



GLORY LTD.

ANNUAL REPORT 2018

# FINANCIAL SECTION

## CONTENTS

|    |  |
|----|--|
| 01 | ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY     |
| 03 | MANAGEMENT'S DISCUSSION AND ANALYSIS           |
| 07 | CONSOLIDATED FINANCIAL STATEMENTS              |
| 07 | CONSOLIDATED BALANCE SHEET                     |
| 09 | CONSOLIDATED STATEMENT OF INCOME               |
| 10 | CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME |
| 11 | CONSOLIDATED STATEMENT OF CHANGES IN EQUITY    |
| 13 | CONSOLIDATED STATEMENT OF CASH FLOWS           |
| 15 | NOTES TO CONSOLIDATED FINANCIAL STATEMENTS     |
| 47 | INDEPENDENT AUDITOR'S REPORT                   |

## ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

GLORY LTD. and consolidated subsidiaries  
Years ended March 31

|  |  | Millions of Yen |           |           |
|--|--|-----------------|-----------|-----------|
|  |  | 2008            | 2009      | 2010      |
| <b>Summary of income<br/>(for the year):</b> | Net sales                                    | ¥ 185,181       | ¥ 145,978 | ¥ 135,105 |
|  | Cost of sales                                | 117,066 *4      | 94,115    | 87,074    |
|  | Selling, general and administrative expenses | 45,288          | 42,436    | 40,345    |
|  | Operating income                             | 22,826 *4       | 9,426     | 7,685     |
|  | Net income attributable to owners of parent  | 11,711          | 5,782     | 5,108     |
|  | Capital expenditure                          | 7,278           | 10,637    | 6,713     |
|  | R&D expenses                                 | 9,615           | 9,204     | 8,775     |
|  | Depreciation and amortization                | 6,570           | 7,621     | 8,144     |
| <b>Financial position<br/>(at year-end):</b> | Total assets                                 | 209,236         | 196,797   | 194,983   |
|  | Total equity                                 | 151,734         | 147,176   | 145,345   |
|  | Interest-bearing debt *1                     | 12,913          | 14,110    | 14,037    |
| <b>Per share data<br/>(yen):</b>             | Net income *2                                | ¥ 160.70        | ¥ 82.15   | ¥ 76.00   |
|  | Equity                                       | 2,110.69        | 2,155.17  | 2,212.63  |
|  | Dividend (annual)                            | 40.00           | 30.00     | 33.00     |
| <b>Financial indicators<br/>(%):</b>         | Return on equity (ROE)                       | 7.8             | 3.9       | 3.5       |
|  | Equity ratio                                 | 72.3            | 74.8      | 74.5      |
| <b>Others:</b>                               | Number of shares outstanding (thousands)     | 72,838          | 69,838    | 69,838    |
|  | Number of employees *3                       | 5,346           | 5,510     | 5,848     |

\*1 Under new accounting standard for lease transactions effective from the year ended March 2009, interest-bearing debt includes finance lease obligations.

\*2 Net income per share of common stock is based on the weighted average number of shares outstanding in each year.

\*3 The number of employees is shown on a consolidated basis.

\*4 For easy comparison, the figure for 2008 has been adjusted to reflect a change in the accounting standard for measurement of inventories, effective from April 1, 2008.

\*5 For easy comparison, operating income and selling, general and administrative expenses for the year ended March 2011 has been adjusted to reflect changes in accounting standards applicable to the year ended March 2012.

Millions of Yen

| 2011                 | 2012      | 2013                    | 2014      | 2015 <sup>*7</sup> | 2016      | 2017      | 2018             |
|----------------------|-----------|-------------------------|-----------|--------------------|-----------|-----------|------------------|
| ¥ 138,964            | ¥ 146,937 | ¥ 190,938 <sup>*6</sup> | ¥ 218,632 | ¥ 222,356          | ¥ 226,952 | ¥ 222,581 | <b>¥ 227,361</b> |
| 86,757               | 92,672    | 117,266                 | 131,512   | 134,757            | 137,357   | 135,907   | <b>140,174</b>   |
| 41,883 <sup>*5</sup> | 42,990    | 59,213                  | 70,401    | 68,905             | 69,042    | 66,307    | <b>67,570</b>    |
| 10,323 <sup>*5</sup> | 11,274    | 14,458 <sup>*6</sup>    | 16,718    | 18,693             | 20,552    | 20,365    | <b>19,615</b>    |
| 6,229                | 6,246     | 6,873                   | 9,938     | 12,887             | 8,829     | 10,382    | <b>9,892</b>     |
| 6,413                | 6,708     | 8,218                   | 7,234     | 8,499              | 8,881     | 8,043     | <b>8,706</b>     |
| 8,998                | 9,934     | 12,091                  | 13,174    | 12,869             | 12,590    | 13,965    | <b>14,119</b>    |
| 6,717                | 6,842     | 8,897                   | 9,281     | 10,350             | 10,327    | 9,469     | <b>9,450</b>     |
| 198,019              | 205,244   | 319,077 <sup>*6</sup>   | 340,943   | 346,613            | 321,672   | 312,821   | <b>302,953</b>   |
| 149,781              | 153,333   | 168,464                 | 190,804   | 204,544            | 198,287   | 191,443   | <b>192,165</b>   |
| 13,309               | 13,530    | 86,298 <sup>*6</sup>    | 75,687    | 64,982             | 51,556    | 50,412    | <b>37,188</b>    |
| ¥ 94.83              | ¥ 95.09   | ¥ 104.64                | ¥ 151.31  | ¥ 196.19           | ¥ 134.38  | ¥ 160.35  | <b>¥ 155.96</b>  |
| 2,260.47             | 2,312.33  | 2,537.23                | 2,865.09  | 3,066.53           | 2,966.22  | 2,939.78  | <b>3,003.62</b>  |
| 37.00                | 42.00     | 44.00                   | 49.00     | 54.00              | 56.00     | 60.00     | <b>82.00</b>     |
| 4.2                  | 4.2       | 4.3                     | 5.6       | 6.6                | 4.5       | 5.4       | <b>5.3</b>       |
| 75.0                 | 74.0      | 52.2                    | 55.2      | 58.1               | 60.6      | 60.1      | <b>62.0</b>      |
| 68,638               | 68,638    | 68,638                  | 68,638    | 68,638             | 68,638    | 68,638    | <b>68,638</b>    |
| 6,046                | 6,149     | 7,903                   | 7,833     | 7,802              | 8,177     | 8,440     | <b>9,040</b>     |

<sup>\*6</sup> Major portion of increase compared to the year ended March 2012 is due to acquisition of Talaris Topco Limited in 2012.

<sup>\*7</sup> Prior to April 1, 2015, the revenue and expenses of foreign subsidiaries are translated into Japanese yen using the current exchange rate on the date of closing of the relevant foreign subsidiary.

Effective April 1, 2015, the Company changed its method to a method of translating the foreign subsidiaries revenue and expenses into Japanese yen to the method of using the average foreign exchange rate for the fiscal year.

This accounting policy change was applied retrospectively and the financial figures for the year ended March 2015, were restated.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

GLORY LTD. and consolidated subsidiaries  
Year ended March 31, 2018

## ECONOMIC OVERVIEW

In the fiscal year ended March 31, 2018, the Japanese economy continued to show a gradual recovery, as personal consumption picked up, owing to a steady improvement in the employment situation, and capital investment increased against the backdrop of an improvement in corporate earnings. The global economy also kept improving slowly but surely, reflecting such positive developments as continuing recovery trends in the United States and Europe, and in Asia, a steadily improving Chinese economy.

## BUSINESS OVERVIEW

### Net Sales

Net sales for the fiscal year under review totaled ¥227,361 million, up by 2.1% from the previous fiscal year. Total net sales consisted of ¥159,683 million in net sales of finished products and merchandise, which edged up by 0.6% year on year, and ¥67,677 million in sales of maintenance services, which also increased by 5.9%. Overseas sales amounted to ¥106,758 million, up by 2.9% year on year. (Sales by reportable segment are described in the "Overview by Reportable Segment" section.)

### Cost of Sales

Cost of sales increased by 3.1% from the previous fiscal year to ¥140,174 million, affected by the product mix change to the worse. Accordingly, the cost of sales ratio rose by 0.6 percentage points to 61.7%.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by 1.9% from the previous fiscal year to

¥67,570 million. The ratio of SG&A expenses to net sales, on the other hand, improved by 0.1 percentage point to 29.7%.

### Operating Income

Operating income results for the fiscal year under review were ¥19,615 million, down by 3.7% year on year. This decrease was mainly attributable to an unfavorable product mix and an increase in SG&A expenses in overseas operations affected by the foreign exchange fluctuations. The operating margin also dropped by 0.5 percentage points to 8.6%. (Operating income by reportable segment is described in the "Overview by Reportable Segment" section.)

### Other Income (Expenses)

Net other income (expenses) results totaled net expenses of ¥2,077 million, down by 35.2% from the net expenses for the previous fiscal year. Major income factors included ¥345 million in interest and dividend income, and ¥151 million in gain on sales of non-current assets. They were exceeded by major expense/loss items such as net foreign currency exchange loss of ¥2,124 million, in addition to interest expense of ¥553 million.

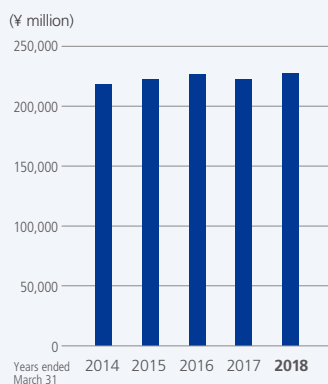
### Income before Income Taxes

Income before income taxes amounted to ¥17,538 million, up by 2.2% from the previous fiscal year.

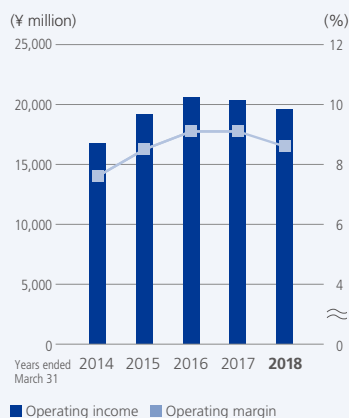
### Income Taxes

Income taxes increased to ¥6,267 million from ¥5,736 million in the previous fiscal year. The actual effective tax rate after application of tax effect accounting rose

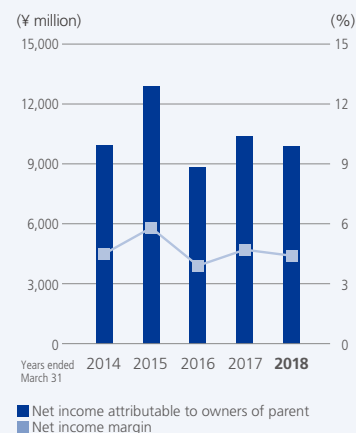
## Net Sales



## Operating Income/ Operating Margin



## Net Income Attributable to Owners of Parent/Net Income Margin



from 33.4% to 35.7%.

