

## CONSOLIDATED FINANCIAL STATEMENTS

### GLORY LTD. and Consolidated Subsidiaries

#### Consolidated Balance Sheet March 31, 2019

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 13)	¥ 75,149	¥ 62,375	\$ 677,018
Short-term investments (Notes 3 and 13)	734	779	6,612
Receivables (Note 13):			
Trade notes	4,993	3,638	44,981
Electronically recorded monetary claims - operating	917	486	8,261
Trade accounts	52,176	49,740	470,054
Unconsolidated subsidiaries and associated company	5	428	45
Other	1,856	1,632	16,720
Investments in leases (Notes 12 and 13)	1,838	2,276	16,558
Inventories (Note 4)	48,527	51,363	437,180
Other current assets	2,518	2,597	22,684
Allowance for doubtful accounts	(574)	(570)	(5,171)
<b>Total current assets</b>	<b>188,143</b>	<b>174,747</b>	<b>1,694,981</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	11,717	11,420	105,558
Buildings and structures	36,360	34,905	327,567
Machinery and equipment	13,935	13,565	125,540
Furniture and fixtures	57,512	56,503	518,126
Construction in progress	202	499	1,819
Total	119,728	116,895	1,078,630
Accumulated depreciation	(84,899)	(82,386)	(764,855)
<b>Net property, plant and equipment</b>	<b>34,829</b>	<b>34,509</b>	<b>313,774</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 13)	9,356	10,244	84,288
Investments in unconsolidated subsidiaries and associated company (Note 13)	2,945	235	26,531
Software	5,336	4,598	48,072
Goodwill	44,245	45,113	398,603
Customer relationships	19,108	19,683	172,144
Deferred tax assets (Note 9)	7,965	8,000	71,756
Asset for retirement benefits	1,466	551	13,207
Other investments and other assets	4,983	5,330	44,891
Allowance for doubtful accounts	(152)	(188)	(1,369)
<b>Total investments and other assets</b>	<b>95,255</b>	<b>93,568</b>	<b>858,153</b>
<b>TOTAL</b>	<b>¥ 318,228</b>	<b>¥ 302,825</b>	<b>\$ 2,866,918</b>

See notes to consolidated financial statements.

<u>LIABILITIES AND EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
			<u>(Note 1)</u>
			<u>2019</u>
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 5 and 13)	¥ 23,369	¥ 21,745	\$ 210,531
Current portion of long-term debt (Notes 5 and 13)	4,476	9,006	40,324
Current portion of long-term lease obligations (Notes 5, 12 and 13)	561	652	5,054
Payables (Note 13):			
Trade notes	1,131	1,202	10,189
Electronically recorded obligations-operating	7,461	8,519	67,216
Trade accounts	9,882	10,384	89,027
Unconsolidated subsidiaries and associated company	33	25	297
Other	7,026	5,425	63,297
Income taxes payable (Note 13)	3,006	2,143	27,081
Accrued expenses	16,307	17,186	146,909
Deferred income	11,299	10,506	101,792
Provision for stock grant to directors and executive officers (Note 7)	86	71	774
Other current liabilities	5,825	4,750	52,477
Total current liabilities	<u>90,467</u>	<u>91,620</u>	<u>815,018</u>
<b>LONG-TERM LIABILITIES:</b>			
Bonds (Notes 5 and 13)	20,000		180,180
Long-term debt (Notes 5 and 13)		4,508	
Liability for retirement benefits (Note 6)	3,031	2,620	27,306
Long-term lease obligations (Notes 5, 12 and 13)	1,085	1,276	9,774
Deferred tax liabilities (Note 9)	6,075	6,251	54,729
Provision for stock grant to directors and executive officers (Note 7)	240	191	2,162
Other long-term liabilities	4,070	4,191	36,666
Total long-term liabilities	<u>34,503</u>	<u>19,039</u>	<u>310,837</u>
<b>CONTINGENT LIABILITIES (Note 15)</b>			
<b>EQUITY (Notes 8 and 17):</b>			
Common stock,			
Authorized: 150,000,000 shares in 2019 and 2018;			
Issued: 68,638,210 shares in 2019 and 2018	12,892	12,892	116,144
Capital surplus	20,938	20,991	188,630
Retained earnings	172,219	165,380	1,551,522
Treasury stock - at cost (Note 7)			
7,865,917 shares in 2019 and 5,931,205 shares in 2018	(23,884)	(18,022)	(215,171)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	219	916	1,972
Foreign currency translation adjustments	7,673	5,793	69,126
Defined retirement benefit plans	(820)	(170)	(7,387)
Total	189,238	187,780	1,704,846
Noncontrolling interests	4,018	4,385	36,198
Total equity	<u>193,257</u>	<u>192,165</u>	<u>1,741,054</u>
<b>TOTAL</b>	<u>¥ 318,228</u>	<u>¥ 302,825</u>	<u>\$ 2,866,918</u>

