4,551)</u>	<u>265</u>	<u>(41,825)</u>
COMPREHENSIVE INCOME	<u>¥ 5,438</u>	<u>¥ 13,820</u>	<u>\$ 49,977</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of parent	¥4,473	¥12,833	\$41,108
Noncontrolling interests	964	987	8,859

See notes to consolidated financial statements.

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended March 31, 2020

	Thousands of Shares		Millions of Yen			
	Common Stock	Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, MARCH 31, 2018 (APRIL 1, 2018, as previously reported)	68,638	(5,931)	¥ 12,892	¥ 20,991	¥ 165,380	¥ (18,022)
Cumulative effect of accounting change					(345)	
BALANCE, APRIL 1, 2018 (as restated)			12,892	20,991	165,034	(18,022)
Net income attributable to owners of parent					12,256	
Cash dividends, ¥82 per share					(5,141)	
Purchase of treasury stock		(2,151)				(6,575)
Disposal of treasury stock		217		(52)		714
Change in scope of consolidation (Note 2.a)					69	
Net change in the year						
BALANCE, MARCH 31, 2019	68,638	(7,865)	12,892	20,938	172,219	(23,884)
Net income attributable to owners of parent					8,961	
Cash dividends, ¥65 per share					(3,950)	
Purchase of treasury stock		(0)				(0)
Disposal of treasury stock						119
Cancellation of treasury stock	(5,000)	5,000		(292)	(14,160)	14,452
Purchase of shares of consolidated subsidiaries				(4,684)		
Net change in the year						
BALANCE, MARCH 31, 2020	<u>63,638</u>	<u>(2,866)</u>	<u>¥ 12,892</u>	<u>¥ 15,961</u>	<u>¥ 163,070</u>	<u>¥ (9,312)</u>
			Thousands of U.S. Dollars (Note 1)			
			Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2019			\$ 118,481	\$ 192,427	\$ 1,582,749	\$ (219,501)
Net income attributable to owners of parent					82,354	
Cash dividends, \$0.59 per share					(36,301)	
Purchase of treasury stock						(0)
Disposal of treasury stock						1,093
Cancellation of treasury stock				(2,683)	(130,135)	132,818
Purchase of shares of consolidated subsidiaries				(43,047)		
Net change in the year						
BALANCE, MARCH 31, 2020			<u>\$ 118,481</u>	<u>\$ 146,686</u>	<u>\$ 1,498,667</u>	<u>\$ (85,580)</u>

See notes to consolidated financial statements.

Millions of Yen

Accumulated Other Comprehensive Income					
Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
¥ 916	¥ 5,793	¥ (170)	¥ 187,780 (345)	¥ 4,385 (138)	¥ 192,165 (483)
916	5,793	(170)	187,434	4,246	191,681
			12,256		12,256
			(5,141)	(1,227)	(6,369)
			(6,575)		(6,575)
			661		661
			35	12	48
<u>(696)</u>	<u>1,914</u>	<u>(650)</u>	<u>567</u>	<u>987</u>	<u>1,554</u>
219	7,673	(820)	189,238	4,018	193,257
			8,961		8,961
			(3,950)	(1,154)	(5,104)
			(0)		(0)
			119		119
			(4,684)	(1,882)	(6,567)
<u>(674)</u>	<u>(2,478)</u>	<u>(1,333)</u>	<u>(4,487)</u>	<u>964</u>	<u>(3,522)</u>
<u>¥ (455)</u>	<u>¥ 5,194</u>	<u>¥ (2,154)</u>	<u>¥ 185,196</u>	<u>¥ 1,946</u>	<u>¥ 187,143</u>

Thousands of U.S. Dollars (Note 1)

Accumulated Other Comprehensive Income					
Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
\$ 2,012	\$ 70,517	\$ (7,536)	\$ 1,739,160	\$ 36,926	\$ 1,776,095
			82,354		82,354
			(36,301)	(10,605)	(46,907)
			(0)		(0)
			1,093		1,093
			(43,047)	(17,296)	(60,352)
<u>(6,194)</u>	<u>(22,773)</u>	<u>(12,250)</u>	<u>(41,237)</u>	<u>8,859</u>	<u>(32,368)</u>
<u>\$ (4,181)</u>	<u>\$ 47,734</u>	<u>\$ (19,795)</u>	<u>\$ 1,702,012</u>	<u>\$ 17,884</u>	<u>\$ 1,719,906</u>

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 15,491	¥ 20,562	\$ 142,367
Adjustments for:			
Income taxes – paid	(6,998)	(5,357)	(64,313)
Depreciation and amortization	10,133	8,945	93,125
Amortization of goodwill	3,805	3,622	34,969
Provision for doubtful receivables	(186)	(60)	(1,709)
Net gain on sales of investment securities	(5)	(61)	(45)
Changes in assets and liabilities, net of affects from newly consolidated subsidiaries:			
Decrease (increase) in trade receivables	5,920	(2,317)	54,406
(Increase) decrease in inventories	(3,341)	3,808	(30,704)
Increase (decrease) in trade payables	878	(2,564)	8,069
Decrease in interest payable	(12)	(38)	(110)
Increase (decrease) in liability for retirement benefits	7	(555)	64
(Decrease) increase in provision for stock grant to directors and executive officers	(26)	63	(238)
Decrease in lease obligations	(256)	(297)	(2,352)
Decrease in leased investment assets	499	437	4,585
(Decrease) increase in accrued consumption taxes	(885)	657	(8,133)
Decrease in accrued expenses	(878)	(1,199)	(8,069)
Other – net	917	(1,344)	8,427
Total adjustments	9,570	3,738	87,951
Net cash provided by operating activities	25,062	24,300	230,328
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	626	6	5,753
Purchases of property, plant and equipment	(6,325)	(5,424)	(58,128)
Purchases of intangible assets	(1,795)	(2,147)	(16,496)
Proceeds from sales and redemption of investment securities	109	151	1,001
Purchases of investment securities	(1,216)	(3,630)	(11,175)
(Increase) decrease in time deposits – net	(432)	605	(3,970)
Proceeds from distributions from investment partnerships	367	103	3,372
Acquisition of investments in subsidiaries with changes in scope of consolidation	(4,289)	(999)	(39,417)
Other – net	(77)	(53)	(707)
Net cash used in investing activities	(13,032)	(11,388)	(119,768)
<b>FORWARD</b>	¥ 12,030	¥ 12,912	\$ 110,559

(Continued)

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2020</u>	<u>2019</u>	<u>2020</u>
FORWARD	¥ 12,030	¥ 12,912	\$ 110,559
FINANCING ACTIVITIES:			
Increase in short-term borrowings – net	1,984	1,165	18,233
Repayments of long-term debt	(4,493)	(9,059)	(41,292)
Repayments of lease obligations	(1,138)		(10,458)
Proceeds from issuance of bonds		19,901	
Purchase of treasury stock	(0)	(6,575)	(0)
Disposal of treasury stock		575	
Dividends paid	(3,951)	(5,140)	(36,311)
Dividends paid for noncontrolling interests	(1,154)	(1,227)	(10,605)
Acquisition of investments in subsidiaries without changes in scope of consolidation	<u>(6,585)</u>	<u>          </u>	<u>(60,518)</u>
Net cash used in financing activities	<u>(15,339)</u>	<u>(361)</u>	<u>(140,970)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(918)	146	(8,436)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,227)	12,697	(38,847)
CASH AND CASH EQUIVALENTS OF NEWLY-CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		77	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>75,149</u>	<u>62,375</u>	<u>690,644</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 70,922</u>	<u>¥ 75,149</u>	<u>\$ 651,796</u>

See notes to consolidated financial statements.

