Fuji Seal International, Inc. and Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2018, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Fuji Seal International, Inc.:

We have audited the accompanying consolidated balance sheet of Fuji Seal International, Inc. and its 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 Fuji Seal International, Inc. and its 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 audits 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 14, 2018

Member of
Deloitte Touche Tohmatsu Limited

Fuji Seal International, Inc. and Subsidiaries

Consolidated Balance Sheet
March 31, 2018

ASSETS	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT ASSETS:			
Cash and bank deposits (Notes 13 and 18)	¥ 8,929	¥ 12,374	$ 84,046
Receivables (Note 13):			
Notes and accounts receivable – trade	38,215	33,745	359,704
Electronically recorded monetary claims – trade	8,121	6,405	76,440
Associated company	231	128	2,174
Other	2,460	2,143	23,155
Allowance for doubtful receivables	(200)	(212)	(1,883)
Inventories (Note 4)	17,543	15,631	165,126
Deferred tax assets (Note 10)	1,099	1,054	10,345
Other current assets	864	712	8,133
Total current assets	77,262	71,980	727,240
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,459	5,409	51,384
Buildings and structures (Notes 5 and 6)	41,038	38,841	386,276
Machinery and equipment (Notes 5 and 6)	81,738	78,671	769,371
Furniture and fixtures	5,755	5,311	54,170
Lease assets (Note 12)	610	482	5,742
Construction in progress	3,948	2,557	37,161
Total	138,548	131,271	1,304,104
Accumulated depreciation	(79,216)	(71,704)	(745,633)
Net property, plant and equipment	59,332	59,567	558,471
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	3,865	3,188	36,380
Investment in associated company	3,784	4,006	35,617
Software	1,357	1,341	12,773
Deferred tax assets (Note 10)	1,346	954	12,669
Assets for retirement benefits (Note 8)	1,928	984	18,148
Other assets	931	926	8,764
Total investments and other assets	13,211	11,399	124,351
TOTAL	¥ 149,805	¥ 142,946	$ 1,410,062

LIABILITIES AND EQUITY	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 13)	¥ 8,687	¥ 7,612	$ 81,768
Current portion of long-term debt (Notes 7 and 13)		750	
Current portion of corporate bonds (Note 7)		5,000	
Current portion of long-term lease obligations (Note 12)	83	57	781
Payables (Note 13):			
Notes and accounts payable – trade	13,432	14,571	126,431
Electronically recorded obligations – trade	10,619	7,794	99,953
Associated company	336	126	3,163
Other	5,526	5,215	52,014
Income taxes payable (Note 13)	1,382	1,442	13,008
Accrued expenses	4,000	3,239	37,651
Other current liabilities (Notes 10 and 13)	3,995	2,747	37,603
Total current liabilities	48,060	48,553	452,372
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 13)	5,300	5,300	49,887
Long-term lease obligations (Note 12)	205	136	1,930
Liability for retirement benefits (Note 8)	4,372	3,893	41,152
Deferred tax liabilities (Note 10)	2,358	3,065	22,195
Other long-term liabilities	166	164	1,562
Total long-term liabilities	12,401	12,558	116,726
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 9 and 19):			
Common stock, authorized, 200,000,000 shares; issued, 60,161,956 shares in 2018 and 2017	5,990	5,990	56,382
Capital surplus	6,463	6,302	60,834
Retained earnings	72,953	68,002	686,681
Treasury stock – at cost: 3,128,964 shares in 2018 and 3,190,764 shares in 2017	(3,105)	(3,166)	(29,226)
Accumulated other comprehensive income (loss) (Note 15):			
Unrealized gains on available-for-sale securities	1,599	1,147	15,051
Deferred loss on derivatives under hedge accounting (Note 14)	(1)		(9)
Foreign currency translation adjustments	5,522	4,935	51,977
Defined retirement benefit plan (Note 8)	(77)	(1,375)	(726)
Total	7,043	4,707	66,293
Total equity	89,344	81,835	840,964
TOTAL	¥ 149,805	¥ 142,946	$ 1,410,062