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Income Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET SALES	¥ 235,762	¥ 227,361	\$ 2,123,981
COST OF SALES (Note 11)	<u>147,274</u>	<u>140,174</u>	<u>1,326,792</u>
Gross profit	88,488	87,186	797,189
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 11)	<u>67,912</u>	<u>67,570</u>	<u>611,819</u>
Operating income	<u>20,576</u>	<u>19,615</u>	<u>185,369</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	323	345	2,909
Interest expense	(601)	(553)	(5,414)
Foreign currency exchange loss – net	(17)	(2,124)	(153)
Other – net	<u>281</u>	<u>254</u>	<u>2,531</u>
Other expenses net	<u>(14)</u>	<u>(2,077)</u>	<u>(126)</u>
INCOME BEFORE INCOME TAXES	20,562	17,538	185,243
INCOME TAXES (Note 9):			
Current	(6,854)	(6,358)	(61,747)
Deferred	<u>(152)</u>	<u>91</u>	<u>(1,369)</u>
Total income taxes	<u>(7,007)</u>	<u>(6,267)</u>	<u>(63,126)</u>
NET INCOME	13,554	11,271	122,108
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(1,298)</u>	<u>(1,378)</u>	<u>(11,693)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	<u>¥ 12,256</u>	<u>¥ 9,892</u>	<u>\$ 110,414</u>
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.u):			
Basic net income	¥198.71	¥155.96	\$1.79
Cash dividends applicable to the year	64.00	82.00	0.58

See notes to consolidated financial statements.

**GLORY LTD. and Consolidated Subsidiaries**

**Consolidated Statement of Comprehensive Income  
Year Ended March 31, 2019**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥ 13,554	¥ 11,271	\$ 122,108
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16):			
Unrealized gain (loss) on available-for-sale securities	(692)	93	(6,234)
Foreign currency translation adjustments	1,603	(2,041)	14,441
Defined retirement benefit plan	(650)	1,182	(5,855)
Share of other comprehensive income of associated company accounted for using the equity method	5	-	45
Total other comprehensive income (loss)	265	(765)	2,387
COMPREHENSIVE INCOME	¥ 13,820	¥ 10,506	\$ 124,504
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of parent	¥12,833	¥8,804	\$115,612
Noncontrolling interests	987	1,701	8,891

See notes to consolidated financial statements.

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended March 31, 2019

	Thousands of Shares		Millions of Yen			
	Common Stock	Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2017	68,638	(4,496)	¥ 12,892	¥ 20,974	¥ 158,504	¥ (12,090)
Net income attributable to owners of parent					9,892	
Cash dividends, ¥61 per share					(3,912)	
Purchase of treasury stock		(1,435)				(6,000)
Disposal of treasury stock						68
Change in scope of consolidation (Note 2.a)				16	896	
Net change in the year						
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	<u>68,638</u>	<u>(7,865)</u>	<u>¥ 12,892</u>	<u>¥ 20,938</u>	<u>¥ 172,219</u>	<u>¥ (23,884)</u>

  

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, MARCH 31, 2018 (APRIL 1, 2018, as previously reported)	\$ 116,144	\$ 189,108	\$ 1,489,909	\$ (162,360)
Cumulative effect of accounting change			(3,108)	
BALANCE, APRIL 1, 2018 (as restated)	116,144	189,108	1,486,792	(162,360)
Net income attributable to owners of parent			110,414	
Cash dividends, \$0.74 per share			(46,315)	
Purchase of treasury stock				(59,234)
Disposal of treasury stock		(468)		6,432
Change in scope of consolidation (Note 2.a)			621	
Net change in the year				
BALANCE, MARCH 31, 2019	<u>\$ 116,144</u>	<u>\$ 188,630</u>	<u>\$ 1,551,522</u>	<u>\$ (215,171)</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
¥ 822	¥ 8,181	¥ (1,336)	¥ 187,949	¥ 3,494	¥ 191,443
			9,892		9,892
			(3,912)	(820)	(4,733)
			(6,000)		(6,000)
			68		68
	(24)		888	10	898
93	(2,364)	1,165	(1,104)	1,701	596
916	5,793	(170)	187,780	4,385	192,165
			(345)	(138)	(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
	(33)		35	12	48
(696)	1,914	(650)	567	987	1,554
¥ 219	¥ 7,673	¥ (820)	¥ 189,238	¥ 4,018	¥ 193,257

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
\$ 8,252	\$ 52,189	\$ (1,531)	\$ 1,691,711	\$ 39,504	\$ 1,731,216
			(3,108)	(1,243)	(4,351)
8,252	52,189	(1,531)	1,688,594	38,252	1,726,855
			110,414		110,414
			(46,315)	(11,054)	(57,378)
			(59,234)		(59,234)
			5,954		5,954
	(297)		315	108	432
(6,270)	17,243	(5,855)	5,108	8,891	14,000
\$ 1,972	\$ 69,126	\$ (7,387)	\$ 1,704,846	\$ 36,198	\$ 1,741,054