(Concluded)

## GLORY LTD. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements Year Ended March 31, 2020

#### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which GLORY LTD. (the “Company”) is incorporated and operates. Japanese yen figures less than one million yen are rounded down to the nearest million yen and U.S. dollar figures less than one thousand dollars are rounded down to the nearest thousand dollars, except for per share data. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108.81 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation* - The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 54 significant (53 in 2019) subsidiaries (together, the “Group”). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

##### Consolidated Subsidiaries

March 31, 2020		March 31, 2019	
Name	Year-End	Name	Year-End
GLORY Products Ltd.	March 31	GLORY Products Ltd.	March 31
GLORY NASCA Ltd.	March 31	GLORY NASCA Ltd.	March 31
Hokkaido GLORY Co., Ltd.	March 31	Hokkaido GLORY Co., Ltd.	March 31
GLORY Denshi Kogyo (Suzhou) Ltd.	March 31	GLORY Denshi Kogyo (Suzhou) Ltd.	March 31
GLORY (PHILIPPINES), INC.	March 31	GLORY (PHILIPPINES), INC.	March 31
Sitrade Italia S.p.A.	December 31	Sitrade Italia S.p.A.	December 31
Glory Global Solutions Ltd.	March 31	Glory Global Solutions Ltd.	March 31
Glory Global Solutions (International) Ltd.	March 31	Glory Global Solutions (International) Ltd.	March 31
Glory Global Solutions (France) S.A.S.	March 31	Glory Global Solutions (France) S.A.S.	March 31
Glory Global Solutions Inc.	March 31	Glory Global Solutions Inc.	March 31
Glory Global Solutions (Singapore) Pte. Ltd.	March 31	Glory Global Solutions (Singapore) Pte. Ltd.	March 31
Glory Global Solutions (Shanghai) Co., Ltd.	March 31	Glory Global Solutions (Shanghai) Co., Ltd.	March 31
42 other companies	March 31	41 other companies	March 31

To increase the accuracy of consolidated financial information, a provisional settlement of accounts has been made on March 31 for 9 subsidiaries whose fiscal closing date is December 31, including GLORY Denshi Kogyo (Suzhou) Ltd., Cash Payment Solutions GmbH, Glory Global Solutions (Shanghai) Co., Ltd., GLORY Denshi Kogyo (Shenzhen) Ltd. and other 5 companies.

The balance sheet date of Sitrade Italia S.p.A. is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted as necessary.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The investment in FueTrek Co., Ltd. is accounted for by the equity method. Investments in the unconsolidated subsidiary and the remaining associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition, which is presented as goodwill in the consolidated balance sheet, is being amortized over a reasonable estimated period.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** - Under Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—“FASB ASC”) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- c. Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.
- d. Inventories** - Inventories are stated at the lower of cost, determined by the periodic average method for finished products and work in process and by the moving average method for merchandise, raw materials and supplies, or net selling value.
- e. Short-Term Investments and Investment Securities** - Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, for which there is positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost, determined by the moving average method. For-other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- f. Property, Plant and Equipment* - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries other than buildings acquired on or after April 1, 1998, is computed by the declining-balance method, while depreciation of property, plant and equipment of its consolidated foreign subsidiaries is mainly computed by the straight-line method at rates based on estimated useful lives of the assets. Buildings of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 1998, and building improvements and structures of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 2016 are depreciated by the straight-line method.
- g. Long-Lived Assets* - The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- h. Software Costs* - The cost of software for sale is amortized at the higher of either the amount to be amortized in proportion to the actual sales volume of the software during the current year to the estimated total sales volume over the estimated salable years of the software or the amount to be amortized by the straight-line method over three years. The costs of software for internal use are amortized by the straight-line method over the estimated useful life of five years.
- i. Customer Relationships* - Customer relationships are carried at cost less accumulated amortization, which is calculated by the straight-line method mainly over 20 years.
- j. Allowance for Doubtful Accounts* - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the accounts outstanding.
- k. Retirement and Pension Plans* - The liability (asset) for retirement benefits of employees is accounted for based on projected benefit obligations and plan assets at the consolidated balance sheet date. The actuarial differences are mainly amortized from the next year using the declining-balance method over a certain period within the average remaining service period (15 years for agreement-type defined benefit plans and 13 years for fund-type defined benefit plans). The past service costs are mainly amortized by the declining-balance method over a certain period within the average remaining service period (15 years for agreement-type defined benefit plans and 13 years for fund-type defined benefit plans). Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (Prepaid for retirement benefits).
- l. Asset Retirement Obligations* - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

- m. Employee and Management Stock Ownership Plan** - In accordance with PITF No. 30, “Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts,” upon transfer of treasury stock to the employee stock-ownership trust (the “Trust”) by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year-end, the Company shall record (1) the Company stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust. (See Note 8).
- n. Research and Development Costs** - Research and development costs are charged to income as incurred.
- o. Leases (Lessee)** - Finance lease assets that do not transfer ownership of the property to the lessee are depreciated using the straight-line method over the lease term with no residual value.
- p. Bonuses to Directors** - Bonuses to directors are accrued at the year-end to which such bonuses are attributable.
- q. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly-owned domestic subsidiaries.

**Adoption of Tax Effect Accounting for Transition from the Consolidated Taxation System to the Group Tax Sharing System**

For items that transitioned to the group tax sharing system established under the “Act for Partial Amendment to the Income Tax Act, etc.” (Act No. 8, 2020) and items for which the non-consolidated taxation system was revised following the transition to the group tax sharing system, the Company and some of its domestic consolidated subsidiaries do not apply the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, updated on February 16, 2018) pursuant to Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39, March 31, 2020), and reports the amounts of deferred tax assets and deferred tax liabilities based on the provisions of tax laws before the amendment.

- r. Foreign Currency Transactions** - Both short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts or currency swaps.  
  
However, receivables denominated in a foreign currency that is covered by forward exchange contracts are translated at the contract rate. Long-term debt and short-term borrowings denominated in foreign currencies that are covered by currency swaps are translated at the contract rate. The difference resulting from receivables and long-term debt translated at the historical rate and the contract rate is credited (charged) to income as an interest adjustment.
- s. Foreign Currency Financial Statements** - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” and “Non-controlling interests” in equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- t. Derivatives and Hedging Activities** - The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Foreign exchange forward contracts, interest rate and currency swaps are utilized by the Group to reduce foreign currency exchange rate and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures for export sales. Deposits and trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Long-term debt and short-term borrowings denominated in foreign currencies for which interest rate and currency swaps are used to hedge the foreign currency fluctuations are translated at the contracted rate if the interest rate and currency swaps qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

- u. **Per Share Information** - Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because there are no potentially dilutive securities outstanding.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

The Company's own stock in "Board Incentive Plan (BIP) Trust Account" and "Employee Stock Ownership Plan (ESOP) Trust Account" (See Note 8) recorded as treasury stock within equity is included in the treasury stock deducted from the average number of shares during the period used for calculating net income per share.

