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# INFORMATION DISCLOSURE ON THE INTERNET REGARDING THE NOTICE OF THE 38TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Consolidated Statement of Changes in Equity

Notes to Consolidated Financial Statements

Non-Consolidated Statement of Changes in Equity

Notes to Non-Consolidated Financial Statements

(April 1, 2017 - March 31, 2018)

**Japan Lifeline Co., Ltd.**

(Securities Code: 7575)

These documents have been provided to shareholders on the Company's website (address: https://www.jll.co.jp) pursuant to provisions of laws and regulations as well as Article 15 of the Articles of Incorporation.

# Consolidated Financial Statements

## Consolidated Statement of Changes in Equity

(April 1, 2017 - March 31, 2018)

(In millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance as of April 1, 2017 | 2,115 | 2,327 | 18,729 | (2,301) | 20,869 |
| Changes of items during consolidated accounting period | | | | | |
| Dividends of surplus | — | — | (1,116) | — | (1,116) |
| Purchase of treasury shares | — | — | — | (268) | (268) |
| Disposal of treasury shares | — | 252 | — | 16 | 268 |
| Issuance of share acquisition rights | — | — | — | — | — |
| Exercise of share acquisition rights | — | 12,993 | — | 862 | 13,856 |
| Net income attributable to owners of the parent | — | — | 7,478 | — | 7,478 |
| Net changes of items other than shareholders' equity | — | — | — | — | — |
| Total changes of items during consolidated accounting period | — | 13,245 | 6,362 | 610 | 20,218 |
| Balance as of March 31, 2018 | 2,115 | 15,572 | 25,091 | (1,691) | 41,088 |

(In millions of yen)

| | Accumulated other comprehensive income | | | | Share acquisition rights | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance as of April 1, 2017 | (12) | 32 | (140) | (119) | — | 20,750 |
| Changes of items during consolidated accounting period | | | | | | |
| Dividends of surplus | — | — | — | — | — | (1,116) |
| Purchase of treasury shares | — | — | — | — | — | (268) |
| Disposal of treasury shares | — | — | — | — | — | 268 |
| Issuance of share acquisition rights | — | — | — | — | 54 | 54 |
| Exercise of share acquisition rights | — | — | — | — | (40) | 13,815 |
| Net income attributable to owners of the parent | — | — | — | — | — | 7,478 |
| Net changes of items other than shareholders' equity | (7) | 108 | 7 | 108 | — | 108 |
| Total changes of items during consolidated accounting period | (7) | 108 | 7 | 108 | 13 | 20,340 |
| Balance as of March 31, 2018 | (19) | 141 | (132) | (11) | 13 | 41,090 |

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

# Notes to Consolidated Financial Statements

**[Notes to the Basis for Preparation of Consolidated Financial Statements]**

1. Matters regarding the scope of consolidation

(1) Number of consolidated subsidiaries 2

Names of consolidated subsidiaries

Synexmed (Hong Kong) Limited, and one other company

(2) Names of non-consolidated subsidiaries

JLL Malaysia Sdn. Bhd.

Reason for exclusion from the scope of consolidation

Non-consolidated subsidiaries are excluded from the scope of consolidation when their total assets, net sales, net earnings (corresponding to equity interest) and retained earnings (corresponding to equity interest) are all of small scale, and their material significance is too limited to have any substantial impact on the consolidated financial statements.

2. Matters regarding the scope of the equity method

Name of non-consolidated subsidiary excluded from the scope of the equity method

JLL Malaysia Sdn. Bhd.

Reason for exclusion from the scope of the equity method

The non-consolidated subsidiary to which the equity method is not applied is excluded because net earnings and retained earnings (both corresponding to equity interest) are both of small scale, and their material significance is too limited to have any substantial impact on the consolidated financial statements.

3. Matters regarding the fiscal years of consolidated subsidiaries, etc.

The consolidated subsidiaries, Synexmed (Hong Kong) Limited and Synexmed (Shenzhen) Co., Ltd. have a balance sheet date of December 31, and as the difference with the consolidated balance sheet date does not exceed three months, financial statements pertaining to the fiscal years of these subsidiaries are used. Furthermore, necessary adjustments are made in consolidated financial statements for material transactions occurring between these subsidiaries' balance sheet dates and the consolidated balance sheet date.