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 20,562	¥ 17,538	\$ 185,243
Adjustments for:			
Income taxes – paid	(5,357)	(6,330)	(48,261)
Depreciation and amortization	8,945	9,450	80,585
Amortization of goodwill	3,622	3,922	32,630
Provision for doubtful receivables	(60)	59	(540)
Net gain on sales of investment securities	(61)	(7)	(549)
Changes in assets and liabilities, net of affects from newly consolidated subsidiaries:			
Increase in trade receivables	(2,317)	(6,643)	(20,873)
Decrease (increase) in inventories	3,808	(5,825)	34,306
(Decrease) increase in trade payables	(2,564)	1,554	(23,099)
Decrease in interest payable	(38)	(14)	(342)
Decrease in liability for retirement benefits	(555)	(1,052)	(5,000)
Increase in provision for stock grant to directors and executive officers	63	75	567
Decrease in lease obligations	(297)	(745)	(2,675)
Decrease in leased investment assets	437	547	3,936
Increase in accrued consumption taxes	657	245	5,918
(Decrease) increase in accrued expenses	(1,199)	707	(10,801)
Other – net	(1,344)	1,103	(12,108)
Total adjustments	3,738	(2,952)	33,675
Net cash provided by operating activities	24,300	14,585	218,918
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	6	723	54
Purchases of property, plant and equipment	(5,424)	(5,504)	(48,864)
Purchases of intangible assets	(2,147)	(2,312)	(19,342)
Proceeds from sales and redemption of investment securities	255	66	2,297
Purchases of investment securities	(3,630)	(1,008)	(32,702)
Decrease (increase) in time deposits – net	605	(490)	5,450
Acquisition of investments in subsidiaries with changes in scope of consolidation	(999)		(9,000)
Other – net	(53)	(83)	(477)
Net cash used in investing activities	(11,388)	(8,609)	(102,594)
<b>FORWARD</b>	¥ 12,912	¥ 5,976	\$ 116,324

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## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
FORWARD	¥ 12,912	¥ 5,976	\$ 116,324
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings – net	1,165	(3,835)	10,495
Repayments of long-term debt	(9,059)	(9,005)	(81,612)
Proceeds from issuance of bonds	19,901		179,288
Purchase of treasury stock	(6,575)	(6,000)	(59,234)
Disposal of treasury stock	575		5,180
Dividends paid	(5,140)	(3,912)	(46,306)
Dividends paid for noncontrolling interests	(1,227)	(820)	(11,054)
Net cash used in financing activities	(361)	(23,574)	(3,252)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	146	(234)	1,315
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,697	(17,832)	114,387
CASH AND CASH EQUIVALENTS OF NEWLY- CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	77	3,156	693
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	62,375	77,050	561,936
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 75,149	¥ 62,375	\$ 677,018

See notes to consolidated financial statements.

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## GLORY LTD. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements Year Ended March 31, 2019

#### 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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥111.00 to \$1, the approximate rate of exchange at March 31, 2019. 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, 2019, include the accounts of the Company and its 53 significant (49 in 2018) 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, 2019		March 31, 2018	
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
41 other companies	March 31	37 other companies	March 31

To increase the accuracy of consolidated financial information, a provisional settlement of accounts has been made on March 31 for 8 subsidiaries whose fiscal closing date is December 31, including GLORY Denshi Kogyo (Suzhou) Ltd., 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. and CTS Solutions S.r.l. 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; and (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.
- 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 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 14 years for fund-type defined benefit plans). The prior 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 14 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 7).

- 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.

- 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 denominated in a foreign currency that is covered by a currency swap is 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 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 7) recorded as treasury stock within equity includes treasury stock deducted from the average number of shares during the period used for calculating net income per share and treasury stock deducted from the number of shares outstanding at the end of the fiscal year used for calculating net assets 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. 15, "Revenue from Contracts with Customers" from the fiscal year ended March 31, 2019. The effects of applying this accounting standard on the consolidated financial statements are immaterial.
- x. **New Accounting Pronouncements** - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition."

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.

Foreign consolidated subsidiaries will adopt IFRS No. 16, "Leases" from the beginning of the fiscal year ending March 31, 2020. IFRS No.16, "Leases" requires lessees to recognize assets and liabilities for all lease arrangements in principle. The effects of applying this standard on the consolidated financial statements are immaterial.