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥ 154,724	¥ 141,977	$ 1,456,363
COST OF SALES (Note 11)	125,230	114,977	1,178,746
Gross profit	29,494	27,000	277,617
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 17)	17,989	17,236	169,324
Operating income	11,505	9,764	108,293
OTHER INCOME (EXPENSES):			
Interest and dividend income	65	52	612
Interest expense	(113)	(111)	(1,064)
Foreign exchange loss – net	(129)	(175)	(1,214)
Equity in earnings (losses) of associated company	(391)	375	(3,680)
Gain on sales of property, plant and equipment	15	61	141
Loss on sales and disposals of property, plant and equipment	(277)	(233)	(2,607)
Subsidies income	200	300	1,883
Reorganization expenses (Notes 5 and 6)	(1,377)		(12,961)
Impairment losses (Note 5)		(221)	
Loss on settlement of retirement benefit plan (Note 8)	(412)	(219)	(3,878)
Other – net	79	90	742
Other expenses – net	(2,340)	(81)	(22,026)
INCOME BEFORE INCOME TAXES	9,165	9,683	86,267
INCOME TAXES (Note 10):			
Current	(4,406)	(4,122)	(41,473)
Deferred	1,446	99	13,611
Total income taxes	(2,960)	(4,023)	(27,862)
NET INCOME	6,205	5,660	58,405
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 6,205	¥ 5,660	$ 58,405
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 16):			
Basic net income	¥108.91	¥99.34	$1.03
Cash dividends applicable to the year	23.00	22.00	0.22

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥ 6,205	¥ 5,660	$ 58,405
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):			
Unrealized gains on available-for-sale securities	452	351	4,255
Deferred loss on derivatives under hedge accounting	(1)	(3)	(9)
Foreign currency translation adjustments	419	(2,949)	3,944
Share of other comprehensive income in associated company	168	100	1,581
Defined retirement benefit plan	1,298	(167)	12,218
Total other comprehensive income (loss)	2,336	(2,668)	21,989
COMPREHENSIVE INCOME (Note 15)	¥ 8,541	¥ 2,992	$ 80,394
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 15):			
Owners of the parent	¥8,541	¥2,992	$80,394

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

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

		Millions of Yen								
						Accumulated Other Comprehensive Income (Loss)				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gains on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, APRIL 1, 2016	56,971,690	¥ 5,990	¥ 6,302	¥ 63,567	¥ (3,165)	¥ 796	¥ 3	¥ 7,784	¥ (1,208)	¥ 80,069
Net income attributable to owners of the parent				5,660						5,660
Cash dividends, ¥22 per share				(1,225)						(1,225)
Purchase of treasury stock	(498)				(1)					(1)
Disposal of treasury stock	0									
Net change in the year						351	(3)	(2,849)	(167)	(2,668)
BALANCE, MARCH 31, 2017	56,971,192	5,990	6,302	68,002	(3,166)	1,147		4,935	(1,375)	81,835
Net income attributable to owners of the parent				6,205						6,205
Cash dividends, ¥23 per share				(1,254)						(1,254)
Purchase of treasury stock	(100)				(0)					
Disposal of treasury stock (include the disposal as restricted share compensation)	61,900		161		61					222
Net change in the year						452	(1)	587	1,298	2,336
BALANCE, MARCH 31, 2018	57,032,992	¥ 5,990	¥ 6,463	¥ 72,953	¥ (3,105)	¥ 1,599	¥ (1)	¥ 5,522	¥ (77)	¥ 89,344

	Thousands of U.S. Dollars (Note 1)								
					Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gains on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plan	Total Equity
BALANCE, MARCH 31, 2017	$ 56,382	$ 59,319	$ 640,079	$ (29,800)	$ 10,796		$ 46,451	$ (12,943)	$ 770,284
Net income attributable to owners of the parent			58,405						58,405
Cash dividends, $0.22 per share			(11,803)						(11,803)
Purchase of treasury stock				(0)					
Disposal of treasury stock (include the disposal as restricted share compensation)		1,515		574					2,089
Net change in the year					4,255	$ (9)	5,526	12,217	21,989
BALANCE, MARCH 31, 2018	$ 56,382	$ 60,834	$ 686,681	$ (29,226)	$ 15,051	$ (9)	$ 51,977	$ (726)	$ 840,964

See notes to consolidated financial statements.