4. Matters concerning accounting policies

(1) Standards and methods for valuation of assets

The methods for valuation of securities are as follows.

Available-for-sale securities

a) Securities with market quotations

Stated at market value using the market price, etc., on the final day of the period. The total amount of the valuation difference calculated as a result is reported as a component of net assets, based on the reversal method. However, for compound financial products classified as derivatives, for which market values cannot be calculated, the calculated valuation difference is treated as part of profit or loss for the fiscal year under review.

Furthermore, the valuation method used for the calculation of the cost of sales is the moving average method.

b) Securities without market quotations

Stated at cost using the moving average method.

(2) Methods for valuation of inventories are as follows.

Stated at cost using the moving average method (book values are calculated by writing down based on declines in profitability).

(3) The depreciation or amortization methods for non-current assets are as follows.

1) Property, plant and equipment

a. Property, plant and equipment (excluding leased assets)

For the Company and its domestic subsidiaries, the straight-line method is applied for buildings, except for facilities attached to buildings, acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016. The declining-balance method is used for other property, plant and equipment (excluding leased assets) of the Company and its domestic subsidiaries. Overseas consolidated subsidiaries are subject to the straight-line method.

b. Leased assets

Finance leases that are not deemed to transfer the ownership of the leased assets to the lessee

The straight-line method with no residual value is applied, regarding the lease term as the useful life.

2) Intangible assets

Computer software for internal use is amortized on a straight-line basis over the estimated useful life (five years).

3) Long-term prepaid expenses

Amortized on a straight-line basis over the contract period, etc.

(4) The methods of reporting for reserves are as follows.

1) Allowance for doubtful accounts

As provisions for losses on receivables, loans and other credits, allowances for doubtful accounts are reported based on the following standards.

a. Ordinary receivables

Reported based on the historical write-off rate.

b. Receivables for doubtful accounts and debtors under bankruptcy or reorganization proceedings, etc.

Reported using the estimated amount of irrecoverable debt based on the recoverability of individual cases.

2) Provision for directors' bonuses

A reserve for bonuses to officers is reported based on the estimated amount at the end of the consolidated fiscal year under review.

3) Provision for directors' share-based compensation

To provide for granting of Company shares by the Board Incentive Plan (BIP) trust, a sum is reported that is the anticipated cost of payment for shares corresponding to points allocated to the Vice Presidents, based on the regulations for granting of shares.

(Additional information)

(Abolishment of directors' retirement benefits)

To date, for the provision for directors' retirement benefits, we have reported a total needing to be paid at the end of the fiscal year, based on internal regulations, as a provision for payment of directors' retirement benefits in connection with the retirement of the Vice President and Corporate Auditor. However, by a resolution of a Board of Directors meeting held May 24, 2017, we abolished the directors' retirement benefit system, as of the conclusion of the Ordinary General Meeting of Shareholders (hereafter "General Meeting of Shareholders") held on June 28, 2017.

In connection with this, the closing payment of directors' retirement benefits based on period of service (with payments being made at the time of retirement of individual directors) was decided by a resolution of the General Meeting of Shareholders. The balance of the provision for directors' retirement benefits of 190 million yen as of the end of the first quarter, consolidated basis, is reported under other long-term liabilities.

(Transactions involving the BIP trust share-based compensation)

In the consolidated fiscal year under review the Company introduced a Board Incentive Plan (BIP) trust. As with the performance-linked (Performance Share) and restricted-stock share-based compensation systems used in the United States and Europe, monetary payments are made to directors under the BIP trust system reflecting their degree of achievement in meeting performance targets and ranks, the grants and payments being made in the form of Company shares and monetary compensation based on the share exchange price at disposal.

The Company has established the trust after allocating funds for acquisition of Company shares for such compensation, the beneficiaries being those among the Vice Presidents who meet certain requirements. The trust has acquired from the Company the total of Company shares (through disposal of treasury shares) it anticipates needing for compensation of directors, based on previously drawn-up share-grant regulations.