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

Short-term investments and investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
			2019
Short-term investments:			
Time deposits other than cash equivalents	¥ 178	¥ 779	\$ 1,603
Government, corporate and other bonds	<u>556</u>	<u>      </u>	<u>5,009</u>
Total	<u>¥ 734</u>	<u>¥ 779</u>	<u>\$ 6,612</u>
Investment securities:			
Marketable equity securities	¥ 4,813	¥ 5,366	\$ 43,360
Nonmarketable equity securities	593	558	5,342
Government, corporate, and other bonds	2,029	2,569	18,279
Other	<u>1,920</u>	<u>1,750</u>	<u>17,297</u>
Total	<u>¥ 9,356</u>	<u>¥10,244</u>	<u>\$84,288</u>

The costs and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<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, 2018</u>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,079	¥1,368	¥(82)	¥5,366
Government bonds	3			3
Bonds	25			25
Other	1,717	32		1,750
Held-to-maturity:				
Government bonds	1,000	36		1,036
Bonds	1,541	30	(9)	1,562

March 31, 2019	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$40,693	\$7,630	\$(4,954)	\$43,360
Government bonds	18			18
Bonds	207			207
Other	17,072	495	(279)	17,297
Held-to-maturity:				
Government bonds	9,009	207		9,216
Bonds	14,045	171	(18)	14,207

Available-for-sale securities sold during the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Proceeds from sales	¥151	¥10	\$1,360
Gain on sales	61	8	549
Loss on sales			

#### 4. INVENTORIES

Inventories as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished products and merchandise	¥ 28,606	¥ 31,719	\$ 257,711
Work in process	8,233	8,044	74,171
Raw materials and supplies	11,687	11,599	105,288
Total	¥ 48,527	¥ 51,363	\$ 437,180

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

(a) Short-term borrowings as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans from banks and an insurance company	¥23,369	¥21,745	\$210,531

The annual average interest rates applicable to short-term borrowings at March 31, 2019 and 2018, were 1.8% and 1.5%, respectively.

(b) Long-term debt and lease obligations as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans from banks	¥ 4,476	¥ 13,514	\$ 40,324
Obligations under finance leases	1,647	1,929	14,837
Unsecured 0.15% yen straights bonds, due 2023	10,000		90,090
Unsecured 0.425% yen straights bonds, due 2028	10,000		90,090
Total	26,123	15,443	235,342
Less current portion	(5,038)	(9,658)	(45,387)
Long-term debt and lease obligations, less current portion	¥ 21,085	¥ 5,784	\$ 189,954

The annual average interest rate applicable to long-term debt at March 31, 2019 and 2018 was 0.5% and 1.2%, respectively.

(c) Annual maturities of long-term debt and lease obligations as of March 31, 2019, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 5,038	\$ 45,387
2021	471	4,243
2022	318	2,864
2023	121	1,090
2024 and thereafter	20,173	181,738
Total	¥ 26,123	\$ 235,342

## 6. 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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 62,261	¥ 58,508	\$ 560,909
Current service cost	2,575	2,600	23,198
Interest cost	467	439	4,207
Actuarial losses	1,368	450	12,324
Benefits paid	(2,070)	(1,808)	(18,648)
Past service cost	(20)		(180)
Change in scope of consolidation		1,685	
Others	387	385	3,486
Balance at end of year	¥ 64,968	¥ 62,261	\$ 585,297



(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Balance at beginning of year	¥ 60,192	¥ 54,089	\$ 542,270
Expected return on plan assets	445	404	4,009
Actuarial gains	368	1,761	3,315
Contributions from the employer	3,924	3,678	35,351
Benefits paid	(1,952)	(1,667)	(17,585)
Change in scope of consolidation		1,581	
Others	424	344	3,819
Balance at end of year	<u>¥ 63,403</u>	<u>¥ 60,192</u>	<u>\$ 571,198</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
	2019	2018	U.S. Dollars
Funded defined benefit obligation	¥ 63,641	¥ 61,404	\$ 573,342
Plan assets	<u>(63,403)</u>	<u>(60,192)</u>	<u>(571,198)</u>
Total	237	1,211	2,135
Unfunded defined benefit obligation	<u>1,326</u>	<u>857</u>	<u>11,945</u>
Net liability for defined benefit obligation	<u>¥ 1,564</u>	<u>¥ 2,068</u>	<u>\$ 14,090</u>

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Liability for retirement benefits	¥ 3,031	¥ 2,620	\$ 27,306
Prepaid retirement benefits	<u>(1,466)</u>	<u>(551)</u>	<u>(13,207)</u>
Net liability for defined benefit obligation	<u>¥ 1,564</u>	<u>¥ 2,068</u>	<u>\$ 14,090</u>

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Service cost	¥ 2,575	¥ 2,600	\$ 23,198
Interest cost	467	439	4,207
Expected return on plan assets	(445)	(404)	(4,009)
Recognized actuarial losses	94	361	846
Amortization of prior service cost	<u>(65)</u>	<u>(49)</u>	<u>(585)</u>
Net periodic benefit costs	<u>¥ 2,626</u>	<u>¥ 2,947</u>	<u>\$ 23,657</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, 2019 and 2018:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Prior service cost	¥ (44)	¥ (49)	\$ (396)
Actuarial (losses) gains	<u>(904)</u>	<u>1,672</u>	<u>(8,144)</u>
Total	<u>¥ (949)</u>	<u>¥ 1,623</u>	<u>\$ (8,549)</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Unrecognized prior service cost	¥ 227	¥ 272	\$ 2,045
Unrecognized actuarial losses	<u>(1,405)</u>	<u>(529)</u>	<u>(12,657)</u>
Total	<u>¥ (1,177)</u>	<u>¥ (256)</u>	<u>\$ (10,603)</u>

- (7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Debt investments	40%	41%
Equity investments	26	26
General account assets of life insurance	14	14
Others	<u>20</u>	<u>19</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, 2019 and 2018, are set forth as follows:

	<u>2019</u>	<u>2018</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, 2019 and 2018, were ¥889 million (\$8,009 thousand) and ¥715 million, respectively.