- v. **Accounting Changes and Error Corrections** - Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.
- w. **Accounting Change** - Foreign consolidated subsidiaries have adopted IFRS No. 16, "Leases" from the fiscal year ended March 31, 2020. In applying IFRS 16, they adopted a method of recognizing cumulative effects of adoption of the accounting standard at the date of initial application, as permitted as a transitional measure. The effects of applying this accounting standard on the consolidated financial statements are immaterial.
- x. **Additional Information**  
**Accounting estimates associated with novel coronavirus disease (COVID-19)**  
The Group is making accounting estimates for valuation of inventories, impairment losses on investments, impairment losses on goodwill, etc. based on the assumption that the spread of COVID-19 will be settled by around the first half of the fiscal year ending March 31, 2021.
- y. **New Accounting Pronouncements**  
**Accounting Standard for Revenue Recognition**  
On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Revised Accounting Standard for Revenue Recognition," ASBJ Guidance No. 30, "Revised Implementation Guidance on Accounting

Standard for Revenue Recognition,” and ASBJ Guidance No. 19, “Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments.”

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) of the U.S. have jointly developed a comprehensive accounting standard on revenue recognition. In May 2014, the IASB and FASB each issued “Revenue from Contracts with Customers” (IFRS No. 15 in the IASB and Topic 606 in the FASB). Considering that IFRS No. 15 was applicable from the fiscal year beginning on or after January 1, 2018 and Topic 606 was applicable from the fiscal year beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As a basic policy in developing the accounting standard on revenue recognition, the ASBJ has incorporated the basic principles of IFRS No. 15 from the viewpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15. In addition, in case there are any business practices in Japan that needs to be taken into account, alternative provisions shall be added to the accounting standard to the extent that it does not impair the comparability.

The above standard and guidance are scheduled to be applied from April 1, 2021. In addition, the Company is currently in the process of measuring the effects of applying these standards on the consolidated financial statements.

***Accounting Standard for Fair Value Measurement***

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement,” ASBJ Statement No. 10, “Accounting Standard for Financial Instruments,” and ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement.” On March 31, 2020, the ASBJ issued ASBJ Guidance No. 19, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments.”

The ASBJ worked to establish consistency between the Japanese accounting standards and international accounting standards concerning guidance and disclosures about the fair value of principally financial instruments taking the current circumstances into account that the IASB and FASB have provided almost the same detailed guidance on fair value measurement (IFRS No. 13 “Fair Value Measurement” by the IASB and Accounting Standards Codification (“ASC”) Topic 820 “Fair Value Measurement” by the FASB), and finally issued “Accounting Standard for Fair Value Measurement,” etc.

As a basic policy of the ASBJ in developing accounting standards for fair value measurement, from the viewpoint of enhancing comparability of financial statements across domestic and overseas companies by using unified measurement methods, the ASBJ determined to introduce basically all the provisions of IFRS No. 13 and define other treatments for specific matters as long as they do not significantly harm the comparability across financial statements considering the practices prevailing in Japan.

The above standard and guidance are scheduled to be applied from April 1, 2021. In addition, the Company is currently in the process of measuring the effects of applying these standards on the consolidated financial statements.

***Accounting Standard for Disclosure of Accounting Estimates***

On March 31, 2020, the ASBJ issued ASBJ Statement No. 31, “Accounting Standard for Disclosure of Accounting Estimates.”

Regarding “sources of estimation uncertainty” required to be disclosed under Paragraph 125 of International Accounting Standard No. 1, “Presentation of Financial Statements” (the “IAS No. 1”) issued in 2003, it has been requested to consider disclosing them in notes to the financial statements under Japanese accounting standards as useful information for users of the financial statements. Accordingly, the ASBJ developed and issued “Accounting Standard for disclosure of Accounting Estimates” (the “Standard”).

As a basic policy in developing the Standard, the ASBJ presented the principles (disclosure objectives), and decided to leave decisions for specific disclosure contents to each company in light of the disclosure objectives. In developing the Standard, the provisions of Paragraph 125 of IAS No.1 were used as reference.

The above standard is scheduled to be applied from March 31, 2021.

**Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections**

On March 31, 2020, the ASBJ issued ASBJ Statement No. 24, "Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections."

In response to the proposal to consider enhancing information included in notes to the financial statements concerning "principles and procedures of accounting treatments adopted in case the relevant accounting standards, etc. are not clear," the ASBJ issued Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

In enhancing information included in notes to the financial statements concerning "principles and procedures of accounting treatments adopted in case the relevant accounting standards, etc. are not clear," the provisions of explanatory notes (1-2) of Corporate Accounting Principles shall be succeeded so as not to affect practices conducted so far in case relevant accounting standards, etc. are clear.

The above standard is scheduled to be applied from March 31, 2021.

**3. BUSINESS COMBINATION**

**Transactions between Entities under Common Control  
Additional acquisition of shares of the subsidiary**

1. Outline of business combination

(1) Name of combining entity and details of business

Name of combining entity: Sitrade Italia S.p.A.  
Details of business: Sale and maintenance of money handling machines

(2) Date of business combination

June 24, 2019

(3) Legal form of business combination

Share acquisition from noncontrolling shareholders

(4) Name of entity after combination

No change in the name of entity

(5) Other information

The Company acquired 24.5% of voting rights by means of additional share acquisition. The said additional share acquisition aims to accelerate its business expansion in the market of Italy and further strengthen its management foundations.

2. Overview of accounting treatment

This transaction was treated as a transaction between entities under common control in accordance with "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

3. Matters related to additional acquisition of the subsidiary's share

Acquisition costs and the breakdown by class

		Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition	Cash	¥ 6,585	\$ 60,518
Acquisition cost		¥ 6,585	\$ 60,518

4. Matters concerning the change in the Company's equity associated with the transaction with noncontrolling shareholders

(1) Major reason for the change in capital surplus

Additional acquisition of shares of a subsidiary

- (2) Amount of capital surplus decreased by the transaction with noncontrolling shareholders  
¥4,684 million (\$43,047 thousand)

#### 4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
Short-term investments:			
Time deposits other than cash equivalents	¥ 610	¥ 178	\$ 5,606
Government, corporate and other bonds	<u>2,051</u>	<u>556</u>	<u>18,849</u>
Total	<u>¥2,661</u>	<u>¥ 734</u>	<u>\$24,455</u>
Investment securities:			
Marketable equity securities	¥ 3,522	¥ 4,813	\$ 32,368
Nonmarketable equity securities	878	593	8,069
Government, corporate, and other bonds	25	2,029	229
Other	<u>2,200</u>	<u>1,920</u>	<u>20,218</u>
Total	<u>¥ 6,627</u>	<u>¥ 9,356</u>	<u>\$60,904</u>