Subsequently, and based on the share-grant regulations, the Company awards points to the Vice Presidents reflecting their degree of target achievement and rank for each fiscal year, consolidated basis. After their retirement, a total of shares (with fractional units rounded down) equivalent to 70% of their accumulated points is granted by the trust, and the remainder of the Company shares are translated into monetary sums by conversion under the trust and this sum is paid out. Related accounting treatment is based on "*Practical* *treatment of transactions relating to granting of own shares to employees, etc. through a trust*" (Practical Issues Task Force No. 30, March 26, 2015). The Company shares owned by the trust at the end of the fiscal year, consolidated basis, are reported in the net assets section of the consolidated balance sheet as treasury shares, at their book value under the trust (excluding sums for incidental expenses). The reported amount is 268 million yen and the reported number of shares is 115,800. The total expected cost of the above corporate officer compensation at the end of the consolidated fiscal year under review as described above, is reported as Provision for directors' share-based compensation.

(5) Accounting treatment of retirement benefits

1) Method of attributing the estimated benefit obligation to periods

When calculating the retirement benefit obligation, the estimated benefit obligation is attributed to the period up until the end of the consolidated fiscal year under review on a straight-line basis.

2) Amortization method of actuarial calculation differences and past service costs

Past service costs are amortized and treated as expenses using the straight-line method for a certain number of years (five years) during the average remaining service period for employees when they occur.

Actuarial calculation differences are amortized using the straight-line method for a certain number of years (five years) during the average remaining service period for employees in each consolidated fiscal year when they occur, and the amounts allocated are treated as expenses from the consolidated fiscal year following the year in which they occur.

(6) Other important matters forming the basis for the preparation of consolidated financial statements

Accounting treatment of consumption taxes, etc.

The tax exclusion method is applied.

[Notes to Consolidated Balance Sheet]

1. Accumulated depreciation of property, plant and equipment

5,045 million yen

2. Contingent liabilities

There are no contingent liabilities to report.

**[Notes to Consolidated Statement of Changes in Equity]**

1. Shares issued

| Type of shares | Beginning of the consolidated fiscal year under review | Increase | Decrease | End of the consolidated fiscal year under review |
|---|---|---|---|---|
| Common stock (shares) | 45,209,988 | 45,209,988 | — | 90,419,976 |

(Reason for difference)

The increase in the fiscal year under review as of January 1, 2018 was a two-for-one stock split of common stock.

2. Treasury shares

| Type of shares | Beginning of the consolidated fiscal year under review | Increase | Decrease | End of the consolidated fiscal year under review |
|---|---|---|---|---|
| Common stock (shares) | 8,002,808 | 8,060,708 | 6,057,900 | 10,005,616 |

(Note) The total of treasury shares at the end of the consolidated fiscal year under review includes 115,800 shares of the Company held by the BIP trust.

(Reasons for differences)

1. The components of the increase in the consolidated fiscal year under review are as follows.
   (1) Effective January 1, 2018, the Company conducted a two-for-one stock split of its common stock. As a result, the number of shares increased by 7,944,908 shares.
   (2) An increase of 57,900 shares due to acquisition of Company shares by the BIP trust
   (3) An increase of 57,900 shares held by the BIP trust due to the two-for-one stock split of common stock in 1. (1) above
2. The components of the decrease in the consolidated fiscal year under review are as follows.
   (1) A decrease of 57,900 shares due to disposal in connection with the introduction of the BIP trust
   (2) A decrease of 6,000,000 shares due to the exercise of share acquisition rights

3. Share Acquisition Rights

| Classification | Details of share acquisition rights | Type of shares underlying the share acquisition rights | Number of shares underlying the share acquisition rights (shares) | | | | Balance as of March 31, 2018 (million yen) |
|---|---|---|---|---|---|---|---|
| | | | Beginning of the consolidated fiscal year under review | Increase | Decrease | End of the consolidated fiscal year under review | |
| Submitting company (parent company) | Second Series Share Acquisition Rights | Common shares | — | 6,000,000 | 6,000,000 | — | — |
| | Third Series Share Acquisition Rights | Common shares | — | 2,000,000 | — | 2,000,000 | 13 |
| Total | | | — | 8,000,000 | 6,000,000 | 2,000,000 | 13 |