## 7. 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 ¥389 million (\$3,504 thousand) and 138,669 shares as of March 31, 2019, and ¥155 million and 48,029 shares as of March 31, 2018 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 ¥758 million (\$6,828 thousand) and 242,229 shares as of March 31, 2018, and ¥503 million and 141,135 shares as of March 31, 2017, 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 assets 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 are included in treasury stock deducted from shares issued as of the end of the period (380,898 shares for the current fiscal year and 189,164 shares for the previous fiscal year, respectively). Also, due to the method by which net income per share is calculated, shares of the above trusts are included in the treasury stock deducted from the average number of shares during the period (240,898 shares in the current fiscal year and 192,579 shares in the previous fiscal year respectively).

## 8. 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.)

## 9. 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% and 30.8% for the years ended March 31, 2019 and 2018, respectively. 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, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Deferred tax assets due to:			
Liability for retirement benefits	¥ 910	¥ 442	\$ 8,198
Unrealized profit eliminated	1,609	1,742	14,495
Accrued bonuses	1,890	1,941	17,027
Research and development expenditures	1,571	1,520	14,153
Depreciation and amortization	443	583	3,990
Inventories	553	555	4,981
Loss on valuation of investment securities	48	48	432
Allowance for doubtful accounts	104	118	936
Other	<u>2,346</u>	<u>2,129</u>	<u>21,135</u>
Gross deferred tax assets	9,479	9,081	85,396
Less valuation allowance	<u>(656)</u>	<u>(645)</u>	<u>(5,909)</u>
Total gross deferred tax assets	<u>¥ 8,822</u>	<u>¥ 8,436</u>	<u>\$ 79,477</u>
Deferred tax liabilities due to:			
Intangibles assets	¥ (5,028)	¥ (5,167)	\$ (45,297)
Net unrealized gain on securities	(276)	(429)	(2,486)
Other	<u>(1,627)</u>	<u>(1,090)</u>	<u>(14,657)</u>
Total gross deferred tax liabilities	<u>(6,932)</u>	<u>(6,687)</u>	<u>(62,450)</u>
Net deferred tax assets	<u>¥ 1,890</u>	<u>¥ 1,748</u>	<u>\$ 17,027</u>

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, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Normal effective statutory tax rate	30.6%	30.8%
Expenses not deductible for income tax purposes, such as entertainment expenses	2.4	2.6
Income not taxable for income tax purposes	(0.5)	(1.0)
Tax credit related to research expenses	(4.1)	(4.0)
Amortization of goodwill	5.2	7.1
Tax rate differences with foreign consolidated subsidiaries	(2.5)	(3.4)
Valuation allowance	0.1	(0.3)
Effect of tax rate reduction		0.2
Equalization tax	0.7	0.9
Other – net	<u>2.2</u>	<u>2.8</u>
Actual effective tax rate	<u>34.1%</u>	<u>35.7%</u>

## 10. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in the accompanying consolidated statements of income for the years ended March 31, 2019 and 2018, mainly consisted of the following:

	Millions of Yen		Thousands of
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
Employees' salaries and bonuses	¥24,953	¥25,688	\$224,801
Provision for employees' bonuses	4,161	3,663	37,486
Provision for stock grant to directors and executive officers	149	142	1,342
Retirement benefit expenses	1,779	1,957	16,027
Amortization of goodwill	3,622	3,922	32,630
Depreciation expense	4,482	4,460	40,378
Rent expense	4,752	4,759	42,810

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to administrative expenses and manufacturing costs for the years ended March 31, 2019 and 2018, were ¥13,171 million (\$118,657 thousand) and ¥14,119 million, respectively.

## 12. LEASES

### (a) Lessee

The minimum rental commitments under noncancelable operating leases as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
Due within one year	¥ 109	¥ 126	\$ 981
Due after one year	<u>390</u>	<u>637</u>	<u>3,513</u>
Total	<u>¥ 499</u>	<u>¥ 764</u>	<u>\$ 4,495</u>

### (b) Lessor

The net investments in leases as of March 31, 2019 and 2018, are summarized as follows:

	Millions of Yen		Thousands of
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
Gross lease receivables	¥ 2,511	¥ 3,049	\$ 22,621
Unearned interest income	<u>672</u>	<u>773</u>	<u>6,054</u>
Investments in leases	<u>¥ 1,838</u>	<u>¥ 2,276</u>	<u>\$ 16,558</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, 2019, are as follows:

<u>Years Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2020	¥ 715	\$ 6,441
2021	613	5,522
2022	496	4,468
2023	308	2,774
2024	180	1,621
2025 and thereafter	<u>196</u>	<u>1,765</u>
Total	<u>¥ 2,511</u>	<u>\$ 22,621</u>

### 13. 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. 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. Bonds and long-term debt are utilized for financing of business transactions and capital investments. Although a part of such bank loans are exposed to foreign currency exchange rate and interest rate fluctuations, those risks are mitigated by using derivatives. As this method of hedging meets the requirements of the special treatment of interest rate swaps, we have not assessed the effectiveness of the method.