#### Net Income Attributable to Owners of Parent

Reflecting the increase in the amount of income taxes, net income attributable to owners of parent declined by 4.7% from the previous fiscal year to ¥9,892 million.

#### Comprehensive Income

Net income for the fiscal year under review amounted to ¥11,271 million. Subtracting total other comprehensive loss of ¥765 million, which included negative ¥2,041 million in foreign currency translation adjustments and ¥1,182 million in defined retirement benefit plan remeasurements, comprehensive income for the fiscal year ended March 31, 2018 was ¥10,506 million.

### OVERVIEW BY REPORTABLE SEGMENT

#### Financial Market

Net sales of this segment increased by 1.3% year on year to ¥53,970 million. Operating income, on the other hand, dropped by 37.9% to ¥4,043 million, mainly due to the deterioration in the product mix.

Sales of coin and banknote recyclers for tellers were strong as we successfully captured replacement demand. However, sales among small- and medium-sized financial outlets of this segment's mainstay products, open teller systems, were sluggish for the compact models, due to the high demand of the previous fiscal year having run its course.

#### Retail and Transportation Market

Net sales of this segment increased by 1.3% year on year to ¥43,216 million. Operating income, as well, edged up by 0.2% to ¥3,476 million.

Although sales of multifunctional banknote changers were robust, sales of sales proceeds deposit machines for the cash-in-transit market were slow. Sales of coin and banknote recyclers for cashiers, the mainstay products of this segment, were maintained at the level of the previous fiscal year.

#### Amusement Market

Net sales of this segment increased by 0.7% year on year to ¥20,570 million. Operating income soared by 80.5% to ¥1,331 million.

While sales of this segment's mainstay products, including card systems, were slow, sales of "Yudo," the playing trend analysis system launched in the fiscal year under review, were strong.

#### Overseas Market

Net sales of this segment grew by 2.9% year on year to ¥106,758 million. Operating income also rose by 12.8% to ¥11,167 million.

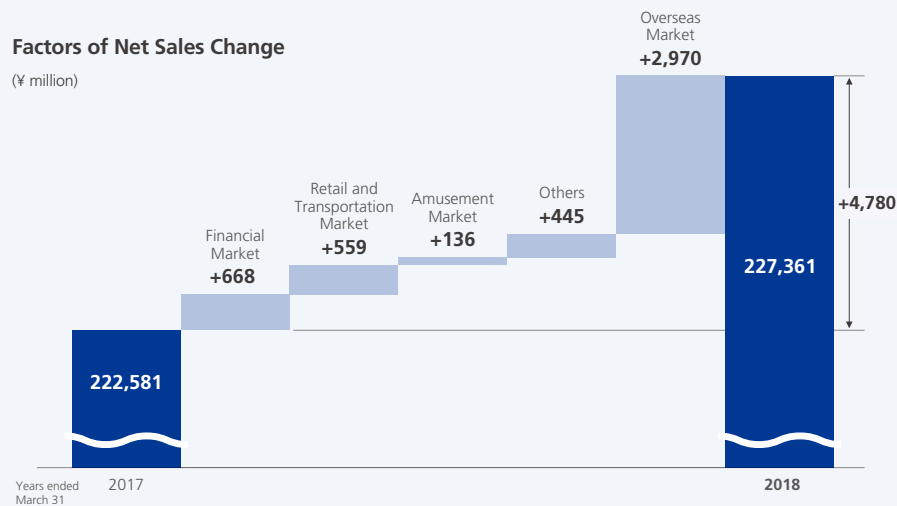
Sales of banknote recyclers <RBG series> for financial institutions were favorable in the United States, but sluggish in Europe. Instead, sales of sales proceeds deposit machines <CI series> for the retail industry in Europe were strong. Meanwhile in Asia, sales of banknote recyclers <RBG series> for financial institutions were slow.

#### "Others" Segment

Aggregate net sales of the "Others" segment, the businesses of which are not reported as independent reportable segments, were ¥2,845 million, up by 18.6% year on year. Operating loss of the segment was ¥403 million, increased from operating loss of ¥251

### Factors of Net Sales Change

(¥ million)



million reported in the previous fiscal year.

All amounts in this section do not include consumption taxes.

## FINANCIAL POSITION

### Assets

Total assets as of March 31, 2018 stood at ¥302,953 million, a ¥9,867 million decrease from the previous fiscal year-end. This decrease was attributable mainly to the decrease in cash and cash equivalents, as well as the amortization of goodwill incurred from the acquisition of Talaris Topco Limited.

### Liabilities

Total liabilities as of March 31, 2018 amounted to ¥110,787 million, down by ¥10,589 million year on year. The major factors of this decrease included the repayment of short-term borrowings and long-term debt.

### Equity

Total equity as of March 31, 2018 amounted to ¥192,165 million, a ¥722 million increase from the previous fiscal year-end. This increase was mainly due to the increase in retained earnings, partially offset by the purchase of treasury stock.

## CASH FLOWS

Cash and cash equivalents as of March 31, 2018 decreased by ¥14,675 million from the previous fiscal year-end to ¥62,375 million.

### Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review was ¥14,585 million, compared to

¥30,087 million cash provided in the previous fiscal year. The major cash-decreasing factors included a ¥6,643 million increase in trade notes and accounts receivable, and a ¥5,825 million increase in inventories. The major cash-increasing factors, on the other hand, included ¥17,538 million income before income taxes, ¥9,450 million depreciation and amortization, and ¥3,922 million amortization of goodwill.

### Cash Flows from Investing Activities

Net cash used in investing activities was ¥8,609 million, compared to ¥6,632 million cash used in the previous fiscal year. The major cash-flow items included a ¥5,504 million cash out-flow for purchases of property, plant and equipment. The purchases of property, plant and equipment consisted mainly of the molds, tools and other equipment used to manufacture products.

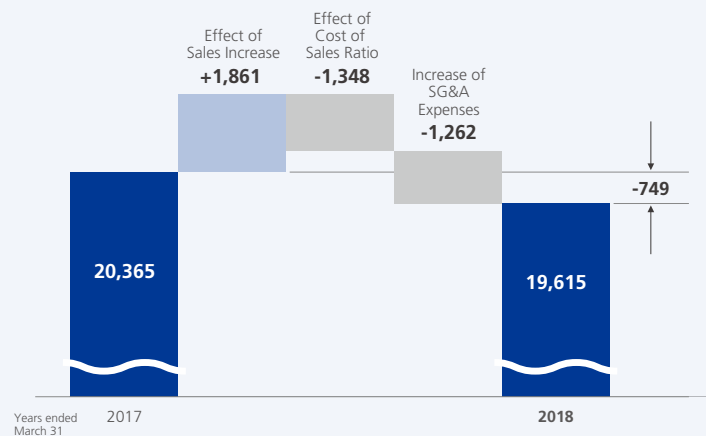
As a result of the above, free cash flows (the sum of cash flows from operating and investing activities) amounted to ¥5,976 million.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥23,574 million, compared to ¥10,964 million cash used in the previous fiscal year. The major cash out-flow items included ¥3,835 million net decrease in short-term borrowings, ¥9,005 million repayments of long-term debt, ¥6,000 million purchase of treasury stock, and ¥3,912 million dividends paid.

## Factors of Operating Income Change

(¥ million)



## RISK INFORMATION

The Glory Group (“the Group”) is exposed to various risks that have the potential to affect its operating results and financial conditions, including variable factors and other matters considered to be material.

The forward-looking statements made below are based on judgements made by the Group as of March 31, 2018.

### (1) Extraordinary Fluctuations in the Group’s Operating Results and Financial Conditions Due to Special Factors Influencing the Market Environment

The Group is subject to business authorizations, import and export regulations, as well as various laws and regulations in the countries and regions where the Group operates. Should these laws and regulations be revised or repealed, or if new public regulations were to be established, or if any other special factors influencing the market environment were to arise, the performance of the Group may be adversely affected.

### (2) High Level of Reliance on a Specific Industry Sector

The composition of the Group’s sales is highly dependent on the financial market. Should it become necessary for financial institutions to cut their capital investments due to major operational or financial problems, the performance of the Group may be adversely affected. In addition, should any unexpected circumstances occur to the particular suppliers of parts and materials, the performance of the Group may be adversely affected.

### (3) Overseas Business Conditions

The Group’s overseas business activities are wide-

-ranging, including sales and maintenance of products, and overseas production and procurement. Should a rapid change occur in the political and/or economic situation in countries or regions where the Group operates, or if foreign exchange markets were to fluctuate beyond the anticipated scope, the performance of the Group may be adversely affected.

### (4) R&D Investment

The Group is an R&D-based enterprise and continues to invest in R&D aggressively. However, the development of new products always involves certain risks. Depending on the R&D themes, the development period could be longer, and the costs higher, than initially planned. If such circumstances were to occur, the performance of the Group may be adversely affected.

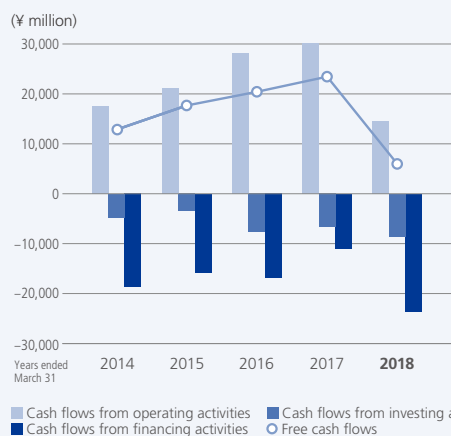
### (5) Intellectual Property Rights

The Group is not aware of any infringements by its products on material intellectual property rights of third parties. However, it is difficult for an R&D-based corporate group like the Group to completely avoid the occurrence of intellectual property infringement issues. If such circumstances were to occur, the performance of the Group may be adversely affected.

### (6) Rapid Development of Cashless Economy

While the Group deals in various products and merchandise for non-cash business sector, its mainstay business remains in the cash handling machine sector. Should the cashless economy develop drastically and globally in a short time, the performance of the Group may be adversely affected.

## Cash Flows



\*Free cash flows: Total of net cash flows provided by (used in) operating activities, and net cash flows provided by (used in) investing activities.