Fuji Seal International, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 9,165	¥ 9,683	$ 86,267
Adjustments for:			
Income taxes – paid	(4,946)	(3,615)	(46,555)
Depreciation and amortization	9,235	8,549	86,926
Impairment losses (Note 5)		221	
Loss on settlement of retirement benefit plan (Note 8)	412	219	3,878
Subsidies income	(200)	(300)	(1,883)
Reorganization expenses (Notes 5 and 6)	1,377		12,961
Gain on sales of property, plant and equipment	(15)	(61)	(141)
Loss on sales and disposals of property, plant and equipment	277	233	2,607
Equity in loss (earnings) of associated company	391	(375)	3,680
Changes in assets and liabilities:			
Increase in receivables	(5,948)	(3,576)	(55,986)
Increase in inventories	(1,668)	(479)	(15,700)
Increase in payables	1,743	1,679	16,406
Increase in liability for retirement benefits	689	532	6,485
Insurance recoveries		1,688	
Others – net	1,368	787	12,877
Total adjustments	2,715	5,502	25,555
Net cash provided by operating activities	11,880	15,185	111,822
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(8,272)	(11,742)	(77,861)
Purchases of software and other assets	(331)	(515)	(3,116)
Purchases of investment securities	(28)	(26)	(264)
Others – net	242	1,699	2,278
Net cash used in investing activities	(8,389)	(10,584)	(78,963)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	2,119	(3,798)	19,945
Proceeds from long-term debt		5,000	
Repayments of long-term debt	(750)	(1,480)	(54,123)
Redemption of corporate bonds	(5,000)		
Dividends paid	(1,253)	(1,225)	(11,794)
Others – net	(70)	(67)	(658)
Net cash used in financing activities	(4,954)	(1,570)	(46,630)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(380)	(37)	(3,577)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,843)	2,994	(17,348)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	9,627	6,633	90,616
CASH AND CASH EQUIVALENTS, END OF THE YEAR (Note 18)	¥ 7,784	¥ 9,627	$ 73,268

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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 Fuji Seal International, Inc. (the "Company") is incorporated and operates. 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 ¥106.24 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 24 (24 in 2017) subsidiaries (collectively, the "Group").

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.

Investment in one (one in 2017) associated company is accounted for by the equity method.

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 also 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 the generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) 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. ***Unification of Accounting Policies Applied to Foreign-Associated Company for the Equity Method –*** ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by a foreign-associated company in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted 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.

d. ***Business Combinations –*** Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. ***Cash Equivalents*** – Cash equivalents presented in the consolidated statement of cash flows are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include deposits in banks and other short-term investments which mature or become due within 12 months of the date of acquisition. In the consolidated statements of cash flows, the ending balance of bank overdraft are netted against cash equivalents (see Note 18).

f. ***Inventories*** – Inventories are stated at the lower of cost, determined by the moving ‐average cost method principally for finished products and work in process and by the most recent purchase price principally for raw materials and supplies, or net selling value.

g. ***Investment Securities*** – Available-for-sale securities, which are not classified as either trading securities or 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.

h. ***Allowance for Doubtful Receivables*** – The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

i. ***Property, Plant and Equipment*** – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. Depreciation of property, plant and equipment of foreign subsidiaries is computed substantially by the straight-line method. The range of useful lives is from 2 to 50 years for buildings and structures, and from 2 to 15 years for machinery and equipment.

Equipment held under lease is depreciated by the straight-line method over the respective lease period.

Under certain conditions, such as the receipt of subsidy income, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired. As of March 31, 2018, such deferred profit amounted to ¥1,478 million ($13,912 thousand).