Derivatives include foreign currency forward contracts, interest rate swap agreements and currency swap agreements. Please see Note 14 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 14 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, 2019 and 2018, were as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (b)).

<u>March 31, 2019</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 75,149	¥ 75,149	¥
Receivables:			
Trade notes	4,993		
Trade accounts	52,176		
Subtotal	57,170		
Allowance for doubtful accounts *1	(572)		
Receivables – net	56,597	56,600	3
Electronically recorded monetary claims - operating	917	917	
Investments in leases	1,838		
Allowance for doubtful accounts *1	(2)		
Investments in leases – net	1,835	2,334	498
Short-term investments and investment securities	12,424	11,755	(669)
<b>Total</b>	<b>¥ 146,925</b>	<b>¥ 146,757</b>	<b>¥(167)</b>
Payables:			
Trade notes	¥ 1,131	¥ 1,131	¥
Electronically recorded obligations - operating	7,461	7,461	
Trade accounts	9,882	9,882	
Short-term borrowings	23,369	23,369	
Bonds	20,000	20,134	134
Long-term debt	4,476	4,497	21
Income taxes payable	3,006	3,006	
Long-term lease obligations	1,647	1,484	(162)
<b>Total</b>	<b>¥ 70,974</b>	<b>¥ 70,966</b>	<b>¥ (7)</b>

<u>March 31, 2018</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 62,375	¥ 62,375	¥
Receivables:			
Trade notes	3,638		
Trade accounts	49,740		
Unconsolidated subsidiaries and associated company	411		
Subtotal	53,789		
Allowance for doubtful accounts *1	(563)		
Receivables – net	53,226	53,223	(2)
Electronically recorded monetary claims - operating	486	486	
Investments in leases	2,276		
Allowance for doubtful accounts *1	(7)		
Investments in leases – net	2,268	2,736	467
Short-term investments and investment securities	10,465	¥ 10,522	57
<b>Total</b>	<b>¥ 128,821</b>	<b>¥ 129,343</b>	<b>¥ 521</b>

Payables:			
Trade notes	¥ 1,202	¥ 1,202	¥
Electronically recorded obligations - operating	8,519	8,519	
Trade accounts	10,384	10,384	
Short-term borrowings	21,745	21,745	
Long-term debt	13,514	13,547	32
Income taxes payable	2,143	2,143	
Long-term lease obligations	1,929	1,840	(88)
<b>Total</b>	<b>¥ 59,439</b>	<b>¥ 59,383</b>	<b>¥ (55)</b>

<u>March 31, 2019</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 677,018	\$ 677,018	\$
Receivables:			
Trade notes	44,981		
Trade accounts	470,054		
Subtotal	515,045		
Allowance for doubtful accounts *1	(5,153)		
Receivables – net	509,882	509,909	27
Electronically recorded monetary claims - operating	8,261	8,261	
Investments in leases	16,558		
Allowance for doubtful accounts *1	(18)		
Investments in leases – net	16,531	21,027	4,486
Short-term investments and investment securities	111,927	105,900	(6,027)
<b>Total</b>	<b>\$ 1,323,648</b>	<b>\$ 1,322,135</b>	<b>\$(1,504)</b>

<u>March 31, 2019</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Payables:			
Trade notes	\$ 10,189	\$ 10,189	\$
Electronically recorded obligations-			
operating	67,216	67,216	
Trade accounts	89,027	89,027	
Short-term borrowings	210,531	210,531	
Bonds	180,180	181,387	1,207
Long-term debt	40,324	40,513	189
Income taxes payable	27,081	27,081	
Long-term lease obligations	<u>14,837</u>	<u>13,369</u>	<u>(1,459)</u>
Total	<u>\$ 639,405</u>	<u>\$ 639,333</u>	<u>\$ (63)</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 3.

#### 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. The specific matching criteria of interest rate and currency swaps are applicable to some long-term debts. The fair values of these items are determined by discounting the combined total of interest and principal, with which the interest rate and currency swaps have been accounted for, at the Group's assumed

corporate borrowing rate. The carrying values of floating-rate long-term debt approximate fair value because the floating rates reflect the short-term market rate.

#### Derivatives

Fair value information for derivatives is included in Note 14.

- (b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2019 and 2018, were as follows:

	<u>Carrying Amount</u>		
	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
			<u>2018</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥613	¥793	\$5,522

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, 2019 and 2018, were ¥20 million (\$180 thousand) and ¥235 million, respectively.