(Reasons for differences)

1. The components of the increase in the consolidated fiscal year under review are as follows.

(1) An increase due to the issue of the Second Series of Share Acquisition Rights

3,000,000 shares

An increase due to the issue of the Third Series of Share Acquisition Rights

1,000,000 shares

(2) An increase due to a two-for-one stock split of common stock of the Company carried out on January 1, 2018

Second Series Share Acquisition Rights 3,000,000 shares

Third Series Share Acquisition Rights 1,000,000 shares

2. The components of the decrease in the consolidated fiscal year under review are as follows.

A decrease of 6,000,000 shares due to exercise of share acquisition rights

4. Dividends

(1) Dividend amount

| Resolution | Type of stock | Total dividends (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 28, 2017 | Common stock | 1,116 | 30 | March 31, 2017 | June 29, 2017 |

(Note) Effective January 1, 2018, the Company conducted a two-for-one stock split of its common stock. The dividend per share shown above is the amount prior to this share split.

(2) Dividends whose record date is during this fiscal year, but whose effective date is after the end of this fiscal year

| Planned date of resolution | Type of stock | Source of dividends | Total dividends (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders on June 27, 2018 | Common stock | Retained earnings | 2,315 | 28.75 | March 31, 2018 | June 28, 2018 |

(Note) Effective January 1, 2018, the Company conducted a two-for-one stock split of its common stock. The dividend total relating to shares of the Company held by the BIP trust to be included in the total dividend is 3 million yen.

**[Notes on Financial Instruments]**

1. Status of Financial Instruments

   (1) Policy on financial instruments

   The Group's policy is to limit asset management to short-term deposits, etc., and to raise funds by borrowing from banks. The Group uses derivatives to avoid the risk of fluctuations in interest rates of long-term loans payable, and does not engage in speculative trading.

   (2) Details of financial instruments, related risks, and risk management system

   Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. Regarding these risks, in accordance with the Credit Management Regulations of the Group, the Company has created a system for managing payment dates and the amounts outstanding for each customer, in addition to identifying the credit status of its main customers every six months.

   Shares and other investment securities are exposed to the risk of fluctuations in market price. The Board of Directors receives monthly reports on the market prices of these assets.

   In addition to internal loans to employees for welfare purposes, long-term loans receivable also include lending denominated in foreign currencies to suppliers of products and overseas manufacturers of medical equipment that are preparing to introduce products, and are exposed to the risk of fluctuations in exchange rates, but the Company considers hedges using forward exchange contracts as necessary.

   Notes and accounts payable - trade, which are operating payables, and accounts payable - other are all due for payment within one year.

   Among loans payable, short-term loans payable are mainly raising funds for working capital, and long-term loans payable are mainly raising funds for capital investment. Furthermore, certain long-term loans payable use a variable interest rate, but the Company hedges the risk of fluctuations in interest rates for these loans payable using interest rate swaps.

   The Company executes and manages derivative transactions in accordance with internal regulations that establish trading authority, and when using derivatives, the Company only engages in transactions with highly rated financial institutions, in order to reduce credit risk.

   In addition, operating payables and loans payable are exposed to liquidity risk, but the Group manages this liquidity risk with monthly funding plans for each company and other methods.

   (3) Supplementary explanation regarding market value, etc., of financial instruments

   In addition to values based on market prices, the market value of financial instruments also includes values reasonably calculated for financial instruments with no market quotations. As the calculation of these values includes variable factors, these values may fluctuate if different assumptions are used, etc.

2. Market value, etc., of financial instruments

   The amounts posted on the consolidated balance sheet, the market values, and the differences thereof as of the end of the consolidated fiscal year under review (March 31, 2018) are as follows. Furthermore, financial instruments whose market value is extremely difficult to identify and those that are not material are not included.