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019, were as follows:

<u>March 31, 2020</u>	Millions of Yen			Fair Value
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,115	¥496	¥ (1,089)	¥3,522
Government bonds	2			2
Bonds	22			22
Other	2,238	8	(46)	2,200
Held-to-maturity:				
Government bonds	1,000	9		1,009
Bonds	1,001	6		1,007
<u>March 31, 2019</u>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,517	¥847	¥ (550)	¥4,813
Government bonds	2			2
Bonds	23			23
Other	1,895	55	(31)	1,920
Held-to-maturity:				
Government bonds	1,000	23		1,023
Bonds	1,559	19	(2)	1,577

<u>March 31, 2020</u>	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$37,818	\$4,558	\$(10,008)	\$32,368
Government bonds	18			18
Bonds	202			202
Other	20,567	73	(422)	20,218
Held-to-maturity:				
Government bonds	9,190	82		9,273
Bonds	9,199	55		9,254

Available-for-sale securities sold during the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Proceeds from sales	¥109	¥151	\$1,001
Gain on sales	6	61	55
Loss on sales			

The Group recognized ¥321 million (\$2,956 thousand) and ¥23 million in loss on valuation of investment securities for the years ended March 31, 2020 and 2019, respectively.

## 5. INVENTORIES

Inventories as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Finished products and merchandise	¥ 31,053	¥ 28,606	\$ 285,387
Work in process	7,989	8,233	73,421
Raw materials and supplies	<u>12,639</u>	<u>11,687</u>	<u>116,156</u>
Total	<u>¥ 51,682</u>	<u>¥ 48,527</u>	<u>\$ 474,974</u>

## 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

(a) Short-term borrowings as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Loans from banks and an insurance company	¥24,931	¥23,369	\$229,124

The annual average interest rates applicable to short-term borrowings at March 31, 2020 and 2019, were 1.1% and 1.8%, respectively.

(b) Long-term debt and lease obligations as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks	¥ 66	¥ 4,476	\$ 606
Obligations under finance leases	4,608	1,647	42,349
Unsecured 0.15% yen straights bonds, due 2023	10,000	10,000	91,903
Unsecured 0.425% yen straights bonds, due 2028	10,000	10,000	91,903
Total	24,675	26,123	226,771
Less current portion	(1,583)	(5,038)	(14,548)
Long-term debt and lease obligations, less current portion	¥ 23,091	¥ 21,085	\$ 212,213

The annual average interest rate applicable to long-term debt at March 31, 2020 and 2019 was 4.7% and 0.5%, respectively.

(c) Annual maturities of long-term debt and lease obligations as of March 31, 2020, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 1,583	\$ 14,548
2022	1,175	10,798
2023	732	6,727
2024	10,431	95,864
2025 and thereafter	10,752	98,814
Total	¥ 24,675	\$ 226,771

## 7. RETIREMENT AND PENSION PLANS

Employees of the Company and its domestic consolidated subsidiaries are covered by non-contributory and contributory funded defined benefit pension plans, and severance lump-sum payment plans. The Company and certain foreign consolidated subsidiaries have contribution plans and defined benefit plans.

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 64,968	¥ 62,261	\$ 597,077
Current service cost	2,657	2,575	24,418
Interest cost	475	467	4,365
Actuarial (gains) losses	(186)	1,368	(1,709)
Benefits paid	(2,430)	(2,070)	(22,332)
Past service cost	(39)	(20)	(358)
Others	481	387	4,420
Balance at end of year	¥ 65,928	¥ 64,968	\$ 605,900

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Balance at beginning of year	¥ 63,403	¥ 60,192	\$ 582,694
Expected return on plan assets	460	445	4,227
Actuarial (losses) gains	(2,302)	368	(21,156)
Contributions from the employer	3,394	3,924	31,191
Benefits paid	(2,262)	(1,952)	(20,788)
Others	<u>468</u>	<u>424</u>	<u>4,301</u>
Balance at end of year	<u>¥ 63,162</u>	<u>¥ 63,403</u>	<u>\$ 580,479</u>

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Funded defined benefit obligation	¥ 64,662	¥ 63,641	\$ 594,265
Plan assets	<u>(63,162)</u>	<u>(63,403)</u>	<u>(580,479)</u>
Total	1,500	237	13,785
Unfunded defined benefit obligation	<u>1,265</u>	<u>1,326</u>	<u>11,625</u>
Net liability for defined benefit obligation	<u>¥ 2,765</u>	<u>¥ 1,564</u>	<u>\$ 25,411</u>

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Liability for retirement benefits	¥ 3,243	¥ 3,031	\$ 29,804
Asset for retirement benefits	<u>(478)</u>	<u>(1,466)</u>	<u>(4,392)</u>
Net liability for defined benefit obligation	<u>¥ 2,765</u>	<u>¥ 1,564</u>	<u>\$ 25,411</u>

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Service cost	¥ 2,657	¥ 2,575	\$ 24,418
Interest cost	475	467	4,365
Expected return on plan assets	(460)	(445)	(4,227)
Recognized actuarial losses	230	94	2,113
Amortization of past service cost	<u>(77)</u>	<u>(65)</u>	<u>(707)</u>
Net periodic benefit costs	<u>¥ 2,826</u>	<u>¥ 2,626</u>	<u>\$ 25,971</u>

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
Past service cost	¥ (37)	¥ (44)	\$ (340)
Actuarial losses	<u>(1,886)</u>	<u>(904)</u>	<u>(17,332)</u>
Total	<u>¥(1,923)</u>	<u>¥ (949)</u>	<u>\$ (17,673)</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
Unrecognized past service cost	¥ 190	¥ 227	\$ 1,746
Unrecognized actuarial losses	<u>(3,291)</u>	<u>(1,405)</u>	<u>(30,245)</u>
Total	<u>¥ (3,101)</u>	<u>¥ (1,177)</u>	<u>\$ (28,499)</u>

- (7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Debt investments	43%	40%
Equity investments	22	26
General account assets of life insurance	15	14
Others	<u>20</u>	<u>20</u>
Total	<u>100%</u>	<u>100%</u>

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

- (8) Assumptions used for the years ended March 31, 2020 and 2019, are set forth as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	Mainly 0.6 - 1.0%	Mainly 0.6 - 1.0%
Expected rate of return on plan assets	Mainly 0.6 - 1.0%	Mainly 0.6 - 1.0%

- (9) Defined contribution pension plan

Contributions to the defined contribution pension plan of the Company and its consolidated subsidiaries for the years ended March 31, 2020 and 2019, were ¥754 million (\$6,929 thousand) and ¥889 million, respectively.

## 8. STOCK INCENTIVE PLAN FOR DIRECTORS AND EXECUTIVE OFFICERS

### *Stock Incentive Plan for Members of the Board of Directors*

With the aim of improving medium-and-long term corporate achievement and to improve corporate value by encouraging Board members to enhance stock value, the Company has introduced a performance based stock incentive plan (the “Board Incentive Plan (BIP)”) for Board members (excluding external directors and part-time directors) and Presidents of domestic subsidiaries (Board members).