# CONSOLIDATED FINANCIAL STATEMENTS

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Balance Sheet March 31, 2018

| ASSETS  | Millions of Yen  |                  | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|------------------|------------------|--|
|   | 2018             | 2017             | 2018                                     |
| <b>CURRENT ASSETS:</b>  |                  |                  |  |
| Cash and cash equivalents (Note 14)   | ¥ 62,375         | ¥ 77,050         | \$ 587,058                               |
| Short-term investments (Notes 4 and 14)                                     | 779              | 242              | 7,331                                    |
| Receivables (Note 14):  |                  |                  |  |
| Trade notes   | 4,124            | 4,064            | 38,814                                   |
| Trade accounts  | 49,740           | 42,876           | 468,141                                  |
| Unconsolidated subsidiaries and associated company                          | 428              | 307              | 4,028                                    |
| Other   | 1,632            | 680              | 15,360                                   |
| Investments in leases (Notes 13 and 14)                                     | 2,276            | 2,823            | 21,421                                   |
| Inventories (Note 5)  | 51,363           | 46,126           | 483,416                                  |
| Deferred tax assets (Note 10)   | 5,290            | 4,905            | 49,788                                   |
| Other current assets  | 2,597            | 2,022            | 24,442                                   |
| Allowance for doubtful accounts   | (570)            | (502)            | (5,364)                                  |
| <b>Total current assets</b>   | <b>180,037</b>   | <b>180,597</b>   | <b>1,694,465</b>                         |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                                       |                  |                  |  |
| Land  | 11,420           | 11,919           | 107,482                                  |
| Buildings and structures  | 34,905           | 34,905           | 328,517                                  |
| Machinery and equipment   | 13,565           | 13,504           | 127,670                                  |
| Furniture and fixtures  | 56,503           | 57,406           | 531,792                                  |
| Construction in progress  | 499              | 156              | 4,696                                    |
| Total   | 116,895          | 117,893          | 1,100,188                                |
| Accumulated depreciation  | (82,386)         | (82,235)         | (775,397)                                |
| <b>Net property, plant and equipment</b>                                    | <b>34,509</b>    | <b>35,657</b>    | <b>324,790</b>                           |
| <b>INVESTMENTS AND OTHER ASSETS:</b>  |                  |                  |  |
| Investment securities (Notes 4 and 14)                                      | 10,244           | 9,106            | 96,414                                   |
| Investments in unconsolidated subsidiaries and associated company (Note 14) | 235              | 904              | 2,211                                    |
| Software  | 4,598            | 3,931            | 43,275                                   |
| Goodwill  | 45,113           | 51,573           | 424,592                                  |
| Customer relationships  | 19,683           | 22,221           | 185,251                                  |
| Deferred tax assets (Note 10)   | 2,837            | 3,322            | 26,701                                   |
| Other investments and other assets  | 5,881            | 5,700            | 55,350                                   |
| Allowance for doubtful accounts   | (188)            | (194)            | (1,769)                                  |
| <b>Total investments and other assets</b>                                   | <b>88,406</b>    | <b>96,565</b>    | <b>832,056</b>                           |
| <b>TOTAL</b>  | <b>¥ 302,953</b> | <b>¥ 312,821</b> | <b>\$ 2,851,322</b>                      |

See notes to consolidated financial statements.



| <u>LIABILITIES AND EQUITY</u>   | <u>Millions of Yen</u> |                  | <u>Thousands of</u><br><u>U.S. Dollars</u><br><u>(Note 1)</u> |
|---|------------------------|------------------|---|
|   | <u>2018</u>            | <u>2017</u>      | <u>2018</u>   |
| <b>CURRENT LIABILITIES:</b>   |                        |                  |   |
| Short-term borrowings (Notes 6 and 14)                                    | ¥ 21,745               | ¥ 25,602         | \$ 204,658  |
| Current portion of long-term debt (Notes 6 and 14)                        | 9,006                  | 8,843            | 84,762  |
| Current portion of long-term lease obligations<br>(Notes 6, 13 and 14)    | 652                    | 949              | 6,136   |
| Payables (Note 14):   |                        |                  |   |
| Trade notes   | 1,202                  | 1,054            | 11,312  |
| Electronically recorded obligations-operating                             | 8,519                  | 6,699            | 80,178  |
| Trade accounts  | 10,384                 | 10,547           | 97,731  |
| Unconsolidated subsidiaries and associated company                        | 25                     | 928              | 235   |
| Other   | 5,425                  | 4,407            | 51,058  |
| Income taxes payable (Note 14)  | 2,143                  | 2,903            | 20,169  |
| Accrued expenses  | 17,186                 | 16,195           | 161,750   |
| Deferred income   | 10,506                 | 10,872           | 98,880  |
| Provision for stock grant to directors and executive officers<br>(Note 8) | 71                     | 61               | 668   |
| Other current liabilities   | 4,750                  | 3,378            | 44,705  |
| Total current liabilities   | <u>91,620</u>          | <u>92,443</u>    | <u>862,305</u>  |
| <b>LONG-TERM LIABILITIES:</b>   |                        |                  |   |
| Long-term debt (Notes 6 and 14)   | 4,508                  | 13,271           | 42,428  |
| Liability for retirement benefits (Note 7)                                | 2,620                  | 4,419            | 24,658  |
| Long-term lease obligations (Notes 6, 13 and 14)                          | 1,276                  | 1,745            | 12,009  |
| Deferred tax liabilities (Note 10)  | 6,378                  | 6,457            | 60,028  |
| Provision for stock grant to directors and executive officers<br>(Note 8) | 191                    | 116              | 1,797   |
| Other long-term liabilities   | 4,191                  | 2,923            | 39,444  |
| Total long-term liabilities   | <u>19,167</u>          | <u>28,933</u>    | <u>180,395</u>  |
| <b>CONTINGENT LIABILITIES (Note 16)</b>                                   |                        |                  |   |
| <b>EQUITY (Notes 9 and 18):</b>   |                        |                  |   |
| Common stock,   |                        |                  |   |
| Authorized: 150,000,000 shares in 2018 and 2017;                          |                        |                  |   |
| Issued: 68,638,210 shares in 2018 and 2017                                | 12,892                 | 12,892           | 121,336   |
| Capital surplus   | 20,991                 | 20,974           | 197,562   |
| Retained earnings   | 165,380                | 158,504          | 1,556,517   |
| Treasury stock - at cost (Note 8)   |                        |                  |   |
| 5,931,205 shares in 2018 and 4,496,099 shares in 2017                     | (18,022)               | (12,090)         | (169,618)   |
| Accumulated other comprehensive income:                                   |                        |                  |   |
| Unrealized gain on available-for-sale securities                          | 916                    | 822              | 8,621   |
| Foreign currency translation adjustments                                  | 5,793                  | 8,181            | 54,522  |
| Defined retirement benefit plans  | (170)                  | (1,336)          | (1,600)   |
| Total   | 187,780                | 187,949          | 1,767,341   |
| Noncontrolling interests  | 4,385                  | 3,494            | 41,270  |
| Total equity  | <u>192,165</u>         | <u>191,443</u>   | <u>1,808,611</u>  |
| <b>TOTAL</b>  | <u>¥ 302,953</u>       | <u>¥ 312,821</u> | <u>\$ 2,851,322</u>   |

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Income Year Ended March 31, 2018

|   | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|--|
|   | 2018            | 2017            | 2018                                     |
| NET SALES   | ¥ 227,361       | ¥ 222,581       | \$ 2,139,868                             |
| COST OF SALES (Note 12)   | <u>140,174</u>  | <u>135,907</u>  | <u>1,319,284</u>                         |
| Gross profit  | 87,186          | 86,673          | 820,574                                  |
| SELLING, GENERAL AND ADMINISTRATIVE<br>EXPENSES (Notes 11 and 12) | <u>67,570</u>   | <u>66,307</u>   | <u>635,952</u>                           |
| Operating income  | <u>19,615</u>   | <u>20,365</u>   | <u>184,611</u>                           |
| OTHER INCOME (EXPENSES):  |                 |                 |  |
| Interest and dividend income                                      | 345             | 541             | 3,247                                    |
| Interest expense  | (553)           | (585)           | (5,204)                                  |
| Foreign currency exchange gain (loss) – net                       | (2,124)         | (3,458)         | (19,990)                                 |
| Other – net   | <u>254</u>      | <u>298</u>      | <u>2,390</u>                             |
| Other expenses net  | <u>(2,077)</u>  | <u>(3,204)</u>  | <u>(19,548)</u>                          |
| INCOME BEFORE INCOME TAXES  | 17,538          | 17,161          | 165,063                                  |
| INCOME TAXES (Note 10):   |                 |                 |  |
| Current   | (6,358)         | (6,869)         | (59,840)                                 |
| Deferred  | <u>91</u>       | <u>1,133</u>    | <u>856</u>                               |
| Total income taxes  | <u>(6,267)</u>  | <u>(5,736)</u>  | <u>(58,983)</u>                          |
| NET INCOME  | 11,271          | 11,424          | 106,080                                  |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING<br>INTERESTS            | <u>(1,378)</u>  | <u>(1,041)</u>  | <u>(12,969)</u>                          |
| NET INCOME ATTRIBUTABLE TO OWNERS OF<br>PARENT                    | <u>¥ 9,892</u>  | <u>¥ 10,382</u> | <u>\$ 93,101</u>                         |
|   | Yen             |                 | U.S. Dollars                             |
| PER SHARE OF COMMON STOCK (Note 2.u):                             |                 |                 |  |
| Basic net income  | ¥155.96         | ¥160.35         | \$1.47                                   |
| Cash dividends applicable to the year                             | 82.00           | 60.00           | 0.77                                     |

See notes to consolidated financial statements.

**GLORY LTD. and Consolidated Subsidiaries**

**Consolidated Statement of Comprehensive Income  
Year Ended March 31, 2018**

|   | Millions of Yen |                | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|----------------|--|
|   | <u>2018</u>     | <u>2017</u>    | <u>2018</u>                              |
| NET INCOME  | ¥ 11,271        | ¥ 11,424       | \$ 106,080                               |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):            |                 |                |  |
| Unrealized gain (loss) on available-for-sale securities | 93              | 586            | 875                                      |
| Foreign currency translation adjustments                | (2,041)         | (9,970)        | (19,209)                                 |
| Defined retirement benefit plan                         | <u>1,182</u>    | <u>1,235</u>   | <u>11,124</u>                            |
| Total other comprehensive income (loss)                 | <u>(765)</u>    | <u>(8,148)</u> | <u>(7,200)</u>                           |
| COMPREHENSIVE INCOME (LOSS)                             | <u>¥ 10,506</u> | <u>¥ 3,275</u> | <u>\$ 98,880</u>                         |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:      |                 |                |  |
| Owners of parent  | ¥8,804          | ¥2,437         | \$82,861                                 |
| Noncontrolling interests                                | 1,701           | 838            | 16,009                                   |

See notes to consolidated financial statements.