(In millions of yen)

| Item | Consolidated balance sheet amount | Market value | Difference |
|---|---|---|---|
| 1. Cash and deposits | 6,732 | 6,732 | — |
| 2. Notes and accounts receivable - trade | 12,331 | 12,331 | — |
| 3. Securities | | | |
| Available-for-sale securities | 5,999 | 5,999 | — |
| 4. Investment securities | | | |
| Available-for-sale securities | 4,061 | 4,061 | — |
| 5. Long-term loans receivable | 3,522 | 5,278 | 1,755 |
| 6. Notes and accounts payable - trade | 2,278 | 2,278 | — |
| 7. Short-term loans payable | 6,600 | 6,600 | — |
| 8. Current portion of long-term loans payable | 1,043 | 1,043 | — |
| 9. Accounts payable - other | 1,269 | 1,269 | — |
| 10. Long-term loans payable | 1,117 | 1,101 | (15) |

(Notes) 1. Calculation method of the market value of financial instruments

(1) Cash and deposits, notes and accounts receivable - trade, securities, notes and accounts payable - trade, short-term loans payable, current portion of long-term loans payable, and accounts payable - other:

Since the settlement periods for the foregoing are short, the market values thereof are close to the book values. Therefore, the corresponding book value is used as the market value.

(2) Investment securities:

Investment securities are held as available-for-sale securities, and prices presented by the correspondent financial institution are used as the market value.

(3) Long-term loans receivable:

The market value of long-term loans receivable is calculated using the present value of future cash flows discounted at the interest rate on government bonds for each repayment period.

(4) Long-term loans payable

The market value of long-term loans payable is calculated using the present value of future cash flows discounted at the refinancing interest rate for each repayment period.

Furthermore, certain long-term loans payable use a variable interest rate, and hedge accounting is applied with interest rate swap transactions, but owing to the application of special treatment, the market value of these derivative transactions is noted together with the principal of the loans.

2. Financial instruments for which market value is deemed to be extremely difficult to identify

Unlisted shares (totaling 165 million yen in the balance sheet, consolidated basis) are not included in the above table. This is because they do not have market prices and cannot be used to estimate future cash flows, their market values being deemed extremely difficult to identify.

**[Notes to Per Share Information]**

Book value per share 510.81 yen

Earnings per share 98.51 yen

(Notes) 1. Effective January 1, 2018, the Company conducted a two-for-one stock split of its common stock. The amount of book value per share and earnings per share is calculated by deeming stock splits to have occurred at the beginning of the consolidated fiscal year under review.

2. Residual Company shares in the BIP trust reported as treasury shares within shareholders' equity are treated as treasury shares for the purposes of calculation of book value per share and earnings per share. At the close of the consolidated fiscal year under review the total number of treasury shares was 115,800, and the average number of shares during the period was 77,200.

# Non-Consolidated Statement of Changes in Equity

(April 1, 2017 - March 31, 2018)

(In millions of yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | | Capital surplus | | |
| | Capital stock | Legal capital surplus | Other capital surplus<br>Gain on disposal of treasury shares | Total capital surplus |
| Balance as of April 1, 2017 | 2,115 | 2,133 | 194 | 2,328 |
| Changes of items during accounting period | | | | |
| Dividends of surplus | — | — | — | — |
| Net income | — | — | — | — |
| Purchase of treasury shares | — | — | — | — |
| Disposal of treasury shares | — | — | 252 | 252 |
| Reversal of reserve for advanced depreciation of non-current assets | — | — | — | — |
| Issuance of share acquisition rights | — | — | — | — |
| Exercise of share acquisition rights | — | — | 12,993 | 12,993 |
| Net changes of items other than shareholders' equity | — | — | — | — |
| Total changes of items during accounting period | — | — | 13,245 | 13,245 |
| Balance as of March 31, 2018 | 2,115 | 2,133 | 13,439 | 15,573 |

(In millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Retained earnings | | | | |
| | | Other retained earnings | | | |
| | Legal retained earnings | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | Total retained earnings |
| Balance as of April 1, 2017 | 528 | 45 | 6,000 | 12,036 | 18,611 |
| Changes of items during accounting period | | | | | |
| Dividends of surplus | — | — | — | (1,116) | (1,116) |
| Net income | — | — | — | 7,652 | 7,652 |
| Purchase of treasury shares | — | — | — | — | — |
| Disposal of treasury shares | — | — | — | — | — |
| Reversal of reserve for advanced depreciation of non-current assets | — | (1) | — | 1 | — |
| Issuance of share acquisition rights | — | — | — | — | — |
| Exercise of share acquisition rights | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — |
| Total changes of items during accounting period | — | (1) | — | 6,537 | 6,536 |
| Balance as of March 31, 2018 | 528 | 44 | 6,000 | 18,574 | 25,147 |