#### **Overview of the Stock Plan**

The Plan specifies Board members who meet certain requirements as beneficiaries. The Company has established a trust (the “BIP Trust”) into which the Company contributes the funds required to purchase the number of Company's shares expected to be delivered to its Board members according to established granting policies. A third-party administrator purchases the Company's shares using the funds in the BIP trust. According to the rules for granting shares, the BIP Trust delivers the Company's shares to the eligible Board members on an annual basis or at the time of retirement, based on the Board Member's position and achievements.

#### **Matters Relating to the Company Shares Held by the Trust**

The shares held by the BIP Trust are recorded as treasury stock within equity at the stock's carrying value. The carrying amount of shares and the number of shares held by the BIP Trust was ¥355 million (\$3,262 thousand) and 126,363 shares as of March 31, 2020, and ¥389 million and 138,669 shares as of March 31, 2019 respectively.

### *Stock Incentive Plan for Executive Officers*

With the aim of improving medium-and-long term corporate achievement and to improve corporate value by encouraging management to enhance stock value, the Company has introduced a stock incentive plan (the “Employee Stock Ownership Plan (ESOP)”) for certain executive officers.

#### **Overview of the Incentive Plan**

The Plan specifies certain executive officers who meet certain requirements as beneficiaries. The Company established a trust (the “ESOP Trust”) into which the Company contributes the funds required to purchase the number of Company's shares expected to be delivered to certain executive officers according to established granting policies. A third-party administrator purchases the Company's shares using the funds in the ESOP trust. According to the rules for granting shares, the ESOP Trust delivers the Company's shares to the eligible executive officers on an annual basis or at the time of retirement, based on the executive officers' position and achievements.

#### **Matters Relating to the Company Shares Held by the Trust**

The shares held by the ESOP Trust are recorded as treasury stock within equity at the stock's carrying value. The carrying amount of shares and the number of shares held by the ESOP Trust was ¥673 million (\$6,185 thousand) and 215,137 shares as of March 31, 2020, and ¥758 million and 242,229 shares as of March 31, 2019, respectively.

#### **Per Share Information**

As noted in Note 2.u, the Company applied PITF No. 30, “Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts.” Due to the method by which net income per share is calculated, the Company's own stock in “Board Incentive Plan (BIP) Trust Account” and “Employee Stock Ownership Plan (ESOP) Trust Account” recorded as treasury stock within equity is included in the treasury stock deducted from the average number of shares during the period (349,210 shares in the current fiscal year and 240,898 shares in the previous fiscal year respectively).

## 9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, such as (1) having the Board of Directors, (2) having independent auditors, (3) having a board of corporate auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account that was charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

### (c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights. (Except for treasury stock held by Board Incentive Plan (BIP) Trust and Employee Stock Ownership Plan (ESOP) Trust.)

## 10. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2020 and 2019. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
Deferred tax assets due to:			2020
Liability for retirement benefits	¥ 1,523	¥ 910	\$ 13,996
Unrealized profit eliminated	1,350	1,609	12,406
Accrued bonuses	1,807	1,890	16,606
Research and development expenditures	1,740	1,571	15,991
Depreciation and amortization	420	443	3,859
Inventories	602	553	5,532
Loss on valuation of investment securities	369	48	3,391
Allowance for doubtful accounts	143	104	1,314
Other	2,589	2,346	23,793
Gross deferred tax assets	10,547	9,479	96,930
Less valuation allowance	(925)	(656)	(8,501)
Total gross deferred tax assets	¥ 9,622	¥ 8,822	\$ 88,429
Deferred tax liabilities due to:			
Intangibles assets	¥ (4,773)	¥ (5,028)	\$ (43,865)
Net unrealized gain on securities	(154)	(276)	(1,415)
Other	(1,759)	(1,627)	(16,165)
Total gross deferred tax liabilities	(6,687)	(6,932)	(61,455)
Net deferred tax assets	¥ 2,934	¥ 1,890	\$ 26,964

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2020 and 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes, such as entertainment expenses	1.7	2.4
Income not taxable for income tax purposes	(0.2)	(0.5)
Tax credit related to research expenses	(3.9)	(4.1)
Amortization of goodwill	6.4	5.2
Tax rate differences with foreign consolidated subsidiaries	(5.0)	(2.5)
Valuation allowance	2.0	0.1
Equalization tax	1.0	0.7
Other – net	2.9	2.2
Actual effective tax rate	35.5%	34.1%

## 11. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, mainly consisted of the following:

	Millions of Yen		Thousands of
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
Employees' salaries and bonuses	¥25,953	¥24,953	\$238,516
Provision for employees' bonuses	3,592	4,161	33,011
Provision for stock grant to directors and executive officers	91	149	836
Retirement benefit expenses	1,727	1,779	15,871
Amortization of goodwill	3,805	3,622	34,969
Depreciation expense	5,850	4,482	53,763
Rent expense	4,175	4,752	38,369

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to administrative expenses and manufacturing costs for the years ended March 31, 2020 and 2019, were ¥14,082 million (\$129,418 thousand) and ¥13,171 million, respectively.

## 13. LEASES

### (a) Lessee

The minimum rental commitments under noncancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
Due within one year	¥ 28	¥ 109	\$ 257
Due after one year	<u>71</u>	<u>390</u>	<u>652</u>
Total	<u>¥ 100</u>	<u>¥ 499</u>	<u>\$ 919</u>

Note: As foreign consolidated subsidiaries have adopted IFRS No. 16 "Leases" from the fiscal year ended March 31, 2020, the minimum rental commitments under noncancelable operating leases of such subsidiaries are included in only as of March 31, 2019.

### (b) Lessor

The net investments in leases as of March 31, 2020 and 2019, are summarized as follows:

	Millions of Yen		Thousands of
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
Gross lease receivables	¥ 2,004	¥ 2,511	\$ 18,417
Unearned interest income	<u>665</u>	<u>672</u>	<u>6,111</u>
Investments in leases	<u>¥ 1,339</u>	<u>¥ 1,838</u>	<u>\$ 12,305</u>

Maturities of investment in leases for finance leases that are deemed not to transfer ownership of the leased property to the lessee as of March 31, 2020, are as follows:

<u>Years Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2021	¥ 581	\$ 5,339
2022	472	4,337
2023	364	3,345
2024	237	2,178
2025	178	1,635
2026 and thereafter	<u>170</u>	<u>1,562</u>
Total	<u>¥ 2,004</u>	<u>\$ 18,417</u>

#### 14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group invests cash surpluses in low-risk financial assets and uses financial instruments, such as short-term bank loans and issuance of bonds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes, trade accounts and electronically recorded monetary claims - operating, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal policies, which include monitoring of payment terms and balances of each counterparty. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, they are hedged partially by using foreign currency forward contracts on the basis of internal policies.

Short-term investments and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Such instruments are managed by monitoring market values and the financial position of issuers on a regular basis.