Pursuant to an amendment to the Corporate Tax Act, the Company adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016," and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this change on operating income and income before income taxes for the years ended March 31, 2018 and 2017 was immaterial.

j. ***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.

k. ***Software*** – Software for internal use is amortized by the straight-line method over the estimated useful lives. The estimated useful life is five years.

l. ***Retirement and Pension Plans*** – The Company and certain subsidiaries have defined contribution pension plans and defined benefit lump-sum payment plans for employees. The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. 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 are recognized in profit or loss primarily over ten years but no longer than the expected average remaining service period of the employees.

m. ***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.

n. ***Research and Development Costs*** – Research and development costs are charged to income as incurred.

o. ***Leases*** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.

p. ***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 parent company and its wholly owned domestic subsidiaries.

q. ***Foreign Currency Transactions*** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the 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.

r. ***Foreign Currency Financial Statements*** – The balance sheet accounts of the 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" under accumulated other comprehensive income (loss) in a separate component of equity. Revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rate.

s. ***Derivatives and Hedging Activities*** – The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) 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 (b) for derivatives used for hedging purposes, if 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.

The interest rate swaps that 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.

t. ***Per Share Information*** – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period retroactively adjusted for stock splits.

Diluted net income per share is not presented because there are no securities with a dilutive effect upon exercise or conversion into common stock.

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

u. ***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.

v. ***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 core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Noncurrent:			
Marketable equity securities	¥ 3,666	¥ 2,989	$ 34,507
Unquoted equity securities	199	199	1,873
Total	¥ 3,865	¥ 3,188	$ 36,380

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

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 1,364	¥ 2,302	¥ (0)	¥ 3,666
Total	¥ 1,364	¥ 2,302	¥ (0)	¥ 3,666

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 1,338	¥ 1,653	¥ (2)	¥ 2,989
Total	¥ 1,338	¥ 1,653	¥ (2)	¥ 2,989

	Thousands of U.S. Dollars			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 12,839	$ 21,668	$ (0)	$ 34,507
Total	$ 12,839	$ 21,668	$ (0)	$ 34,507

There were immaterial amounts of sales of equity securities for the year ended March 31, 2018, and no sales of equity securities for the year ended March 31, 2017.

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Finished products	¥ 7,423	¥ 7,506	$ 69,870
Work in process	3,932	2,683	37,001
Raw materials and supplies	6,188	5,442	58,255
Total	¥ 17,543	¥ 15,631	$ 165,126

5. LONG-LIVED ASSETS

Year ended March 31, 2018

The Group reviewed its long-lived assets for impairment as of March 31, 2018. As a result, the Group recognized impairment losses of ¥144 million ($1,355 thousand) of buildings and structures and machinery and equipment as reorganization expenses of other expenses, and the carrying amounts of the relevant assets were written down to the recoverable amounts for the year ended March 31, 2018 (See Note 6). The recoverable amounts of machinery and equipment were measured at their net selling prices and the recoverable amounts of buildings and structures were set at zero.

Year ended March 31, 2017

The Group reviewed its long-lived assets for impairment as of March 31, 2017. As a result, the Group recognized impairment losses of ¥206 million ($1,836 thousand) of machinery and equipment and ¥15 million ($134 thousand) of goodwill as other expenses, and the carrying amounts of the relevant assets were written down to the recoverable amounts for the year ended March 31, 2017. The recoverable amounts of machinery and equipment were measured at their net selling prices and the recoverable amount of goodwill was measured at its value in use, which was set at zero.

6. REORGANIZATION EXPENSES

Year ended March 31, 2018

Reorganization expenses resulted from management rationalization on Pago Etikettiersysteme GmbH, the factory in Germany of PAGO group, consisting of early retirement payments in the amount of ¥1,096 million ($10,316 thousand) impairment losses in the amount of ¥144 million ($1,355 thousand) and other related costs in the amount of ¥137 million ($1,290 thousand).

Year ended March 31, 2017

No reorganization expenses were recognized.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of March 31, 2018 and 2017, mainly consisted of bank overdrafts. The weighted-average annual interest rate applicable to the short-term bank loans was 1.0% and 0.8% for the years ended March 31, 2018 and 2017, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans from banks with weighted-average per annum interest rate of 0.2% for 2018 (0.2% for 2017) due serially to 2022	¥ 5,300	¥ 6,050	$ 49,887
Unsecured bonds, due 2018		5,000	
Total	5,300	11,050	49,887
Less current portion, with weighted-average per annum interest rate of 0.4% for 2017		(5,750)	
Long-term debt, less current portion	¥ 5,300	¥ 5,300	$ 49,887

Annual maturities of long-term debt as of March 31, 2018, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019		
2020	¥ 1,850	$ 17,413
2021	2,400	22,590
2022	1,050	9,884
2023		
Total	¥ 5,300	$ 49,887

8. RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have defined retirement benefit plans, such as a defined corporate pension plan and lump-sum pension plan, and also have defined contribution plans. Under most circumstances, employees terminating their employment are entitled to retirement benefits, determined based on the rate of pay at the time of termination, years of service, and certain other factors. At the time of retirement, there are cases in which employees are entitled to larger payments, not subject to the defined retirement benefit obligation.