(In millions of yen)

| | Shareholders' equity | | Valuation and translation adjustments | Share acquisition rights | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | | |
| Balance as of April 1, 2017 | (2,301) | 20,752 | (12) | — | 20,740 |
| Changes of items during accounting period | | | | | |
| Dividends of surplus | — | (1,116) | — | — | (1,116) |
| Net income | — | 7,652 | — | — | 7,652 |
| Purchase of treasury shares | (268) | (268) | — | — | (268) |
| Disposal of treasury shares | 16 | 268 | — | — | 268 |
| Reversal of reserve for advanced depreciation of non-current assets | — | — | — | — | — |
| Issuance of share acquisition rights | — | — | — | 54 | 54 |
| Exercise of share acquisition rights | 862 | 13,856 | — | (40) | 13,815 |
| Net changes of items other than shareholders' equity | — | — | (7) | — | (7) |
| Total changes of items during accounting period | 610 | 20,392 | (7) | 13 | 20,398 |
| Balance as of March 31, 2018 | (1,691) | 41,145 | (19) | 13 | 41,139 |

(Note) Figures presented in the financial statements are rounded down to the nearest million yen.

# Notes to Non-Consolidated Financial Statements

**[Notes to Significant Accounting Policies]**

1. The methods for valuation of securities are as follows.

   (1) Available-for-sale securities

   1) Securities with market quotations

   Stated at market value using the market price, etc., on the final day of the period. The total amount of the valuation difference calculated as a result is reported as a component of net assets, based on the reversal method. However, for compound financial products classified as derivatives, for which market values cannot be calculated, the calculated valuation difference is treated as part of profit or loss for the fiscal year under review.

   2) Securities without market quotations

   Stated at cost using the moving average method.

   (2) Stocks of subsidiaries and affiliates

   Stated at cost using the moving average method.

2. The methods for valuation of inventories are as follows.

   Stated at cost using the moving average method (book values are calculated by writing down based on declines in profitability).

3. The depreciation or amortization methods for non-current assets are as follows.

   (1) Property, plant and equipment

   1) Property, plant and equipment (excluding leased assets)

   The straight-line method is applied for buildings, except for facilities attached to buildings, acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016. The declining-balance method is used for other property, plant and equipment (excluding leased assets).

   2) Leased assets

   Finance leases that are not deemed to transfer the ownership of the leased assets to the lessee

   The straight-line method with no residual value is applied, regarding the lease term as the useful life.

   (2) Intangible assets

   Computer software for internal use is amortized on a straight-line basis over the estimated useful life (five years).

   (3) Long-term prepaid expenses

   Amortized on a straight-line basis over the contract period, etc.

4. The methods of reporting for reserves are as follows.

(1) Allowance for doubtful accounts

As provisions for losses on receivables, loans and other credits, allowances for doubtful accounts are reported based on the following standards.

1) Ordinary receivables

Reported based on the historical write-off rate.

2) Receivables for doubtful accounts and debtors under bankruptcy or reorganization proceedings, etc.

Reported using the estimated amount of irrecoverable debt based on the recoverability of individual cases.

(2) Provision for directors' bonuses

A reserve for bonuses to officers is reported based on the estimated amount at the end of the fiscal year under review.

(3) Provision for directors' share-based compensation

To provide for granting of Company shares by the Board Incentive Plan (BIP) trust, a sum is reported that is the anticipated cost of payment in shares corresponding to points allocated to the Vice President, based on the regulations for granting of shares.

(Additional information)

(Abolishment of directors' retirement benefits)

To date, for the provision for directors' retirement benefits, we have reported a total needing to be paid at the end of the fiscal year, based on internal regulations, as a provision for payment of directors' retirement benefits in connection with the retirement of the Vice President and Corporate Auditor. However, by a resolution of a Board of Directors meeting held May 24, 2017, we abolished the directors' retirement benefit system, as of the conclusion of the Ordinary General Meeting of Shareholders (hereafter "General Meeting of Shareholders") held on June 28, 2017.