Payment terms of payables, such as trade notes, trade accounts and electronically recorded obligations-operating, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Short-term borrowings are mainly used to fund the Group's ongoing operations. Long-term debt is primarily utilized for investments in overseas new business areas, and bonds are mainly used to fund investments and loans such as acquisition of shares by M&A.

Derivatives include foreign currency forward contracts, interest rate swap agreements and currency swap agreements. Please see Note 15 for more details about derivatives.

(3) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Please see Note 15 for the details of fair value for derivatives.

## (a) Fair values of financial instruments

The carrying amounts, fair values and unrealized gain/loss of financial instruments as of March 31, 2020 and 2019, were as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (b)).

March 31, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 70,922	¥ 70,922	¥
Receivables:			
Trade notes	7,317		
Trade accounts	<u>42,286</u>		
Subtotal	49,603		
Allowance for doubtful accounts *1	<u>(654)</u>		
Receivables – net	48,949	48,952	2
Electronically recorded monetary claims - operating	1,617		
Allowance for doubtful accounts *1	<u>(1)</u>		
Electronically recorded monetary claims – operating – net	1,615	1,615	
Investments in leases	1,339		
Allowance for doubtful accounts *1	<u>(1)</u>		
Investments in leases – net	1,337	1,826	488
Short-term investments and investment securities	<u>10,065</u>	<u>9,548</u>	<u>(516)</u>
Total	<u>¥ 132,891</u>	<u>¥ 132,865</u>	<u>¥ (26)</u>
Payables:			
Trade notes	¥ 1,242	¥ 1,242	¥
Electronically recorded obligations-operating	7,154	7,154	
Trade accounts	10,103	10,103	
Short-term borrowings	24,931	24,931	
Income taxes payable	1,520	1,520	
Bonds	20,000	19,911	(89)
Long-term debt	66	66	0
Long-term lease obligations	<u>4,608</u>	<u>4,662</u>	<u>54</u>
Total	<u>¥ 69,628</u>	<u>¥ 69,593</u>	<u>¥ (34)</u>



<u>March 31, 2020</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Payables:			
Trade notes	11,414	11,414	
Electronically recorded obligations- operating	65,747	65,747	
Trade accounts	92,849	92,849	
Short-term borrowings	229,124	229,124	
Income taxes payable	13,969	13,969	
Bonds	183,806	182,988	(817)
Long-term debt	606	606	0
Lease obligations	42,349	42,845	496
Total	<u>\$ 639,904</u>	<u>\$ 639,582</u>	<u>\$ (312)</u>

Note: \*1 Allowances for doubtful accounts taken for receivables and investments in leases are subtracted.

#### Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

#### Receivables and Electronically Recorded Monetary Claims - Operating

The carrying values are used for short-term receivables as they approximate their fair value. The fair values of long-term receivables, such as installment receivables, are measured at present values discounted by the swap interest rate.

#### Investments in Leases

The fair values of investments in leases are measured at their present values discounted by the swap interest rate.

#### Short-Term Investments and Investment Securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Information on the fair value of marketable and investment securities by classification is included in Note 4.

#### Payables, Electronically Recorded Obligations-Operating, Short-Term Borrowings and Income Taxes Payable

The carrying values of payables, short-term borrowings and income taxes payable approximate fair value because of their short maturities.

#### Bonds

The fair values of bonds are determined based on the market prices.

#### Long-Term Debt and Long-Term Lease Obligations

The fair values of long-term debt and long-term lease obligations are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate, that is a fixed interest rate.

### Derivatives

Fair value information for derivatives is included in Note 15.

- (b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2020 and 2019, were as follows:

	<u>Carrying Amount</u>		
	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2019</u>	<u>U.S. Dollars</u>
			<u>2020</u>
Unlisted equity securities	¥898	¥613	\$ 8,252
Bonds with stock acquisition rights	50		459

The above financial instruments are not included in short-term investments and investment securities described in table (a) because they do not have market values, and it is difficult to estimate future cash flows.

The carrying amounts of investments in unconsolidated subsidiaries and an associated company included in the above table for the years ended March 31, 2020 and 2019, were ¥20 million (\$183 thousand).

- (c) Maturity analysis for financial assets and securities with contractual maturities:

	<u>Millions of Yen</u>			
	<u>Due in</u>	<u>Due after</u>	<u>Due after</u>	<u>Due after 10</u>
	<u>1 Year or</u>	<u>1 Year</u>	<u>5 Years</u>	
<u>March 31, 2020</u>	<u>Less</u>	<u>through</u>	<u>through</u>	<u>Years</u>
		<u>5 Years</u>	<u>10 Years</u>	
Cash and cash equivalents	¥ 70,922			
Receivables	47,559	¥ 2,044		
Electronically recorded				
monetary claims - operating	1,617			
Investments in leases	364	844	¥ 130	
Short-term investments and				
investment securities	<u>2,611</u>	<u>22</u>	<u>2</u>	<u>—</u>
Total	<u>¥ 123,073</u>	<u>¥ 2,910</u>	<u>¥ 132</u>	<u>—</u>

	<u>Millions of Yen</u>			
	<u>Due in</u>	<u>Due after</u>	<u>Due after</u>	<u>Due after 10</u>
	<u>1 Year or</u>	<u>1 Year</u>	<u>5 Years</u>	
<u>March 31, 2019</u>	<u>Less</u>	<u>through</u>	<u>through</u>	<u>Years</u>
		<u>5 Years</u>	<u>10 Years</u>	
Cash and cash equivalents	¥ 75,149			
Receivables	54,831	¥ 2,338		
Electronically recorded				
monetary claims - operating	917			
Investments in leases	500	1,169	¥ 168	
Short-term investments and				
investment securities	<u>734</u>	<u>2,026</u>	<u>—</u>	<u>¥ 2</u>
Total	<u>¥ 132,132</u>	<u>¥ 5,533</u>	<u>¥ 168</u>	<u>¥ 2</u>

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2020</u>				
Cash and cash equivalents	\$ 651,796			
Receivables	437,082	\$ 18,785		
Electronically recorded monetary claims - operating	14,860			
Investments in leases	3,345	7,756	\$ 1,194	
Short-term investments and investment securities	23,995	202	18	
Total	<u>\$ 1,131,081</u>	<u>\$ 26,743</u>	<u>\$ 1,213</u>	

Please see Note 6 for annual maturities of long-term debt and long-term lease obligations.

## 15. DERIVATIVES

The Group enters into foreign currency forward contracts, interest rate swap agreements and currency swap agreements. The foreign currency forward contracts and currency swap agreements are designed to hedge certain exposures to foreign currency exchange rate fluctuations on monetary assets and liabilities denominated in foreign currencies and to manage stabilization of income. The interest rate swap agreements are designed to hedge certain exposures to interest rate fluctuations on long-term debt. The Group does not hold or issue any financial instruments for trading or speculative purposes. The Group does not anticipate any losses arising from credit risk because the counterparties to these derivatives are limited to major international financial institutions. Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization.