Defined Retirement Benefit Plan

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of the year	¥ 20,665	¥ 20,836	$ 194,512
Current service cost	623	568	5,864
Interest cost	219	272	2,061
Actuarial losses	68	1,315	640
Benefits paid	(820)	(894)	(7,718)
Foreign currency transaction adjustments	528	(1,156)	4,970
Settlement of retirement benefit plan	(1,098)	(458)	(10,335)
Others	208	181	1,958
Balance at end of the year	¥ 20,393	¥ 20,664	$ 191,952

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of the year	¥ 17,755	¥ 18,636	$ 167,122
Interest income	135	153	1,271
Expected return on plan assets	92	172	866
Actuarial gains	996	718	9,375
Contributions from the employer	219	306	2,061
Benefits paid	(740)	(833)	(6,965)
Foreign currency transaction adjustments	356	(1,102)	3,351
Settlement of retirement benefit plan	(1,098)	(458)	(10,335)
Others	234	163	2,202
Balance at end of the year	¥ 17,949	¥ 17,755	$ 168,948

(3) Reconciliation between the liability and assets recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligations	¥ 18,477	¥ 18,859	$ 173,917
Plan assets	(17,949)	(17,755)	(168,948)
Total	528	1,104	4,969
Unfunded defined benefit obligations	1,916	1,805	18,035
Net liability arising from defined benefit obligations	¥ 2,444	¥ 2,909	$ 23,004

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥ 4,372	¥ 3,893	$ 41,152
Assets for retirement benefits	(1,928)	(984)	(18,148)
Net liability arising from defined benefit obligation	¥ 2,444	¥ 2,909	$ 23,004

(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.S. Dollars
	2018	2017	2018
Service cost	¥ 623	¥ 568	$ 5,864
Net interest on the net defined benefit liability	84	119	790
Expected return on plan assets	(92)	(172)	(866)
Recognized actuarial losses	145	130	1,365
Amortization of prior service cost	14	28	132
Others (including early retirement payment)	9	10	85
Net periodic benefit costs	¥ 783	¥ 683	$ 7,370
Loss on settlement of retirement benefit plan	412	219	3,878
Total	¥ 1,195	¥ 902	$ 11,248

(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, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost	¥ 29	¥ 24	$ 273
Actuarial gains (losses)	1,428	(179)	13,441
Total	¥ 1,457	¥ (155)	$ 13,714

(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, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost	¥ (44)	¥ (72)	$ (414)
Unrecognized actuarial losses	(106)	(1,538)	(998)
Total	¥ (150)	¥ (1,610)	$ (1,412)

(7) Plan assets as of March 31, 2018 and 2017

a. Components of plan assets

Plan assets consisted of the following:

	2018	2017
Debt investments	30%	34%
Equity investments	27	28
Real estate including REIT	24	22
Insurance	18	15
Others	1	1
Total	100%	100%

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, were set forth as follows:

	2018	2017
Discount rate	Domestic: 0.1% Foreign: 0.6 – 3.5%	Domestic: 0.1% Foreign: 0.6 – 3.8%
Expected rate of return on plan assets	Foreign: 8.0%	Foreign: 8.0%
Amortization period of prior service cost	Mainly 10 years	Mainly 10 years
Recognition period of actuarial gains/losses	Mainly 10 years	Mainly 10 years
Estimated rate of salary increase (*1)	Domestic: 4.1% Foreign: 0.5 – 1.8%	Domestic: 4.1% Foreign: 0.5 – 2.0%

(*1) For the Company and domestic subsidiaries, the estimated rate of salary increase represented an estimated rate of increase in points, or standard salary, which is applied in calculating the retirement allowance.