In connection with this, the closing payment of directors' retirement benefits based on period of service (with payments being made at the time of retirement of individual directors) was decided by a resolution of the General Meeting of Shareholders. The balance of the provision for directors' retirement benefits of 190 million yen as of the end of the first quarter is reported under other long-term accounts payable - other.

(Transactions involving the BIP trust share-based compensation)

In the fiscal year under review the Company introduced a Board Incentive Plan (BIP) trust. As with the performance-linked (Performance Share) and restricted-stock share-based compensation systems used in the United States and Europe, monetary payments are made to directors under the BIP trust system reflecting their degree of achievement in meeting performance targets and ranks, the grants and payments being made in the form of Company shares and monetary compensation based on the share exchange price at disposal. The Company has established the trust after allocating funds for acquisition of Company shares for such compensation, the beneficiaries being those among the Vice Presidents who meet certain requirements. The trust has acquired from the Company the total of Company shares (through disposal of treasury shares) it anticipates needing for compensation of directors, based on previously drawn-up share-grant regulations. Subsequently, and based on the share-grant regulations, the Company awards points to the Vice Presidents reflecting their degree of target achievement and rank for each fiscal year, consolidated basis. After their retirement, a total of shares (with fractional units rounded down) equivalent to 70% of their accumulated points is granted by the trust, and the remainder of the Company shares are translated into monetary sums by conversion under the trust and this sum is paid out. Related accounting treatment is based on "*Practical treatment of transactions relating to granting of own shares to employees, etc. through a trust*" (Practical Issues Task Force No. 30, March 26, 2015). The Company shares owned by the trust at the end of the fiscal year are reported in the net assets section of the balance sheet as treasury shares, at their book value under the trust (excluding sums for incidental expenses). The reported amount is 268 million yen and the reported number of shares is 115,800. The total expected cost of the above corporate officer compensation at the end of the fiscal year under review as described above, is reported as Provision for directors' share-based compensation.

(4) Provision for retirement benefits

Provision for payment of retirement benefits to employees is based on the total of expenses for retirement benefits deemed as having occurred at the end of the fiscal year under review, as part of the estimated retirement benefit payment at the end of the fiscal year under review.

1) Method of attributing the estimated benefit obligation to periods

When calculating the retirement benefit obligation, the estimated benefit obligation is attributed to the period up until end of the fiscal year under review on a straight-line basis.

2) Amortization method of actuarial calculation differences and past service costs

Past service costs are amortized and treated as expenses using the straight-line method for a certain number of years (five years) during the average remaining service period for employees when they occur.

Actuarial calculation differences are amortized using the straight-line method for a certain number of years (five years) during the average remaining service period for employees in each fiscal year when they occur, and the amounts allocated are treated as expenses from the fiscal year following the year in which they occur.

5. Other important matters forming the basis for the preparation of non-consolidated financial statements

(1) Accounting treatment of retirement benefits

The method of accounting treatment of unrecognized actuarial calculation differences for retirement benefits differs from the method of accounting treatment in consolidated financial statements.

(2) Accounting treatment of consumption taxes, etc.

The tax exclusion method is applied for the accounting treatment of consumption taxes and local consumption taxes.

**[Notes to Non-Consolidated Balance Sheet]**

1. Accumulated depreciation of property, plant and equipment 4,646 million yen

2. Monetary receivables from or payables to affiliates

| | |
|---|---|
| Short-term monetary receivables | 448 million yen |
| Long-term monetary receivables | 715 million yen |
| Short-term monetary payables | 7 million yen |

**[Notes to Non-Consolidated Statement of Income]**

1. Transactions with affiliates

| | |
|---|---|
| Operating transactions | |
| Purchase of goods | 507 million yen |
| SG&A expenses | 16 million yen |
| Transactions other than operating transactions | 12 million yen |

**[Notes to Non-Consolidated Statement of Changes in Equity]**

Treasury shares

| Type of shares | Beginning of the fiscal year under review | Increase | Decrease | End of the fiscal year under review |
|---|---|---|---|---|
| Common stock (shares) | 8,002,808 | 8,060,708 | 6,057,900 | 10,005,616 |

(Note) The total of treasury shares at the end of the fiscal year under review includes 115,800 shares of the Company held by the BIP trust.