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Changes in Equity Year Ended March 31, 2018

|   | Thousands of Shares |                | Millions of Yen                    |                   |                     |                     |
|---|---------------------|----------------|------------------------------------|-------------------|---------------------|---------------------|
|   | Common Stock        | Treasury Stock | Common Stock                       | Capital Surplus   | Retained Earnings   | Treasury Stock      |
| BALANCE, APRIL 1, 2016  | 68,638              | (2,749)        | ¥ 12,892                           | ¥ 20,952          | ¥ 151,653           | ¥ (6,141)           |
| Net income attributable to owners of parent                                 |                     |                |                                    |                   | 10,382              |                     |
| Cash dividends, ¥59 per share   |                     |                |                                    |                   | (3,863)             |                     |
| Purchase of treasury stock  |                     | (1,774)        |                                    |                   |                     | (6,082)             |
| Disposal of treasury stock  |                     | 27             |                                    | 22                |                     | 133                 |
| Change in scope of consolidation (Note 2.a)                                 |                     |                |                                    |                   | 371                 |                     |
| Adjustments due to change in accounting period of consolidated subsidiaries |                     |                |                                    |                   | (39)                |                     |
| Net change in the year  |                     |                |                                    |                   |                     |                     |
| BALANCE, MARCH 31, 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   | <u>68,638</u>       | <u>(5,931)</u> | <u>¥ 12,892</u>                    | <u>¥ 20,991</u>   | <u>¥ 165,380</u>    | <u>¥ (18,022)</u>   |
|   |                     |                | Thousands of U.S. Dollars (Note 1) |                   |                     |                     |
|   |                     |                | Common Stock                       | Capital Surplus   | Retained Earnings   | Treasury Stock      |
| BALANCE, APRIL 1, 2017  |                     |                | \$ 121,336                         | \$ 197,402        | \$ 1,491,802        | \$ (113,788)        |
| Net income attributable to owners of parent                                 |                     |                |                                    |                   | 93,101              |                     |
| Cash dividends, \$0.57 per share  |                     |                |                                    |                   | (36,818)            |                     |
| Purchase of treasury stock  |                     |                |                                    |                   |                     | (56,470)            |
| Disposal of treasury stock  |                     |                |                                    |                   |                     | 640                 |
| Change in scope of consolidation (Note 2.a)                                 |                     |                |                                    | 150               | 8,432               |                     |
| Net change in the year  |                     |                |                                    |                   |                     |                     |
| BALANCE, MARCH 31, 2018   |                     |                | <u>\$ 121,336</u>                  | <u>\$ 197,562</u> | <u>\$ 1,556,517</u> | <u>\$ (169,618)</u> |

See notes to consolidated financial statements.

Millions of Yen

| Accumulated Other Comprehensive Income                           |   |  |                  |                             |                  |
|--|---|--|------------------|-----------------------------|------------------|
| Unrealized Gain<br>(Loss) on<br>Available-for-Sale<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Retirement<br>Benefit Plans | Total            | Noncontrolling<br>Interests | Total Equity     |
| ¥ 235  | ¥ 17,819  | ¥ (2,572)                              | ¥ 194,840        | ¥ 3,446                     | ¥ 198,287        |
|  |   |  | 10,382           |                             | 10,382           |
|  |   |  | (3,863)          | (790)                       | (4,654)          |
|  |   |  | (6,082)          |                             | (6,082)          |
|  |   |  | 155              |                             | 155              |
|  | 129   |  | 501              |                             | 501              |
|  |   |  | (39)             |                             | (39)             |
| <u>586</u>   | <u>(9,768)</u>                                    | <u>1,235</u>                           | <u>(7,945)</u>   | <u>838</u>                  | <u>(7,107)</u>   |
| 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              |
| <u>93</u>  | <u>(2,364)</u>                                    | <u>1,165</u>                           | <u>(1,104)</u>   | <u>1,701</u>                | <u>596</u>       |
| <u>¥ 916</u>   | <u>¥ 5,793</u>                                    | <u>¥ (170)</u>                         | <u>¥ 187,780</u> | <u>¥ 4,385</u>              | <u>¥ 192,165</u> |

Thousands of U.S. Dollars (Note 1)

| Accumulated Other Comprehensive Income                  |   |  |                     |                             |                     |
|---|---|--|---------------------|-----------------------------|---------------------|
| Unrealized Gain<br>on Available-for-<br>Sale Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Defined<br>Retirement<br>Benefit Plans | Total               | Noncontrolling<br>Interests | Total Equity        |
| \$ 7,736  | \$ 76,997   | \$ (12,574)                            | \$ 1,768,931        | \$ 32,884                   | \$ 1,801,816        |
|   |   |  | 93,101              |                             | 93,101              |
|   |   |  | (36,818)            | (7,717)                     | (44,545)            |
|   |   |  | (56,470)            |                             | (56,470)            |
|   |   |  | 640                 |                             | 640                 |
|   | (225)   |  | 8,357               | 94                          | 8,451               |
| <u>875</u>  | <u>(22,249)</u>                                   | <u>10,964</u>                          | <u>(10,390)</u>     | <u>16,009</u>               | <u>5,609</u>        |
| <u>\$ 8,621</u>   | <u>\$ 54,522</u>                                  | <u>\$ (1,600)</u>                      | <u>\$ 1,767,341</u> | <u>\$ 41,270</u>            | <u>\$ 1,808,611</u> |

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended March 31, 2018

|   | Millions of Yen |          | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|----------|--|
|   | 2018            | 2017     | 2018                                     |
| <b>OPERATING ACTIVITIES:</b>  |                 |          |  |
| Income before income taxes  | ¥ 17,538        | ¥ 17,161 | \$ 165,063                               |
| Adjustments for:  |                 |          |  |
| Income taxes – paid   | (6,330)         | (5,871)  | (59,576)                                 |
| Depreciation and amortization   | 9,450           | 9,469    | 88,941                                   |
| Amortization of goodwill  | 3,922           | 4,072    | 36,912                                   |
| Provision for doubtful receivables  | 59              | 19       | 555                                      |
| Net gain on sales of investment securities  | (7)             | (19)     | (65)                                     |
| Changes in assets and liabilities, net of affects from newly consolidated subsidiaries: |                 |          |  |
| (Increase) decrease in trade notes and accounts receivable                              | (6,643)         | 840      | (62,522)                                 |
| Increase in inventories   | (5,825)         | (4,288)  | (54,823)                                 |
| Increase in notes, accounts and other payable   | 1,554           | 2,791    | 14,625                                   |
| Decrease in interest payable  | (14)            | (31)     | (131)                                    |
| Decrease in liability for retirement benefits   | (1,052)         | (747)    | (9,901)                                  |
| Increase in provision for stock grant to directors and executive officers               | 75              | 42       | 705                                      |
| (Decrease) increase in lease obligations  | (745)           | 80       | (7,011)                                  |
| Decrease in leased investment assets  | 547             | 93       | 5,148                                    |
| Increase in accrued consumption taxes   | 245             | 689      | 2,305                                    |
| Increase in accrued expenses  | 707             | 1,148    | 6,654                                    |
| Other – net   | 1,103           | 4,636    | 10,381                                   |
| Total adjustments   | (2,952)         | 12,926   | (27,783)                                 |
| Net cash provided by operating activities   | 14,585          | 30,087   | 137,270                                  |
| <b>INVESTING ACTIVITIES:</b>  |                 |          |  |
| Proceeds from sales of property, plant and equipment                                    | 723             | 53       | 6,804                                    |
| Purchases of property, plant and equipment  | (5,504)         | (5,220)  | (51,802)                                 |
| Purchases of intangible assets  | (2,312)         | (1,556)  | (21,760)                                 |
| Proceeds from sales and redemption of investment securities                             | 66              | 755      | 621                                      |
| Purchases of investment securities  | (1,008)         | (871)    | (9,487)                                  |
| (Increase) decrease in time deposits – net  | (490)           | 786      | (4,611)                                  |
| Acquisition of investments in subsidiaries with changes in scope of consolidation       |                 | (315)    |  |
| Other – net   | (83)            | (264)    | (781)                                    |
| Net cash used in investing activities   | (8,609)         | (6,632)  | (81,025)                                 |
| <b>FORWARD</b>  | ¥ 5,976         | ¥ 23,454 | \$ 56,244                                |

(Continued)

## GLORY LTD. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows Year Ended March 31, 2018

|   | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|--|
|   | 2018            | 2017            | 2018                                     |
| FORWARD   | ¥ 5,976         | ¥ 23,454        | \$ 56,244                                |
| FINANCING ACTIVITIES:   |                 |                 |  |
| (Decrease) increase in short-term borrowings – net  | (3,835)         | 8,819           | (36,094)                                 |
| Repayments of long-term debt  | (9,005)         | (9,128)         | (84,752)                                 |
| Purchase of treasury stock  | (6,000)         | (6,082)         | (56,470)                                 |
| Disposal of treasury stock  |                 | 81              |  |
| Dividends paid  | (3,912)         | (3,864)         | (36,818)                                 |
| Dividends paid for noncontrolling interests   | (820)           | (790)           | (7,717)                                  |
| Net cash used in financing activities   | <u>(23,574)</u> | <u>(10,964)</u> | <u>(221,872)</u>                         |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON<br>CASH AND CASH EQUIVALENTS                                    | (234)           | (2,055)         | (2,202)                                  |
| NET (DECREASE) INCREASE IN CASH AND CASH<br>EQUIVALENTS   | (17,832)        | 10,435          | (167,830)                                |
| CASH AND CASH EQUIVALENTS OF NEWLY-<br>CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR                         | 3,156           | 711             | 29,703                                   |
| DECREASE IN CASH AND CASH EQUIVALENTS DUE TO<br>CHANGE IN ACCOUNTING PERIOD OF CONSOLIDATED<br>SUBSIDIARIES |                 | (1,229)         |  |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR  | <u>77,050</u>   | <u>67,133</u>   | <u>725,176</u>                           |
| CASH AND CASH EQUIVALENTS, END OF YEAR  | <u>¥ 62,375</u> | <u>¥ 77,050</u> | <u>\$ 587,058</u>                        |

See notes to consolidated financial statements.

(Concluded)

## GLORY LTD. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements Year Ended March 31, 2018

#### 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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106.25 to \$1, the approximate rate of exchange at March 31, 2018. 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, 2018, include the accounts of the Company and its 49 significant (44 in 2017) 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, 2018                               |             | March 31, 2017                               |             |
|--|-------------|--|-------------|
| 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    |
| 37 other companies                           | March 31    | 32 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. 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.

Investments in all unconsolidated subsidiaries and an 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 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.

- 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 and interest rate 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 8) 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. **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.

### 3. BUSINESS COMBINATION

#### Transactions between Entities under Common Control

Effective April 1, 2017, the Company made contribution in-kind of shares of Glory Global Solutions Inc. and other 2 companies to Glory Global Solutions (International) Ltd. and was issued shares in Glory Global Solutions Ltd., the parent company of Glory Global Solutions (International) Ltd. Effective on the same date, Glory Global Solutions (Holdings) Ltd. made contribution in-kind of shares of Glory Global Solutions (France) S.A.S. and other 8 companies to Glory Global Solutions (International) Ltd. and was issued shares in Glory Global Solutions (International) Ltd. As a result, Glory Global Solutions Inc. and other 2 companies and Glory Global Solutions (France) S.A.S. and other 8 companies became directly owned subsidiaries of Glory Global Solutions (International) Ltd.