Defined Contribution Plan

The amounts of required contribution for the years ended March 31, 2018 and 2017, were ¥307 million ($2,890 thousand) and ¥272 million, 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 including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, 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. The Board of Directors of companies with board committees (namely appointment committee, compensation committee, and audit committee) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with board committees. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

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 charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the 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.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.81% for the years ended March 31, 2018 and 2017. The foreign subsidiaries are subject to income taxes of the countries in which they operate.

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Accrued enterprise taxes	¥ 132	¥ 117	$ 1,242
Accrued bonuses	414	377	3,897
Allowance for doubtful receivables	11	38	104
Liability for retirement benefits	1,169	1,121	11,003
Tax loss carryforwards	3,137	2,295	29,527
Depreciation	414	224	3,897
Reorganization expenses	330		3,106
Unrealized intercompany profits	221	253	2,080
Preferential taxation for investments	890	1,075	8,377
Others	499	524	4,698
Less valuation allowance	(3,852)	(3,134)	(36,257)
Total	¥ 3,365	¥ 2,890	$ 31,674
Deferred tax liabilities:			
Reserve for special depreciation		¥ (15)	
Reserve for advanced depreciation of property, plant and equipment	¥ (323)	(289)	$ (3,040)
Net unrealized gains on available-for-sale securities	(703)	(504)	(6,617)
Depreciation	(1,482)	(2,275)	(13,950)
Fixed assets	(389)	(633)	(3,662)
Others	(458)	(321)	(4,311)
Total	¥ (3,355)	¥ (4,037)	$ (31,580)
Net deferred tax liabilities	¥ 10	¥ (1,147)	$ 94

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2018, is not presented because the difference between the normal effective statutory tax rate and the actual effective tax rate was less than 5% of the normal effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, is as follows:

Normal effective statutory tax rate	30.81%
Change in valuation allowance	3.98
Different tax rates applied to foreign subsidiaries	4.11
Per capita inhabitants tax	0.39
Tax credits on research and development costs	(2.55)
Fluctuation in foreign currency exchange rates on certain foreign subsidiaries	5.44
Adjustment of undistributed earnings of foreign subsidiaries	0.76
Amortization of goodwill	0.09
Equity in earning of associated company	(1.19)
Others – net	(0.29)
Actual effective tax rate	41.55%

Due to the enactment of the Tax Act on December 22, 2017 in the U.S., the federal corporate tax rate was reduced from 35% to 21% effective January 1, 2018. As an effect of the enactment of the Tax Act in the U.S., a deferred tax liability (amounts deducting deferred tax assets) decreased by ¥435 million ($4,095 thousand) and income taxes – deferred decreased by ¥472 million ($4,443 thousand).

At March 31, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥12,252 million ($115,324 thousand), excluding a portion available only for local taxes in the amount of approximately ¥1,126 million ($10,599 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019		
2020		
2021		
2022	¥ 1,354	$ 12,745
2023 and thereafter	10,898	102,579
Total	¥ 12,252	$ 115,324

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,188 million ($20,595 thousand) and ¥2,343 million for the years ended March 31, 2018 and 2017, respectively.

12. LEASES

The Group leases certain machinery, computer equipment, and other assets.

Total rental expenses, including lease payments under finance leases for the years ended March 31, 2018 and 2017, were ¥255 million ($2,400 thousand) and ¥212 million, respectively.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2018		2018	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 83	¥ 166	$ 781	$ 1,563
Due after one year	205	176	1,930	1,657
Total	¥ 288	¥ 342	$ 2,711	$ 3,220

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial assets, mainly short-term deposits, and uses financial instruments, mainly short-term bank loans and bonds, for funding. The Company and its subsidiaries apply short-term deposits and short-term loans receivable among Group companies (cash management system). Derivatives are not used 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

Receivables for trade are exposed to customer credit risk. Receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities, mainly listed shares, are exposed to the risk of market price fluctuations. Payment terms of payables for trade are mostly less than six months.

Maturities of bank loans and bonds are less than five years after the balance sheet date. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps.