(Reasons for differences)

1. The components of the increase in the fiscal year under review are as follows.
   (1) Effective January 1, 2018, the Company conducted a two-for-one stock split of its common stock. As a result, the number of shares increased by 7,944,908 shares.
   (2) An increase of 57,900 shares due to acquisition of Company shares by the BIP trust
   (3) An increase of 57,900 shares held by the BIP trust due to the two-for-one stock split of common stock in 1. (1) above
2. The components of the decrease in the fiscal year under review are as follows.
   (1) A decrease of 57,900 shares due to disposal in connection with the introduction of the BIP trust
   (2) A decrease of 6,000,000 shares due to the exercise of share acquisition rights

**[Notes to Tax Effect Accounting]**

Main contributing factors to deferred tax assets and deferred tax liabilities

(Deferred tax assets)

| | |
|---|---|
| Provision for retirement benefits | 660 million yen |
| Accrued bonuses | 352 million yen |
| Loss on valuation of investment securities | 299 million yen |
| Allowance for doubtful accounts | 144 million yen |
| Enterprise taxes payable | 107 million yen |
| Other | 215 million yen |
| Subtotal | 1,780 million yen |
| Valuation allowance | (453) million yen |
| Total deferred tax assets | 1,327 million yen |

(Deferred tax liabilities)

| | |
|---|---|
| Reserve for advanced depreciation of non-current assets | 19 million yen |
| Other | 7 million yen |
| Total deferred tax liabilities | 27 million yen |
| | |
| Net deferred tax assets | 1,300 million yen |

**[Notes to Transactions with Affiliates]**

| Type | Name of company, etc. | Location | Capital stock or investment (millions of yen) | Business details or occupation | Percentage of voting rights, etc., held (or held of the Company) (%) | Relationship with affiliate | Transaction details | Transaction amount (millions of yen) | Description | Fiscal year-end balance (millions of yen) |
|---|---|---|---|---|---|---|---|---|---|---|
| Subsidiary | Synexmed (Hong Kong) Limited | Hong Kong | 15,266,000 HKD | Manufacture and sale of medical devices | Directly holds 100.0% | Purchase of goods by the Company and outsourced processing; officer with concurrent positions | Purchase of goods (Note 1)<br>Outsourced processing (Note 1)<br>Lending of funds (Note 2) | 250<br>257<br>586 | Accounts payable - trade<br>Short-term loans receivable<br>Long-term loans receivable | 7<br>242<br>715 |
| Subsidiary | JLL Malaysia Sdn. Bhd. | Malaysia | 2,500,000 MYR | Manufacture and sale of medical devices | Directly holds 100.0% | Officer with concurrent positions | Lending of funds (Note 2) | 1,084 | Short-term loans receivable | 100 |
| Company in which an officer or his or her close relative(s) hold(s) a majority of voting rights | TOYO KIGYO CO.,LTD. | Kosai-shi, Shizuoka | 10 | Synthetic yarn twisting | – | Purchase of raw materials by the Company | Purchase of raw materials (Note 1) | 10 | Accounts payable - trade | 0 |

(Note 1) Terms are the same as those for general transactions.

(Note 2) Interest rates on the lending of funds are reasonably determined in consideration of market interest rates, and in regard to the lending period and repayment method, lending terms are determined upon consultation between both parties.

**[Notes to Per Share Information]**

| | |
|---|---|
| Book value per share | 511.42 yen |
| Earnings per share | 100.80 yen |

(Notes) 1. Effective January 1, 2018, the Company conducted a two-for-one stock split of its common stock. The amount of book value per share and earnings per share is calculated by deeming stock splits to have occurred at the beginning of the fiscal year under review.

2. Residual Company shares in the BIP trust reported as treasury shares within shareholders' equity are treated as treasury shares for the purposes of calculation of book value per share and earnings per share. At the close of the fiscal year under review the total number of treasury shares was 115,800, and the average number of shares during the period was 77,200.