- (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>Less</u>	<u>through</u>	<u>through</u>	<u>Years</u>
		<u>5 Years</u>	<u>10 Years</u>	
<u>March 31, 2019</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>

	<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>Less</u>	<u>through</u>	<u>through</u>	<u>Years</u>
		<u>5 Years</u>	<u>10 Years</u>	
<u>March 31, 2018</u>				
Cash and cash equivalents	¥ 62,375			
Receivables	51,991	¥ 1,798		
Electronically recorded monetary claims - operating	486			
Investments in leases	638	1,436	¥ 200	
Short-term investments and investment securities	<u>779</u>	<u>2,566</u>	<u>—</u>	<u>¥ 3</u>
Total	<u>¥ 116,270</u>	<u>¥ 5,801</u>	<u>¥ 200</u>	<u>¥ 3</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, 2019</u>				
Cash and cash equivalents	\$ 677,018			
Receivables	493,972	\$ 21,063		
Electronically recorded monetary claims - operating	8,261			
Investments in leases	4,504	10,531	\$ 1,513	
Short-term investments and investment securities	<u>6,612</u>	<u>18,252</u>	<u>      </u>	<u>\$ 18</u>
Total	<u>\$ 1,190,378</u>	<u>\$ 49,846</u>	<u>\$ 1,513</u>	<u>\$ 18</u>

Please see Note 5 for annual maturities of long-term debt and long-term lease obligations.

#### 14. 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, 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, 2019</u>				
Foreign currency forward contracts:				
Selling U.S.\$	\$ 29,207		\$ (9)	\$ (9)
Selling Euro	4,369		(0)	(0)

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

There were no derivative transactions to which hedge accounting is not applied for the year ended March 31, 2018.

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

	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2019</u>				
Foreign currency forward contracts:				
Selling U.S.\$	Deposits,	¥ 882		*1
Selling Euro	Receivables	5,659		
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

	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2018</u>				
Foreign currency forward contracts:				
Selling U.S.\$	Deposits,	¥ 981		*1
Selling Euro	Receivables	3,506		
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	8,431	¥2,810	*2
Interest rate and currency swaps (fixed-rate and Japanese yen payment, floating-rate and U.S.\$ receipt)	Long-term debt	2,292	764	*2
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and U.S.\$ receipt)	Long-term debt	1,530	510	*2

<u>March 31, 2019</u>	<u>Hedged Item</u>	<u>Thousands of U.S. Dollars</u>	
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>
Foreign currency forward contracts:			
Selling U.S.\$	Deposits,	\$ 7,945	
Selling Euro	Receivables	50,981	*1
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	25,243	*2
Interest rate and currency swaps (fixed-rate and Japanese yen payment, floating-rate and U.S.\$ receipt)	Long-term debt	6,882	*2
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and U.S.\$ receipt)	Long-term debt	4,378	*2

Note: \*1 Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed in Note 13.

Note: \*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 for which hedge accounting is applied disclosed in Note 13.

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.

## 15. CONTINGENT LIABILITIES

At March 31, 2019 and 2018, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
Guarantees for bank loans drawn by its employees	¥ 19	¥ 22	\$ 171
Guarantees for lease obligations owed by its customers	48	154	432

## 16. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of
	<u>2019</u>	<u>2018</u>	<u>U.S. Dollars</u>
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ (955)	¥ 142	\$ (8,603)
Reclassification adjustments to profit or loss	<u>(37)</u>	<u>(7)</u>	<u>(333)</u>
Amount before income tax effect	(993)	134	(8,945)
Income tax effect	<u>301</u>	<u>(41)</u>	<u>2,711</u>
Total	<u>¥ (692)</u>	<u>¥ 93</u>	<u>\$ (6,234)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 1,603	¥ (2,144)	\$ 14,441
Reclassification adjustments to profit or loss	<u>1,603</u>	<u>94</u>	<u>14,441</u>
Amount before income tax effect	1,603	(2,050)	14,441
Income tax effect	<u>8</u>	<u>8</u>	<u>8</u>
Total	<u>¥ 1,603</u>	<u>¥ (2,041)</u>	<u>\$ 14,441</u>
Defined retirement benefit plan(s):			
Adjustments arising during the year	¥ (999)	¥ 1,311	\$ (9,000)
Reclassification adjustments to profit or loss	<u>50</u>	<u>311</u>	<u>450</u>
Amount before income tax effect	(949)	1,623	(8,549)
Income tax effect	<u>298</u>	<u>(440)</u>	<u>2,684</u>
Total	<u>¥ (650)</u>	<u>¥ 1,182</u>	<u>\$ (5,855)</u>
Share of other comprehensive income of associated company accounted for using the equity method			
Gains arising during the year	¥ (54)		\$ (486)
Reclassification adjustments to profit or loss	<u>60</u>		<u>540</u>
Total	<u>¥ 5</u>		<u>\$ 45</u>
Total other comprehensive income (loss)	<u>¥ 265</u>	<u>¥ (765)</u>	<u>\$ 2,387</u>