#### 1. Outline of business combination

##### (1) Name of combining entities and details of business

| Name of combining entities                  | Details of business  |
|---|--|
| Glory Global Solutions Ltd.                 | Formulation of strategies and management of overseas business                                |
| Glory Global Solutions (International) Ltd. | Overseas business management and sales and maintenance of the Company's products in the U.K. |
| Glory Global Solutions Inc.                 | Sales and maintenance of the Company's products in the U.S.                                  |
| Glory Global Solutions (France) S.A.S.      | Sales and maintenance of the Company's products in France                                    |
| Other 10 entities                           | Sales and maintenance of the Company's products in each location                             |

##### (2) Date of business combination April 1, 2017

##### (3) Legal form of business combination Contribution in-kind of shares of Glory Global Solutions Inc. and other 2 companies owned by the Company and shares of Glory Global Solutions (France) S.A.S. and other 8 companies owned by Glory Global Solutions (Holdings) Ltd. to Glory Global Solutions (International) Ltd.

##### (4) Name of entity after combination No change in the name of entity.

##### (5) Other information The aim of these transactions is to clarify the authority of each Group company and to realize flexible business management by changing the capital structure to a one that better reflects the actual business status.

#### 2. Overview of accounting treatment

This transaction was treated as a transaction between entities under common control in accordance with "Accounting for Business Combinations" (ASBJ Statement No. 21, updated on September 13, 2013), and "Guidance for Accounting Standard for Business Combinations and Business Separations" (ASBJ Guidance No. 10, updated on September 13, 2013).

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

Short-term investments and investment securities as of March 31, 2018 and 2017, consisted of the following:

|   | Millions of Yen |                | Thousands of<br>U.S. Dollars |
|---|-----------------|----------------|------------------------------|
|   | 2018            | 2017           | 2018                         |
| Short-term investments:                   |                 |                |                              |
| Time deposits other than cash equivalents | ¥ 779           | ¥ 242          | \$ 7,331                     |
| Investment securities:                    |                 |                |                              |
| Marketable equity securities              | ¥ 5,366         | ¥ 4,703        | \$ 50,503                    |
| Nonmarketable equity securities           | 558             | 478            | 5,251                        |
| Government, corporate, and other bonds    | 2,569           | 2,603          | 24,178                       |
| Other                                     | <u>1,750</u>    | <u>1,320</u>   | <u>16,470</u>                |
| Total                                     | <u>¥10,244</u>  | <u>¥ 9,106</u> | <u>\$ 96,414</u>             |

The costs and aggregate fair values of marketable and investment securities at March 31, 2018 and 2017, were as follows:

| <u>March 31, 2018</u>     | Millions of Yen |                  |                   | Fair Value |
|---------------------------|-----------------|------------------|-------------------|------------|
|                           | Cost            | Unrealized Gains | Unrealized Losses |            |
| Securities classified as: |                 |                  |                   |            |
| Available-for-sale:       |                 |                  |                   |            |
| Equity securities         | ¥4,079          | ¥1,368           | ¥(82)             | ¥5,366     |
| Government bonds          | 3               |                  |                   | 3          |
| Corporate bonds           | 25              |                  |                   | 25         |
| Other                     | 1,717           | 32               |                   | 1,750      |
| Held-to-maturity:         |                 |                  |                   |            |
| Government bonds          | 1,000           | 36               |                   | 1,036      |
| Corporate bonds           | 1,541           | 30               | (9)               | 1,562      |

| <u>March 31, 2017</u>     | Millions of Yen |                  |                   | Fair Value |
|---------------------------|-----------------|------------------|-------------------|------------|
|                           | Cost            | Unrealized Gains | Unrealized Losses |            |
| Securities classified as: |                 |                  |                   |            |
| Available-for-sale:       |                 |                  |                   |            |
| Equity securities         | ¥3,579          | ¥1,180           | ¥(56)             | ¥4,703     |
| Government bonds          | 2               |                  |                   | 2          |
| Corporate bonds           | 22              |                  |                   | 22         |
| Other                     | 1,260           | 59               |                   | 1,320      |
| Held-to-maturity:         |                 |                  |                   |            |
| Government bonds          | 1,000           | 50               |                   | 1,050      |
| Corporate bonds           | 1,577           | 41               | (9)               | 1,609      |

| <u>March 31, 2018</u>     | Thousands of U.S. Dollars |                  |                   | Fair Value |
|---------------------------|---------------------------|------------------|-------------------|------------|
|                           | Cost                      | Unrealized Gains | Unrealized Losses |            |
| Securities classified as: |                           |                  |                   |            |
| Available-for-sale:       |                           |                  |                   |            |
| Equity securities         | \$38,390                  | \$12,875         | \$(771)           | \$50,503   |
| Government bonds          | 28                        |                  |                   | 28         |
| Corporate bonds           | 235                       |                  |                   | 235        |
| Other                     | 16,160                    | 301              |                   | 16,470     |
| Held-to-maturity:         |                           |                  |                   |            |
| Government bonds          | 9,411                     | 338              |                   | 9,750      |
| Corporate bonds           | 14,503                    | 282              | (84)              | 14,701     |

Available-for-sale securities sold during the years ended March 31, 2018 and 2017, were as follows:

|                     | Millions of Yen |             | Thousands of U.S. Dollars |
|---------------------|-----------------|-------------|---------------------------|
|                     | <u>2018</u>     | <u>2017</u> | <u>2018</u>               |
| Proceeds from sales | ¥10             | ¥62         | \$94                      |
| Gain on sales       | 8               | 19          | 75                        |
| Loss on sales       | 0               | 0           | 0                         |

The Group recognized ¥9 million in loss on valuation of investment securities for the year ended March 31, 2017.



## 5. INVENTORIES

Inventories as of March 31, 2018 and 2017, consisted of the following:

|                                   | Millions of Yen |                 | Thousands of<br>U.S. Dollars |
|-----------------------------------|-----------------|-----------------|------------------------------|
|                                   | 2018            | 2017            | 2018                         |
| Finished products and merchandise | ¥ 31,719        | ¥ 26,098        | \$ 298,531                   |
| Work in process                   | 8,044           | 8,491           | 75,708                       |
| Raw materials and supplies        | <u>11,599</u>   | <u>11,536</u>   | <u>109,167</u>               |
| Total                             | <u>¥ 51,363</u> | <u>¥ 46,126</u> | <u>\$ 483,416</u>            |

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

(a) Short-term borrowings as of March 31, 2018 and 2017, consisted of the following:

|   | Millions of Yen |         | Thousands of<br>U.S. Dollars |
|---|-----------------|---------|------------------------------|
|   | 2018            | 2017    | 2018                         |
| Loans from banks and an insurance company | ¥21,745         | ¥25,602 | \$204,658                    |

The annual average interest rate applicable to short-term borrowings at March 31, 2018 and 2017, was 1.5% and 0.8%, respectively.

(b) Long-term debt and lease obligations as of March 31, 2018 and 2017, consisted of the following:

|  | Millions of Yen |                 | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2018            | 2017            | 2018                         |
| Loans from banks   | ¥ 13,514        | ¥ 22,115        | \$ 127,190                   |
| Obligations under finance leases                           | <u>1,929</u>    | <u>2,694</u>    | <u>18,155</u>                |
| Total  | 15,443          | 24,809          | 145,345                      |
| Less current portion                                       | <u>(9,658)</u>  | <u>(9,793)</u>  | <u>(90,898)</u>              |
| Long-term debt and lease obligations, less current portion | <u>¥ 5,784</u>  | <u>¥ 15,016</u> | <u>\$ 54,437</u>             |

The annual average interest rate applicable to long-term debt at March 31, 2018 and 2017, was 1.2% and 1.2%, respectively.

(c) Annual maturities of long-term debt and lease obligations as of March 31, 2018, were as follows:

| Years Ending March 31 | Millions<br>of Yen | Thousands of<br>U.S. Dollars |
|-----------------------|--------------------|------------------------------|
| 2019                  | ¥ 9,658            | \$ 90,898                    |
| 2020                  | 4,999              | 47,049                       |
| 2021                  | 352                | 3,312                        |
| 2022                  | 227                | 2,136                        |
| 2023 and thereafter   | <u>205</u>         | <u>1,929</u>                 |
| Total                 | <u>¥ 15,443</u>    | <u>\$ 145,345</u>            |

## 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. Certain foreign consolidated subsidiaries have contribution plans and defined benefit plans.

(1) The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

|                                  | Millions of Yen |                 | Thousands of        |
|----------------------------------|-----------------|-----------------|---------------------|
|                                  | <u>2018</u>     | <u>2017</u>     | <u>U.S. Dollars</u> |
| Balance at beginning of year     | ¥ 58,508        | ¥ 57,337        | \$ 550,663          |
| Current service cost             | 2,600           | 2,518           | 24,470              |
| Interest cost                    | 439             | 411             | 4,131               |
| Actuarial losses (gains)         | 450             | (412)           | 4,235               |
| Benefits paid                    | (1,808)         | (1,416)         | (17,016)            |
| Past service cost                |                 | (107)           |                     |
| Change in scope of consolidation | 1,685           |                 | 15,858              |
| Others                           | <u>385</u>      | <u>177</u>      | <u>3,623</u>        |
| Balance at end of year           | <u>¥ 62,261</u> | <u>¥ 58,508</u> | <u>\$ 585,985</u>   |

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

|                                  | Millions of Yen |                 | Thousands of        |
|----------------------------------|-----------------|-----------------|---------------------|
|                                  | <u>2018</u>     | <u>2017</u>     | <u>U.S. Dollars</u> |
| Balance at beginning of year     | ¥ 54,089        | ¥ 50,729        | \$ 509,072          |
| Expected return on plan assets   | 404             | 362             | 3,802               |
| Actuarial gains                  | 1,761           | 726             | 16,574              |
| Contributions from the employer  | 3,678           | 3,420           | 34,616              |
| Benefits paid                    | (1,667)         | (1,335)         | (15,689)            |
| Change in scope of consolidation | 1,581           |                 | 14,880              |
| Others                           | <u>344</u>      | <u>184</u>      | <u>3,237</u>        |
| Balance at end of year           | <u>¥ 60,192</u> | <u>¥ 54,089</u> | <u>\$ 566,512</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>2018</u>     | <u>2017</u>     | <u>U.S. Dollars</u> |
| Funded defined benefit obligation            | ¥ 61,404        | ¥ 57,758        | \$ 577,920          |
| Plan assets                                  | <u>(60,192)</u> | <u>(54,089)</u> | <u>(566,512)</u>    |
| Total  | 1,211           | 3,669           | 11,397              |
| Unfunded defined benefit obligation          | <u>857</u>      | <u>750</u>      | <u>8,065</u>        |
| Net liability for defined benefit obligation | <u>¥ 2,068</u>  | <u>¥ 4,419</u>  | <u>\$ 19,463</u>    |

|  | Millions of Yen |                   | Thousands of        |
|--|-----------------|-------------------|---------------------|
|  | <u>2018</u>     | <u>2017</u>       | <u>U.S. Dollars</u> |
| Liability for retirement benefits            | ¥ 2,620         | ¥ 4,419           | \$ 24,658           |
| Prepaid retirement benefits                  | <u>(551)</u>    | <u>          </u> | <u>(5,185)</u>      |
| Net liability for defined benefit obligation | <u>¥ 2,068</u>  | <u>¥ 4,419</u>    | <u>\$ 19,463</u>    |