### *Derivative Transactions to Which Hedge Accounting Is Not Applied*

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2020</u>				
Foreign currency forward contracts:				
Selling U.S.\$	¥ 325		¥ (0)	¥ (0)

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2019</u>				
Foreign currency forward contracts:				
Selling U.S.\$	¥ 3,242		¥ (1)	¥ (1)
Selling Euro	485		(0)	(0)

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2020</u>				
Foreign currency forward contracts:				
Selling U.S.\$	\$ 2,986		\$ (0)	\$ (0)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

***Derivative Transactions to Which Hedge Accounting Is Applied***

	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2020</u>				
Foreign currency forward contracts:				
Selling Euro	Receivables	¥ 3,491		*1
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and Japanese yen receipt)	Short-term borrowings	1,471		*2

	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2019</u>				
Foreign currency forward contracts:				
Selling U.S.\$	Deposits,	¥ 882		
Selling Euro	Receivables	5,659		*1
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	2,802		*2
Interest rate and currency swaps (fixed-rate and Japanese yen payment, floating-rate and U.S.\$ receipt)	Long-term debt	764		*2
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and U.S.\$ receipt)	Long-term debt	486		*2

<u>March 31, 2020</u>	Thousands of U.S. Dollars			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
Selling Euro	Receivables	\$ 32,083		*1
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and Japanese yen receipt)	Short-term borrowings	13,518		*2

Notes: \*1 Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed in Note 14.

\*2 Fair value of interest rate swaps and interest rate and currency swaps, for which special treatment is applied, is included in fair value of the corresponding long-term debt and short-term borrowings for which hedge accounting is applied disclosed in Note 14.

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

## 16. CONTINGENT LIABILITIES

At March 31, 2020 and 2019, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
			2020
Guarantees for bank loans drawn by its employees	¥ 15	¥ 19	\$ 137
Guarantees for lease obligations owed by its customers	10	48	91

## 17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
			2020
Unrealized loss on available-for-sale securities:			
Gains (losses) arising during the year	¥ 55	¥ (955)	\$ 505
Reclassification adjustments to profit or loss	297	(37)	2,729
Amount before income tax effect	352	(993)	3,234
Income tax effect	(1,025)	301	(9,420)
Total	¥ (672)	¥ (692)	\$ (6,175)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (2,542)	¥ 1,603	\$ (23,361)
Reclassification adjustments to profit or loss	(2,542)	1,603	(23,361)
Income tax effect			
Total	¥ (2,542)	¥ 1,603	\$ (23,361)
Defined retirement benefit plan(s):			
Adjustments arising during the year	¥ (2,116)	¥ (999)	\$ (19,446)
Reclassification adjustments to profit or loss	192	50	1,764
Amount before income tax effect	(1,923)	(949)	(17,673)
Income tax effect	589	298	5,413
Total	¥ (1,333)	¥ (650)	\$ (12,250)
Share of other comprehensive (loss) income of associated company accounted for using the equity method			
Gains (losses) arising during the year	¥ 23	¥ (54)	\$ 211
Reclassification adjustments to profit or loss	(25)	60	(229)
Total	¥ (2)	¥ 5	\$ (18)
Total other comprehensive (loss) income	¥ (4,551)	¥ 265	\$ (41,825)

## 18. SUBSEQUENT EVENTS

### (a) Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2020, was approved at the Company's shareholders' meeting held on June 26, 2020:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥34 (\$0.31) per share	¥2,066	\$18,987

### (b) Business combination through acquisition

At the Board of Directors meeting held on January 31, 2020, a resolution was made to conclude a share purchase agreement through the Company's overseas subsidiary, Glory Global Solutions (International) Ltd. (headquartered in Basingstoke, UK) to acquire 80% of the outstanding shares of Acrelec Group S.A.S. (headquartered in Saint-Thibault-des Vignes, France ("Acrelec")), a provider of self-service kiosks, digital menu boards and other restaurant and retail store solutions\*, and the share purchase agreement was signed on February 24, 2020. Furthermore, the process to acquire the shares was completed on April 3, 2020.

\* Self-service is defined as the capacity for consumers to serve themselves without assistance from a staff member. Kiosks and digital menu boards are multimedia systems used to provide information or execute a transaction, using customer interaction software. Customer experience solutions use a combination of automated systems and staff to create an experience for customers that creates confidence, and a larger buying relationship.

#### 1. Outline of the business combination

##### (1) Name of acquired entity and details of business

Name of the acquired entity:	Acrelec Group S.A.S.
Details of business:	Manufacture, Sales, and Service of self-service kiosks, drive-through kiosks, digital menu boards, customer interaction software. Provision of customer experience solutions to restaurants and retail stores.

##### (2) Principal reason for the business combination

The Glory Group is promoting the "2020 Medium-Term Management Plan" as the first step toward "We enable a confident world" under the "Long-Term Vision 2028." Under this Plan, the Group are actively investing management resources toward the further expansion of overseas business, which has been positioned as an important strategy.

Acrelec has been servicing global quick service restaurants and retailers for over 15 years and has a direct presence in 19 countries, mainly in Europe. It provides a suite of integrated solutions ranging from the development of self-service kiosk hardware and software to production, sales, maintenance, and consulting services.

The Glory Group intends to use the subsidiary acquisition of Acrelec to provide users with the optimal customer experience through self-service kiosks, mobile ordering systems, and other solutions to accelerate initiatives to further realize the goal of comfortable societal automation. Acrelec is the market leader in this field and the company which is poised to become a major player in the emerging "smart store" market through the application of its software technologies and AI (artificial intelligence).

In addition, the Company determined that adding the self-service related field to the financial market and the retail industry within the overseas business could be expected to expand the overseas business and decided to acquire Acrelec.

Going forward, the expected acquisition synergies are anticipated to include an expansion of the sales of both companies' products through the mutual utilization of both sales networks. In addition, it is expected that Acrelec will strengthen its maintenance response capabilities by utilizing the global maintenance network of the Glory Group. In collaboration with Acrelec, the Company aims to expand sales to restaurants and other venues through the Group's sales network in countries around the world.

- (3) Date of business combination  
April 3, 2020
  - (4) Legal form of the business combination  
Share acquisition
  - (5) Name of entity after combination  
There is no change to the entity name.
  - (6) Share of voting rights acquired  
80.0%
  - (7) Main grounds for determining the acquiring entity  
The Company's consolidated subsidiary acquired the shares in exchange for cash.
2. Acquisition costs of the acquired entity and the breakdown by class  
Granted in exchange for cash (€140 million). This amount does not include any contingent considerations. Based on the earnout agreement, the contingent consideration shall be paid out over four years according to the performance attainment level of Acrelec up to the end of December 2024, but it has not been established at the present time.
  3. Details and amounts of the primary acquisition related expenses  
Advisory remuneration, fees, and other expenses of €2 million
  4. Amount, cause, and amortization method and period of goodwill incurred  
Not established at the present time.
  5. Amounts of assets acquired and liabilities assumed on the business combination date and the principal breakdown  
Not established at the present time.