## 17. SUBSEQUENT EVENTS

### (a) Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2019, was approved at the Company's shareholders' meeting held on June 21, 2019:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥33 (\$0.30) per share	¥2,005	\$18,063

## 18. 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				
	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
	Millions of Yen				
	2018				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	¥ 53,970	¥ 43,216	¥ 20,570	¥ 106,758	¥ 224,515
Intersegment sales or transfers					
Total	53,970	43,216	20,570	106,758	224,515
Segment profit (loss)	4,043	3,476	1,331	11,167	20,018
Segment assets *1	43,472	35,750	19,208	141,504	239,936
Other:					
Depreciation	2,062	1,728	1,163	4,355	9,309
Amortization of goodwill				3,922	3,922
Increase in property, plant and equipment and intangible assets	¥ 2,010	¥ 1,739	¥ 831	¥ 4,097	¥ 8,678
	Thousands of U.S. Dollars				
	2019				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	\$ 510,234	\$ 468,333	\$ 184,783	\$ 930,513	\$ 2,093,882
Intersegment sales or transfers					
Total	510,234	468,333	184,783	930,513	2,093,882
Segment profit (loss)	60,936	41,540	17,648	78,927	199,072
Segment assets *1	427,495	410,693	189,432	1,241,063	2,268,693
Other:					
Depreciation	17,810	13,729	8,603	38,792	78,945
Amortization of goodwill				32,630	32,630
Investments in an associated company accounted for by the equity method					
Increase in property, plant and equipment and intangible assets	\$ 20,450	\$ 16,369	\$ 6,639	\$ 29,909	\$ 73,378

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

Millions of Yen

2018

Other	Total	Reconciliations	Consolidated
¥ 2,845	¥ 227,361	¥	¥ 227,361
2,845	227,361		227,361
(403)	19,615		19,615
1,734	241,670	61,154	302,825
140	9,450		9,450
	3,922		3,922
¥ 142	¥ 8,820	¥	¥ 8,820

Thousands of U.S. Dollars

2019

Other	Total	Reconciliations	Consolidated
\$ 30,099	\$ 2,123,981	\$	\$ 2,123,981
30,099	2,123,981		2,123,981
(13,702)	185,369		185,369
54,720	2,323,423	543,495	2,866,918
1,630	80,585		80,585
	32,630		32,630
26,351	26,351		26,351
\$ 1,603	\$ 74,990	\$	\$ 74,990

Note: \*1 Reconciliations of segment assets are corporate assets of ¥60,328 million (\$543,495 thousand) and ¥61,154 million for the years ended March 31, 2019 and 2018, respectively, consisting of surplus funds of the Group.

4. Information about products and services

	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

  

	Millions of Yen			
	2018			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	¥177,431	¥32,944	¥16,985	¥227,361

  

	Thousands of U.S. Dollars			
	2019			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	\$1,679,369	\$286,351	\$158,261	\$2,123,981

5. Information about geographical areas

(a) Sales

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

Millions of Yen					
2018					
Japan	Asia/ Oceania	United States of America	Americas Excluding United States of America	Europe	Total
¥120,603	¥16,088	¥33,469	¥7,447	¥49,752	¥227,361

  

Thousands of U.S. Dollars					
2019					
Japan	Asia/ Oceania	United States of America	Americas Excluding United States of America	Europe	Total
\$1,193,468	\$154,855	\$277,747	\$65,369	\$432,522	\$2,123,981

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

(b) Property, plant and equipment

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

  

Millions of Yen				
2018				
Japan	Asia/ Oceania	Americas	Europe	Total
¥29,595	¥1,817	¥1,982	¥1,114	¥34,509

  

Thousands of U.S. Dollars				
2019				
Japan	Asia/ Oceania	Americas	Europe	Total
\$266,819	\$17,540	\$19,081	\$10,315	\$313,774

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			
		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

		Millions of Yen			
		2018			
		Reportable Segment			
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Amortization of goodwill				¥ 3,922	¥ 3,922
Goodwill at March 31, 2018				45,113	45,113

		Thousands of U.S. Dollars			
		2019			
		Reportable Segment			
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Amortization of goodwill				\$ 32,630	\$ 32,630
Goodwill at March 31, 2019				398,603	398,603

\* \* \* \* \*

Millions of Yen

2019

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

Millions of Yen

2018

<u>Other</u>	<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
	¥ 3,922		¥ 3,922
	45,113		45,113

Thousands of U.S. Dollars

2019

<u>Other</u>	<u>Total</u>	<u>Reconciliations</u>	<u>Consolidated</u>
	\$ 32,630		\$ 32,630
	398,603		398,603



# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of GLORY LTD.:

We have audited the accompanying consolidated balance sheet of GLORY LTD. and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GLORY LTD. and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 21, 2019

Member of  
Deloitte Touche Tohmatsu Limited