- (4) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

|                                    | Millions of Yen |                | Thousands of        |
|------------------------------------|-----------------|----------------|---------------------|
|                                    | <u>2018</u>     | <u>2017</u>    | <u>U.S. Dollars</u> |
| Service cost                       | ¥ 2,600         | ¥ 2,518        | \$ 24,470           |
| Interest cost                      | 439             | 411            | 4,131               |
| Expected return on plan assets     | (404)           | (362)          | (3,802)             |
| Recognized actuarial losses        | 361             | 596            | 3,397               |
| Amortization of prior service cost | <u>(49)</u>     | <u>(159)</u>   | <u>(461)</u>        |
| Net periodic benefit costs         | <u>¥ 2,947</u>  | <u>¥ 3,003</u> | <u>\$ 27,736</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, 2018 and 2017:

|                    | Millions of Yen |                | Thousands of        |
|--------------------|-----------------|----------------|---------------------|
|                    | <u>2018</u>     | <u>2017</u>    | <u>U.S. Dollars</u> |
| Prior service cost | ¥ (49)          | ¥ (52)         | \$ (461)            |
| Actuarial gains    | <u>1,672</u>    | <u>1,735</u>   | <u>15,736</u>       |
| Total              | <u>¥ 1,623</u>  | <u>¥ 1,683</u> | <u>\$ 15,275</u>    |

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017:

|                                 | Millions of Yen |                  | Thousands of        |
|---------------------------------|-----------------|------------------|---------------------|
|                                 | <u>2018</u>     | <u>2017</u>      | <u>U.S. Dollars</u> |
| Unrecognized prior service cost | ¥ 272           | ¥ 319            | \$ 2,560            |
| Unrecognized actuarial losses   | <u>(529)</u>    | <u>(2,191)</u>   | <u>(4,978)</u>      |
| Total                           | <u>¥ (256)</u>  | <u>¥ (1,871)</u> | <u>\$ (2,409)</u>   |

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2018 and 2017, consisted of the following:

|  | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Debt investments                         | 41%         | 43%         |
| Equity investments                       | 26          | 25          |
| General account assets of life insurance | 14          | 18          |
| Others                                   | <u>19</u>   | <u>14</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, 2018 and 2017, are set forth as follows:

|  | <u>2018</u>       | <u>2017</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, 2018 and 2017, were ¥715 million (\$6,729 thousand) and ¥526 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 ¥155 million (\$1,458 thousand) and 48,029 shares as of March 31, 2018, and ¥179 million and 55,365 shares as of March 31, 2017 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 ¥503 million (\$4,734 thousand) and 141,135 shares as of March 31, 2018, and ¥547 million and 153,585 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 (189,164 shares for the current fiscal year and 208,950 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 (192,579 shares in the current fiscal year and 203,195 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 30.8% and 30.8% for the years ended March 31, 2018 and 2017, 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, 2018 and 2017, are as follows:

|  | Millions of Yen |           | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------|------------------------------|
|  | 2018            | 2017      | 2018                         |
| Deferred tax assets due to:                |                 |           |                              |
| Liability for retirement benefits          | ¥ 442           | ¥ 1,215   | \$ 4,160                     |
| Unrealized profit eliminated               | 1,742           | 1,197     | 16,395                       |
| Accrued bonuses                            | 1,941           | 2,200     | 18,268                       |
| Research and development expenditures      | 1,520           | 1,367     | 14,305                       |
| Depreciation and amortization              | 583             | 346       | 5,487                        |
| Inventories                                | 555             | 609       | 5,223                        |
| Loss on valuation of investment securities | 48              | 155       | 451                          |
| Allowance for doubtful accounts            | 118             | 90        | 1,110                        |
| Other                                      | 2,129           | 2,182     | 20,037                       |
| Gross deferred tax assets                  | 9,081           | 9,365     | 85,468                       |
| Less valuation allowance                   | (645)           | (786)     | (6,070)                      |
| Total gross deferred tax assets            | ¥ 8,436         | ¥ 8,579   | \$ 79,397                    |
| Deferred tax liabilities due to:           |                 |           |                              |
| Intangibles assets                         | ¥ (5,167)       | ¥ (5,179) | \$ (48,630)                  |
| Net unrealized gain on securities          | (429)           | (379)     | (4,037)                      |
| Other                                      | (1,090)         | (1,248)   | (10,258)                     |
| Total gross deferred tax liabilities       | (6,687)         | (6,808)   | (62,936)                     |
| Net deferred tax assets                    | ¥ 1,748         | ¥ 1,770   | \$ 16,451                    |

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, 2018 and 2017, is as follows:

|  | 2018  | 2017  |
|--|-------|-------|
| Normal effective statutory tax rate  | 30.8% | 30.8% |
| Expenses not deductible for income tax purposes, such as<br>entertainment expenses | 2.6   | 2.6   |
| Income not taxable for income tax purposes   | (1.0) | (2.4) |
| Tax credit related to research expenses  | (4.0) | (4.5) |
| Amortization of goodwill   | 7.1   | 7.3   |
| Tax rate differences with foreign consolidated subsidiaries                        | (3.4) | (1.5) |
| Valuation allowance  | (0.3) | 1.5   |
| Effect of tax rate reduction   | 0.2   |       |
| Equalization tax   | 0.9   | 0.9   |
| Other – net  | 2.8   | (1.3) |
| Actual effective tax rate  | 35.7% | 33.4% |

In line with the enactment of the U.S. Tax Cuts and Jobs Act on December 22, 2017, the corporate income tax rate in the U.S. was changed from January 1, 2018. Accordingly, deferred tax assets and deferred tax liabilities for the year ended March 31, 2018 are calculated using the revised tax rates to be applied to the fiscal years in which the temporary differences are expected to be settled.

As a result of this change in the tax rate, deferred tax assets (less deferred tax liabilities) for the year ended March 31, 2018 decreased by ¥124 million (\$1,167 thousand) and deferred income taxes for the year ended March 31, 2018 increased by the same amount.

#### 11. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017, mainly consisted of the following:

|   | Millions of Yen |             | Thousands of                       |
|---|-----------------|-------------|------------------------------------|
|   | <u>2018</u>     | <u>2017</u> | <u>U.S. Dollars</u><br><u>2018</u> |
| Employees' salaries and bonuses                               | ¥25,688         | ¥23,816     | \$241,769                          |
| Provision for employees' bonuses                              | 3,663           | 4,010       | 34,475                             |
| Provision for stock grant to directors and executive officers | 142             | 123         | 1,336                              |
| Retirement benefit expenses                                   | 1,957           | 1,860       | 18,418                             |
| Amortization of goodwill                                      | 3,922           | 4,072       | 36,912                             |
| Depreciation expense  | 4,460           | 4,347       | 41,976                             |
| Rent expense  | 4,759           | 4,604       | 44,790                             |

#### 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to administrative expenses and manufacturing costs for the years ended March 31, 2018 and 2017, were ¥14,119 million (\$132,884 thousand) and ¥13,965 million, respectively.

#### 13. LEASES

##### (a) Lessee

The minimum rental commitments under noncancelable operating leases as of March 31, 2018 and 2017, were as follows:

|                     | Millions of Yen |              | Thousands of                       |
|---------------------|-----------------|--------------|------------------------------------|
|                     | <u>2018</u>     | <u>2017</u>  | <u>U.S. Dollars</u><br><u>2018</u> |
| Due within one year | ¥ 126           | ¥ 71         | \$ 1,185                           |
| Due after one year  | <u>637</u>      | <u>367</u>   | <u>5,995</u>                       |
| Total               | <u>¥ 764</u>    | <u>¥ 439</u> | <u>\$ 7,190</u>                    |

##### (b) Lessor

The net investments in leases as of March 31, 2018 and 2017, are summarized as follows:

|                          | Millions of Yen |                | Thousands of                       |
|--------------------------|-----------------|----------------|------------------------------------|
|                          | <u>2018</u>     | <u>2017</u>    | <u>U.S. Dollars</u><br><u>2018</u> |
| Gross lease receivables  | ¥ 3,049         | ¥ 3,654        | \$ 28,696                          |
| Unearned interest income | <u>773</u>      | <u>831</u>     | <u>7,275</u>                       |
| Investments in leases    | <u>¥ 2,276</u>  | <u>¥ 2,823</u> | <u>\$ 21,421</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, 2018, are as follows:

| <u>Years Ending March 31</u> | <u>Millions<br/>of Yen</u> | <u>Thousands of<br/>U.S. Dollars</u> |
|------------------------------|----------------------------|--------------------------------------|
| 2019                         | ¥ 873                      | \$ 8,216                             |
| 2020                         | 675                        | 6,352                                |
| 2021                         | 560                        | 5,270                                |
| 2022                         | 444                        | 4,178                                |
| 2023                         | 258                        | 2,428                                |
| 2024 and thereafter          | <u>236</u>                 | <u>2,221</u>                         |
| Total                        | <u>¥ 3,049</u>             | <u>\$ 28,696</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. 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 and trade accounts, 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 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 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, 2018 and 2017, were as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (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  | 4,124                  |                   |                             |
| Trade accounts                                     | 49,740                 |                   |                             |
| Unconsolidated subsidiaries and associated company | 411                    |                   |                             |
| Subtotal   | 54,275                 |                   |                             |
| Allowance for doubtful accounts *1                 | (563)                  |                   |                             |
| Receivables – net                                  | 53,712                 | 53,709            | (2)                         |
| 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>               |