## 19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### 1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group consists of the following segments: the Financial market, Retail and Transportation market, Amusement market and Overseas market. The Financial market consists of sales and maintenance services to domestic financial institutions, OEM clients, and others. The Retail and Transportation market consists of sales and maintenance services to domestic

supermarkets, department stores, cash-in-transit companies, railroad companies, tobacco companies, hospitals, local governments, general companies, and others in Japan. The Amusement market consists of sales and maintenance services to domestic amusement halls. The Overseas market consists of sales and maintenance services to overseas financial institutions, cash-in-transit companies, retail stores, casinos, OEM clients, and others.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Income by reportable segment is operating income.

3. Information about sales, profit (loss), assets, and other items is as follows.

	Millions of Yen				
	2020				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	¥ 42,262	¥ 52,487	¥ 20,753	¥ 103,621	¥ 219,125
Intersegment sales or transfers					
Total	42,262	52,487	20,753	103,621	219,125
Segment profit (loss)	3,314	5,198	1,998	9,780	20,291
Segment assets *1	32,069	42,069	17,862	138,938	230,940
Other:					
Depreciation	1,852	1,605	841	5,602	9,901
Amortization of goodwill				3,805	3,805
Investments in an associated company accounted for by the equity method					
Increase in property, plant and equipment and intangible assets *2	¥ 2,070	¥ 1,887	¥ 630	¥ 12,834	¥ 17,422
	Millions of Yen				
	2019				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	¥ 56,636	¥ 51,985	¥ 20,511	¥ 103,287	¥ 232,421
Intersegment sales or transfers					
Total	56,636	51,985	20,511	103,287	232,421
Segment profit (loss)	6,764	4,611	1,959	8,761	22,097
Segment assets *1	47,452	45,587	21,027	137,758	251,825
Other:					
Depreciation	1,977	1,524	955	4,306	8,763
Amortization of goodwill				3,622	3,622
Investments in an associated company accounted for by the equity method					
Increase in property, plant and equipment and intangible assets	¥ 2,270	¥ 1,817	¥ 737	¥ 3,320	¥ 8,145
	Thousands of U.S. Dollars				
	2020				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	\$ 388,401	\$ 482,372	\$ 190,726	\$ 952,311	\$ 2,013,831
Intersegment sales or transfers					
Total	388,401	482,372	190,726	952,311	2,013,831
Segment profit (loss)	30,456	47,771	18,362	89,881	186,481
Segment assets *1	294,724	386,628	164,157	1,276,886	2,122,415
Other:					
Depreciation	17,020	14,750	7,729	51,484	90,993
Amortization of goodwill				34,969	34,969
Investments in an associated company accounted for by the equity method					
Increase in property, plant and equipment and intangible assets *2	\$ 19,023	\$ 17,342	\$ 5,789	\$ 117,948	\$ 160,113

Millions of Yen  
2020

Other	Total	Reconciliations	Consolidated
¥ 5,045	¥ 224,170	¥	¥ 224,170
5,045	224,170		224,170
(2,364)	17,927		17,927
6,290	237,230	71,532	308,763
231	10,133		10,133
	3,805		3,805
1,705	1,705		1,705
¥ 253	¥ 17,675	¥	¥ 17,675

Millions of Yen  
2019

Other	Total	Reconciliations	Consolidated
¥ 3,341	¥ 235,762	¥	¥ 235,762
3,341	235,762		235,762
(1,521)	20,576		20,576
6,074	257,900	60,328	318,228
181	8,945		8,945
	3,622		3,622
2,925	2,925		2,925
¥ 178	¥ 8,324	¥	¥ 8,324

Thousands of U.S. Dollars  
2020

Other	Total	Reconciliations	Consolidated
\$ 46,365	\$ 2,060,196	\$	\$ 2,060,196
46,365	2,060,196		2,060,196
(21,725)	164,755		164,755
57,807	2,180,222	657,402	2,837,634
2,122	93,125		93,125
	34,969		34,969
15,669	15,669		15,669
\$ 2,325	\$ 162,439	\$	\$ 162,439

Notes: \*1 Reconciliations of segment assets are corporate assets of ¥71,532 million (\$657,402 thousand) and ¥60,328 million for the years ended March 31, 2020 and 2019, respectively, consisting of surplus funds of the Group.

\*2 Increase in property, plant and equipment and intangible assets includes the amount of increase in right-of-use assets recognized in accordance with the application of IFRS No. 16 at the beginning of the fiscal year ended March 31, 2020.

#### 4. Information about products and services

	Millions of Yen			
	2020			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	¥168,578	¥35,359	¥20,232	¥224,170

  

	Millions of Yen			
	2019			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	¥186,410	¥31,785	¥17,567	¥235,762

  

	Thousands of U.S. Dollars			
	2020			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	\$1,549,287	\$324,960	\$185,938	\$2,060,196

#### 5. Information about geographical areas

##### (a) Sales

	Millions of Yen					
	2020					
	Japan	Asia	United States of America	Americas Excluding United States of America	Europe	Total
	¥120,548	¥16,821	¥31,526	¥7,587	¥47,686	¥224,170

Millions of Yen					
2019					
Japan	Asia	United States of America	Americas Excluding United States of America	Europe	Total
¥132,475	¥17,189	¥30,830	¥7,256	¥48,010	¥235,762

  

Thousands of U.S. Dollars					
2020					
Japan	Asia	United States of America	Americas Excluding United States of America	Europe	Total
\$1,107,876	\$154,590	\$289,734	\$69,727	\$438,250	\$2,060,196

Note: Sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

Millions of Yen				
2020				
Japan	Asia	Americas	Europe	Total
¥29,038	¥3,467	¥2,655	¥3,342	¥38,503

  

Millions of Yen				
2019				
Japan	Asia	Americas	Europe	Total
¥29,617	¥1,947	¥2,118	¥1,145	¥34,829

  

Thousands of U.S. Dollars				
2020				
Japan	Asia	Americas	Europe	Total
\$266,868	\$31,862	\$24,400	\$30,714	\$353,855

6. Information about major customers

Information about major customers is not provided since sales for major customers accounted for less than 10% of total consolidated net sales.

7. Information about amortization of goodwill and unamortized balance by reportable segment

		Millions of Yen			
		2020			
		Reportable Segment			
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Amortization of goodwill				¥ 3,805	¥ 3,805
Goodwill at March 31, 2020				43,246	43,246

  

		Millions of Yen			
		2019			
		Reportable Segment			
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Amortization of goodwill				¥ 3,622	¥ 3,622
Goodwill at March 31, 2019				44,245	44,245

  

		Thousands of U.S. Dollars			
		2020			
		Reportable Segment			
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Amortization of goodwill				\$ 34,969	\$ 34,969
Goodwill at March 31, 2020				397,445	397,445

\* \* \* \* \*

Millions of Yen

2020

<u>Other</u>	<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
	¥ 3,805		¥ 3,805
	43,246		43,246

Millions of Yen

2019

<u>Other</u>	<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
	¥ 3,622		¥ 3,622
	44,245		44,245

Thousands of U.S. Dollars

2020

<u>Other</u>	<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
	\$ 34,969		\$ 34,969
	397,445		397,445