|  | Millions of Yen           |                     |                      |
|--|---------------------------|---------------------|----------------------|
|  | Carrying Amount           | Fair Value          | Unrealized Gain/Loss |
| <u>March 31, 2017</u>                              |                           |                     |                      |
| Cash and cash equivalents                          | ¥ 77,050                  | ¥ 77,050            | ¥                    |
| Receivables:                                       |                           |                     |                      |
| Trade notes  | 4,064                     |                     |                      |
| Trade accounts                                     | 42,876                    |                     |                      |
| Unconsolidated subsidiaries and associated company | 196                       |                     |                      |
| Subtotal   | 47,137                    |                     |                      |
| Allowance for doubtful accounts *1                 | (492)                     |                     |                      |
| Receivables – net                                  | 46,644                    | 46,643              | (1)                  |
| Investments in leases                              | 2,823                     |                     |                      |
| Allowance for doubtful accounts *1                 | (9)                       |                     |                      |
| Investments in leases – net                        | 2,813                     | 3,239               | 426                  |
| Short-term investments and investment securities   | 8,869                     | 8,952               | 82                   |
| <b>Total</b>                                       | <b>¥ 135,378</b>          | <b>¥ 135,886</b>    | <b>¥ 507</b>         |
| Payables:  |                           |                     |                      |
| Trade notes  | ¥ 1,054                   | ¥ 1,054             | ¥                    |
| Electronically recorded obligations-operating      | 6,699                     | 6,699               |                      |
| Trade accounts                                     | 10,547                    | 10,547              |                      |
| Unconsolidated subsidiaries and associated company | 183                       | 183                 |                      |
| Short-term borrowings                              | 25,602                    | 25,602              |                      |
| Long-term debt                                     | 22,115                    | 22,365              | 249                  |
| Income taxes payable                               | 2,903                     | 2,903               |                      |
| Long-term lease obligations                        | 2,694                     | 2,685               | (8)                  |
| <b>Total</b>                                       | <b>¥ 71,800</b>           | <b>¥ 72,041</b>     | <b>¥ 241</b>         |
|  | Thousands of U.S. Dollars |                     |                      |
|  | Carrying Amount           | Fair Value          | Unrealized Gain/Loss |
| <u>March 31, 2018</u>                              |                           |                     |                      |
| Cash and cash equivalents                          | \$ 587,058                | \$ 587,058          | \$                   |
| Receivables:                                       |                           |                     |                      |
| Trade notes  | 38,814                    |                     |                      |
| Trade accounts                                     | 468,141                   |                     |                      |
| Unconsolidated subsidiaries and associated company | 3,868                     |                     |                      |
| Subtotal   | 510,823                   |                     |                      |
| Allowance for doubtful accounts *1                 | (5,298)                   |                     |                      |
| Receivables – net                                  | 505,524                   | 505,496             | (18)                 |
| Investments in leases                              | 21,421                    |                     |                      |
| Allowance for doubtful accounts *1                 | (65)                      |                     |                      |
| Investments in leases – net                        | 21,345                    | 25,750              | 4,395                |
| Short-term investments and investment securities   | 98,494                    | 99,030              | 536                  |
| <b>Total</b>                                       | <b>\$ 1,212,432</b>       | <b>\$ 1,217,345</b> | <b>\$ 4,903</b>      |

| <u>March 31, 2018</u>                             | Thousands of U.S. Dollars  |                   |                                 |
|---|----------------------------|-------------------|---------------------------------|
|   | <u>Carrying<br/>Amount</u> | <u>Fair Value</u> | <u>Unrealized<br/>Gain/Loss</u> |
| Payables:   |                            |                   |                                 |
| Trade notes                                       | \$ 11,312                  | \$ 11,312         | \$                              |
| Electronically recorded obligations-<br>operating | 80,178                     | 80,178            |                                 |
| Trade accounts                                    | 97,731                     | 97,731            |                                 |
| Short-term borrowings                             | 204,658                    | 204,658           |                                 |
| Long-term debt                                    | 127,190                    | 127,501           | 301                             |
| Income taxes payable                              | 20,169                     | 20,169            |                                 |
| Long-term lease obligations                       | <u>18,155</u>              | <u>17,317</u>     | <u>(828)</u>                    |
| Total   | <u>\$ 559,425</u>          | <u>\$ 558,898</u> | <u>\$ (517)</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

The carrying values are used for short-term receivables as they approximate fair their 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.

#### 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 15.

- (b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2018 and 2017, were as follows:

|  | <u>Carrying Amount</u> |             |                     |
|--|------------------------|-------------|---------------------|
|  | <u>Millions of Yen</u> |             | <u>Thousands of</u> |
|  | <u>2018</u>            | <u>2017</u> | <u>U.S. Dollars</u> |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥793                   | ¥1,383      | \$7,463             |

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, 2018 and 2017, were ¥235 million (\$2,211 thousand) and ¥904 million, respectively.

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

|  | <u>Millions of Yen</u>                           |   |   |                                     |
|--|--|---|---|-------------------------------------|
|  | <u>Due in</u><br><u>1 Year or</u><br><u>Less</u> | <u>Due after</u><br><u>1 Year</u><br><u>through</u><br><u>5 Years</u> | <u>Due after</u><br><u>5 Years</u><br><u>through</u><br><u>10 Years</u> | <u>Due after 10</u><br><u>Years</u> |
| <u>March 31, 2018</u>                            |  |   |   |                                     |
| Cash and cash equivalents                        | ¥ 62,375   |   |   |                                     |
| Receivables                                      | 52,477   | ¥ 1,798   |   |                                     |
| 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>                          |

|  | <u>Millions of Yen</u>                           |   |   |                                     |
|--|--|---|---|-------------------------------------|
|  | <u>Due in</u><br><u>1 Year or</u><br><u>Less</u> | <u>Due after</u><br><u>1 Year</u><br><u>through</u><br><u>5 Years</u> | <u>Due after</u><br><u>5 Years</u><br><u>through</u><br><u>10 Years</u> | <u>Due after 10</u><br><u>Years</u> |
| <u>March 31, 2017</u>                            |  |   |   |                                     |
| Cash and cash equivalents                        | ¥ 77,050   |   |   |                                     |
| Receivables                                      | 46,256   | ¥ 881   |   |                                     |
| Investments in leases                            | 804  | 1,750   | ¥ 268   |                                     |
| Short-term investments and investment securities | <u>242</u>                                       | <u>2,601</u>  | <u>—</u>  | <u>¥ 3</u>                          |
| Total  | <u>¥ 124,353</u>                                 | <u>¥ 5,233</u>  | <u>¥ 268</u>  | <u>¥ 3</u>                          |

|   | Thousands of U.S. Dollars   |   |   |                       |
|---|-----------------------------|---|---|-----------------------|
|   | Due in<br>1 Year or<br>Less | Due after<br>1 Year<br>through<br>5 Years | Due after<br>5 Years<br>through<br>10 Years | Due after 10<br>Years |
| <u>March 31, 2018</u>                               |                             |   |   |                       |
| Cash and cash equivalents                           | \$ 587,058                  |   |   |                       |
| Receivables   | 493,901                     | \$ 16,922                                 |   |                       |
| Investments in leases                               | 6,004                       | 13,515                                    | \$ 1,882                                    |                       |
| Short-term investments and<br>investment securities | <u>7,331</u>                | <u>24,150</u>                             | <u>      </u>                               | <u>\$ 28</u>          |
| Total   | <u>\$ 1,094,305</u>         | <u>\$ 54,597</u>                          | <u>\$ 1,882</u>                             | <u>\$ 28</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*

There were no derivative transactions to which hedge accounting is not applied for the years ended March 31, 2018 and 2017.

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

|  | Hedged Item       | Millions of Yen    |   |               |
|--|-------------------|--------------------|---|---------------|
|  |                   | Contract<br>Amount | Contract<br>Amount<br>Due after<br>One Year | Fair<br>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,<br>floating-rate receipt)   | Long-term<br>debt | 8,431              | ¥2,810                                      | *2            |
| Interest rate and currency swaps (fixed-rate and<br>Japanese yen payment, floating-rate and<br>U.S.\$ receipt) | Long-term<br>debt | 2,292              | 764   | *2            |
| Interest rate and currency swaps (fixed-rate and<br>Euro payment, floating-rate and<br>U.S.\$ receipt)         | Long-term<br>debt | 1,530              | 510   | *2            |

|  | Millions of Yen           |                    |                                    |            |
|--|---------------------------|--------------------|------------------------------------|------------|
|  | Hedged Item               | Contract Amount    | Contract Amount Due after One Year | Fair Value |
| <u>March 31, 2017</u>  |                           |                    |                                    |            |
| Foreign currency forward contracts:<br>Selling Euro  | Deposits,<br>Receivables  | ¥ 1,985            |                                    | *1         |
| Interest rate swaps (fixed-rate payment,<br>floating-rate receipt)   | Long-term<br>debt         | 13,858             | ¥8,315                             | *2         |
| Interest rate and currency swaps (fixed-rate and<br>Japanese yen payment, floating-rate and<br>U.S.\$ receipt) | Long-term<br>debt         | 3,820              | 2,292                              | *2         |
| Interest rate and currency swaps (fixed-rate and<br>Euro payment, floating-rate and<br>U.S.\$ receipt)         | Long-term<br>debt         | 2,337              | 1,402                              | *2         |
|  | Thousands of U.S. Dollars |                    |                                    |            |
|  | Hedged Item               | Contract Amount    | Contract Amount Due after One Year | Fair Value |
| <u>March 31, 2018</u>  |                           |                    |                                    |            |
| Foreign currency forward contracts:<br>Selling U.S.\$<br>Selling Euro  | Deposits,<br>Receivables  | \$ 9,232<br>32,997 |                                    | *1         |
| Interest rate swaps (fixed-rate payment,<br>floating-rate receipt)   | Long-term<br>debt         | 79,350             | \$26,447                           | *2         |
| Interest rate and currency swaps (fixed-rate and<br>Japanese yen payment, floating-rate and<br>U.S.\$ receipt) | Long-term<br>debt         | 21,571             | 7,190                              | *2         |
| Interest rate and currency swaps (fixed-rate and<br>Euro payment, floating-rate and<br>U.S.\$ receipt)         | Long-term<br>debt         | 14,400             | 4,800                              | *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 14.

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 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, 2018 and 2017, the Group had the following contingent liabilities:

|  | <u>Millions of Yen</u> |             | <u>Thousands of</u> |
|--|------------------------|-------------|---------------------|
|  | <u>2018</u>            | <u>2017</u> | <u>U.S. Dollars</u> |
|  |                        |             | <u>2018</u>         |
| Guarantees for bank loans drawn by its employees       | ¥ 22                   | ¥ 27        | \$ 207              |
| Guarantees for lease obligations owed by its customers | 154                    | 331         | 1,449               |

## 17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017, were as follows:

|  | <u>Millions of Yen</u> |                  | <u>Thousands of</u> |
|--|------------------------|------------------|---------------------|
|  | <u>2018</u>            | <u>2017</u>      | <u>U.S. Dollars</u> |
|  |                        |                  | <u>2018</u>         |
| Unrealized gain (loss) on available-for-sale securities: |                        |                  |                     |
| Gains arising during the year                            | ¥ 142                  | ¥ 855            | \$ 1,336            |
| Reclassification adjustments to profit or loss           | (7)                    | (10)             | (65)                |
| Amount before income tax effect                          | 134                    | 845              | 1,261               |
| Income tax effect  | (41)                   | (258)            | (385)               |
| Total  | <u>¥ 93</u>            | <u>¥ 586</u>     | <u>\$ 875</u>       |
| Foreign currency translation adjustments:                |                        |                  |                     |
| Adjustments arising during the year                      | ¥ (2,144)              | ¥ (9,962)        | \$ (20,178)         |
| Reclassification adjustments to profit or loss           | 94                     | —                | 884                 |
| Amount before income tax effect                          | (2,050)                | (9,962)          | (19,294)            |
| Income tax effect  | 8                      | (8)              | 75                  |
| Total  | <u>¥ (2,041)</u>       | <u>¥ (9,970)</u> | <u>\$ (19,209)</u>  |
| Defined retirement benefit plan(s):                      |                        |                  |                     |
| Adjustments arising during the year                      | ¥ 1,311                | ¥ 1,139          | \$ 12,338           |
| Reclassification adjustments to profit or loss           | 311                    | 544              | 2,927               |
| Amount before income tax effect                          | 1,623                  | 1,683            | 15,275              |
| Income tax effect  | (440)                  | (447)            | (4,141)             |
| Total  | <u>¥ 1,182</u>         | <u>¥ 1,235</u>   | <u>\$ 11,124</u>    |
| Total other comprehensive loss                           | <u>¥ (765)</u>         | <u>¥ (8,148)</u> | <u>\$ (7,200)</u>   |



## 18. SUBSEQUENT EVENTS

### (a) Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2018, was approved at the Company's shareholders' meeting held on June 27, 2018:

|   | <u>Millions<br/>of Yen</u> | <u>Thousands of<br/>U.S. Dollars</u> |
|---|----------------------------|--------------------------------------|
| Year-end cash dividends, ¥51 (\$0.48) per share | ¥3,198                     | \$30,098                             |

## 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           |                                  |                  |                 |              |
|---|---------------------------|----------------------------------|------------------|-----------------|--------------|
|   | 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   | 43,057                    | 35,465                           | 19,310           | 142,179         | 240,012      |
| 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      |
|   |                           |                                  |                  |                 |              |
|   | Millions of Yen           |                                  |                  |                 |              |
|   | 2017                      |                                  |                  |                 |              |
|   | Reportable Segment        |                                  |                  |                 |              |
|   | Financial Market          | Retail and Transportation Market | Amusement Market | Overseas Market | Total        |
| Sales:  |                           |                                  |                  |                 |              |
| Sales to external customers                                     | ¥ 53,301                  | ¥ 42,657                         | ¥ 20,434         | ¥ 103,787       | ¥ 220,180    |
| Intersegment sales or transfers                                 |                           |                                  |                  |                 |              |
| Total   | 53,301                    | 42,657                           | 20,434           | 103,787         | 220,180      |
| Segment profit (loss)   | 6,510                     | 3,468                            | 737              | 9,900           | 20,617       |
| Segment assets *1   | 40,245                    | 33,583                           | 20,973           | 141,965         | 236,768      |
| Other:  |                           |                                  |                  |                 |              |
| Depreciation  | 1,862                     | 1,472                            | 1,402            | 4,620           | 9,359        |
| Amortization of goodwill  |                           |                                  |                  | 4,072           | 4,072        |
| Increase in property, plant and equipment and intangible assets | ¥ 1,918                   | ¥ 1,465                          | ¥ 1,010          | ¥ 3,561         | ¥ 7,955      |
|   |                           |                                  |                  |                 |              |
|   | Thousands of U.S. Dollars |                                  |                  |                 |              |
|   | 2018                      |                                  |                  |                 |              |
|   | Reportable Segment        |                                  |                  |                 |              |
|   | Financial Market          | Retail and Transportation Market | Amusement Market | Overseas Market | Total        |
| Sales:  |                           |                                  |                  |                 |              |
| Sales to external customers                                     | \$ 507,952                | \$ 406,738                       | \$ 193,600       | \$ 1,004,781    | \$ 2,113,082 |
| Intersegment sales or transfers                                 |                           |                                  |                  |                 |              |
| Total   | 507,952                   | 406,738                          | 193,600          | 1,004,781       | 2,113,082    |
| Segment profit (loss)   | 38,051                    | 32,715                           | 12,527           | 105,101         | 188,404      |
| Segment assets *1   | 405,242                   | 333,788                          | 181,741          | 1,338,155       | 2,258,936    |
| Other:  |                           |                                  |                  |                 |              |
| Depreciation  | 19,407                    | 16,263                           | 10,945           | 40,988          | 87,614       |
| Amortization of goodwill  |                           |                                  |                  | 36,912          | 36,912       |
| Increase in property, plant and equipment and intangible assets | \$ 18,917                 | \$ 16,367                        | \$ 7,821         | \$ 38,560       | \$ 81,675    |

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       |
| 1,785   | 241,798   | 61,154          | 302,953      |
| 140     | 9,450     |                 | 9,450        |
|         | 3,922     |                 | 3,922        |
| ¥ 142   | ¥ 8,820   | ¥               | ¥ 8,820      |

Millions of Yen

2017

| Other   | Total     | Reconciliations | Consolidated |
|---------|-----------|-----------------|--------------|
| ¥ 2,400 | ¥ 222,581 | ¥               | ¥ 222,581    |
| 2,400   | 222,581   |                 | 222,581      |
| (251)   | 20,365    |                 | 20,365       |
| 1,759   | 238,528   | 74,292          | 312,821      |
| 110     | 9,469     |                 | 9,469        |
|         | 4,072     |                 | 4,072        |
| ¥ 111   | ¥ 8,067   | ¥               | ¥ 8,067      |

Thousands of U.S. Dollars

2018

| Other     | Total        | Reconciliations | Consolidated |
|-----------|--------------|-----------------|--------------|
| \$ 26,776 | \$ 2,139,868 | \$              | \$ 2,139,868 |
| 26,776    | 2,139,868    |                 | 2,139,868    |
| (3,792)   | 184,611      |                 | 184,611      |
| 16,800    | 2,275,745    | 575,567         | 2,851,322    |
| 1,317     | 88,941       |                 | 88,941       |
|           | 36,912       |                 | 36,912       |
| \$ 1,336  | \$ 83,011    | \$              | \$ 83,011    |

Note: \*1 Reconciliations of segment assets are corporate assets of ¥61,154 million (\$575,567 thousand) and ¥74,292 million for the years ended March 31, 2018 and 2017, respectively, consisting of surplus funds of the Group.

4. Information about products and services

|                             | 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    |
|                             | Millions of Yen                                     |  |                                 |             |
|                             | 2017  |  |                                 |             |
|                             | Money Handling Machines and Cash Management Systems | Vending Machines and Automatic Service Equipment | Other Merchandises and Products | Total       |
| Sales to external customers | ¥170,236  | ¥32,974  | ¥19,370                         | ¥222,581    |
|                             | Thousands of U.S. Dollars                           |  |                                 |             |
|                             | 2018  |  |                                 |             |
|                             | Money Handling Machines and Cash Management Systems | Vending Machines and Automatic Service Equipment | Other Merchandises and Products | Total       |
| Sales to external customers | \$1,669,938   | \$310,061  | \$159,858                       | \$2,139,868 |

5. Information about geographical areas

(a) Sales

|  | 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 |

| Millions of Yen |                  |                             |  |         |          |
|-----------------|------------------|-----------------------------|--|---------|----------|
| 2017            |                  |                             |  |         |          |
| Japan           | Asia/<br>Oceania | United States<br>of America | Americas<br>Excluding<br>United States<br>of America | Europe  | Total    |
| ¥118,793        | ¥18,401          | ¥36,361                     | ¥6,384   | ¥42,640 | ¥222,581 |

| Thousands of U.S. Dollars |                  |                             |  |           |             |
|---------------------------|------------------|-----------------------------|--|-----------|-------------|
| 2018                      |                  |                             |  |           |             |
| Japan                     | Asia/<br>Oceania | United States<br>of America | Americas<br>Excluding<br>United States<br>of America | Europe    | Total       |
| \$1,135,087               | \$151,416        | \$315,002                   | \$70,089   | \$468,254 | \$2,139,868 |

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

(b) Property, plant and equipment

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

| Millions of Yen |                  |          |        |         |
|-----------------|------------------|----------|--------|---------|
| 2017            |                  |          |        |         |
| Japan           | Asia/<br>Oceania | Americas | Europe | Total   |
| ¥31,066         | ¥1,686           | ¥1,693   | ¥1,211 | ¥35,657 |

| Thousands of U.S. Dollars |                  |          |          |           |
|---------------------------|------------------|----------|----------|-----------|
| 2018                      |                  |          |          |           |
| Japan                     | Asia/<br>Oceania | Americas | Europe   | Total     |
| \$278,541                 | \$17,101         | \$18,654 | \$10,484 | \$324,790 |

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                  |                  |                 |         |  |
|----------------------------|------------------|----------------------------------|------------------|-----------------|---------|--|
|                            |                  | 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  |  |

|                            |                  | Millions of Yen                  |                  |                 |         |  |
|----------------------------|------------------|----------------------------------|------------------|-----------------|---------|--|
|                            |                  | 2017                             |                  |                 |         |  |
|                            |                  | Reportable Segment               |                  |                 |         |  |
|                            | Financial Market | Retail and Transportation Market | Amusement Market | Overseas Market | Total   |  |
| Amortization of goodwill   |                  |                                  |                  | ¥ 4,072         | ¥ 4,072 |  |
| Goodwill at March 31, 2017 |                  |                                  |                  | 51,573          | 51,573  |  |

|                            |                  | Thousands of U.S. Dollars        |                  |                 |           |  |
|----------------------------|------------------|----------------------------------|------------------|-----------------|-----------|--|
|                            |                  | 2018                             |                  |                 |           |  |
|                            |                  | Reportable Segment               |                  |                 |           |  |
|                            | Financial Market | Retail and Transportation Market | Amusement Market | Overseas Market | Total     |  |
| Amortization of goodwill   |                  |                                  |                  | \$ 36,912       | \$ 36,912 |  |
| Goodwill at March 31, 2018 |                  |                                  |                  | 424,592         | 424,592   |  |

\* \* \* \* \*

Millions of Yen  
2018

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

Millions of Yen  
2017

| <u>Other</u> | <u>Total</u> | <u>Reconciliations</u> | <u>Consolidated</u> |
|--------------|--------------|------------------------|---------------------|
|              | ¥ 4,072      |                        | ¥ 4,072             |
|              | 51,573       |                        | 51,573              |

Thousands of U.S. Dollars  
2018

| <u>Other</u> | <u>Total</u> | <u>Reconciliations</u> | <u>Consolidated</u> |
|--------------|--------------|------------------------|---------------------|
|              | \$ 36,912    |                        | \$ 36,912           |
|              | 424,592      |                        | 424,592             |

# 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, 2018, 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, 2018, 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 27, 2018

Member of  
Deloitte Touche Tohmatsu Limited







Confidence Enabled

## GLORY LTD.

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