Derivatives consist primarily of forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans. Please see Notes 2.s and 14 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. The credit risk affecting subsidiaries is also managed in the same manner.

Market risk management (foreign exchange risk and interest rate risk)

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loans.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on its maturity dates. The Group manages its liquidity risk by holding adequate volume of liquid assets in view of business income and manages expenditures and equipment investment spending plans, along with adequate financial planning by the Corporate Treasury Department. Subsidiaries also report their financial plans to the Group. The Finance Department manages liquidity risk by obtaining information on cash flows of the whole Group.

(4) 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. The valuation technique utilizes certain assumptions, and the fair values may change by adopting different assumptions. In addition, the contract amounts of derivatives in Note 14 do not directly indicate the market risk of derivatives.

(a) Fair value of financial instruments

The carrying amounts, fair values, and unrealized gain/loss 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)).

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and bank deposits	¥ 8,929	¥ 8,929	¥
Receivables:			
Notes and accounts receivable – trade	38,215	38,215	
Electronically recorded monetary claims – trade	8,121	8,121	
Associated company	231	231	
Investment securities:			
Available-for-sale securities	3,666	3,666	
Total	¥ 59,162	¥ 59,162	¥
Short-term bank loans	¥ 8,687	¥ 8,687	
Payables:			
Notes and accounts payable – trade	13,432	13,432	
Electronically recorded obligations – trade	10,619	10,619	
Associated company	336	336	
Others	5,526	5,526	
Income taxes payable	1,382	1,382	
Long-term debt	5,300	5,289	¥ (11)
Total	¥ 45,282	¥ 45,271	¥ (11)
Derivatives (*1)	¥(18)	¥(18)	¥

March 31, 2017	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and bank deposits	¥ 12,374	¥ 12,374	¥
Receivables:			
Notes and accounts receivable – trade	33,745	33,745	
Electronically recorded monetary claims – trade	6,405	6,405	
Associated company	128	128	
Investment securities:			
Available-for-sale securities	2,989	2,989	
Total	¥ 55,641	¥ 55,641	¥
Short-term bank loans	¥ 7,612	¥ 7,612	
Payables:			
Notes and accounts payable – trade	14,571	14,571	
Electronically recorded obligations – trade	7,794	7,794	
Associated company	126	126	
Others	5,215	5,215	
Income taxes payable	1,442	1,442	
Long-term debt	11,050	11,053	¥ 3
Total	¥ 47,810	¥ 47,813	¥ 3
Derivatives (*1)	¥ (13)	¥ (13)	¥

March 31, 2018	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and bank deposits	$ 84,046	$ 84,046	$
Receivables:			
Notes and accounts receivable – trade	359,704	359,704	
Electronically recorded monetary claims – trade	76,440	76,440	
Associated company	2,174	2,174	
Investment securities:			
Available-for-sale securities	34,507	34,507	
Total	$ 556,871	$ 556,871	$
Short-term bank loans	$ 81,768	$ 81,768	
Payables:			
Notes and accounts payable – trade	126,431	126,431	
Electronically recorded obligations – trade	99,953	99,953	
Associated company	3,163	3,163	
Others	52,014	52,014	
Income taxes payable	13,008	13,008	
Long-term debt	49,887	49,784	$ (103)
Total	$ 426,224	$ 426,121	$ (103)
Derivatives (*1)	$(169)	$(169)	$

(*1) Derivative assets and liabilities are presented on a net basis. Negative balances indicate derivative liabilities.

Cash and bank deposits, receivables, payables, short-term bank loans, and income taxes payable

The carrying values of cash and bank deposits, receivables, payables, short-term bank loans, and income taxes payable approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price on the stock exchange for equity instruments. Fair value information for investment securities by classification is included in Note 3.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate. The fair values of bonds are determined by the over-the-counter sale price published by Japan Securities Dealers Association.

Derivatives

Fair value information for derivatives is included in Note 14.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥199	¥199	$1,873

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2018	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and bank deposits	¥ 8,929	¥	¥	¥
Receivables:				
Notes and accounts receivable – trade	38,215			
Electronically recorded monetary claims – trade	8,121			
Associated company	231			
Total	¥ 55,496	¥	¥	¥

March 31, 2018	Thousands of U.S. Dollars Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and bank deposits	$ 84,046	$	$	$
Receivables:				
Notes and accounts receivable – trade	359,704			
Electronically recorded monetary claims – trade	76,440			
Associated company	2,174			
Total	$ 522,364	$	$	$

Please see Note 7 for annual maturities of long-term debt and Note 12 for obligations under finance leases.

14. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

At March 31, 2018	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying EUR	¥1,013	¥	¥(16)	¥(16)

At March 31, 2017	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying EUR	¥349	¥	¥(13)	¥(13)

At March 31, 2018	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Buying EUR	$9,535	$	$(151)	$(151)

Derivative Transactions to Which Hedge Accounting Is Applied

	Millions of Yen			
At March 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Principal method:				
Foreign currency forward contracts:				
Buying EUR	Forecasted transactions	¥157	¥	¥(2)
Conventional method:				
Foreign currency forward contracts:				
Selling EUR	Receivables	¥2	¥	(*1)
Selling USD	Receivables	¥50	¥	(*1)

	Millions of Yen			
At March 31, 2017	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Conventional method:				
Foreign currency forward contracts:				
Selling EUR	Receivables	¥12	¥	(*1)
Selling USD	Receivables	¥48	¥	(*1)
Interest rate swaps:				
(fixed-rate payment and floating-rate receipt)	Long-term debt	¥750	¥	(*2)

At March 31, 2018	Thousands of U.S. Dollars			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Principal method:				
Foreign currency forward contracts:				
Buying EUR	Forecasted transactions	$1,478	$	$(19)
Conventional method:				
Foreign currency forward contracts:				
Selling EUR	Receivables	$19	$	(*1)
Selling USD	Receivables	$471	$	(*1)

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

(*1) The hedged items denominated in foreign currencies are translated at the contracted rates if the forward foreign currency contracts qualify for hedge accounting. The fair value of such forward foreign currency contracts in Note 13 are included in the hedged items.

(*2) The 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 are recognized and included in interest expense or income. In addition, the fair values of such interest rate swaps in Note 13 are included in the hedged items.

15. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gains on available-for-sale securities:			
Gains arising during the year	¥ 668	¥ 506	$ 6,288
Reclassification adjustments to profit or loss	(17)		(160)
Amount before income tax effect	651	506	6,128
Income tax effect	(199)	(155)	(1,873)
Total	¥ 452	¥ 351	$ 4,255
Deferred loss on derivatives under hedge accounting:			
Loss arising during the year	¥ (2)		$ (19)
Reclassification adjustments to profit or loss		¥ (4)	
Amount before income tax effect	(2)	(4)	(19)
Income tax effect	1	1	10
Total	¥ (1)	¥ (3)	$ (9)
Foreign currency translation adjustments:			
Gain (loss) arising during the year	¥ 419	¥ (2,949)	$ 3,944
Amount before income tax effect	419	(2,949)	3,944
Income tax effect			
Total	¥ 419	¥ (2,949)	$ 3,944
Share of other comprehensive income in associated company:			
Gain arising during the year	¥ 168	¥ 100	$ 1,581
Total	¥ 168	¥ 100	$ 1,581
Defined retirement benefit plan:			
Gain (loss) arising during the year	¥ 891	¥ (549)	$ 8,387
Reclassification adjustments to profit or loss	566	394	5,327
Amount before income tax effect	1,457	(155)	13,714
Income tax effect	(159)	(12)	(1,496)
Total	¥ 1,298	¥ (167)	$ 12,218
Total other comprehensive income (loss)	¥ 2,336	¥ (2,668)	$ 21,989

16. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2018 and 2017, is calculated as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2018				
Basic EPS				
Net income available to common shareholders	¥6,205	56,974	¥108.91	$1.03
For the year ended March 31, 2017				
Basic EPS				
Net income available to common shareholders	¥5,660	56,972	¥99.34	

Diluted net income per share is not disclosed because there are no dilutive shares.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Employees' salaries	¥6,701	¥6,493	$63,074
Freight charges	2,308	2,270	21,724

18. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliations between cash and cash equivalents on the consolidated statements of cash flows and cash and bank deposits on the consolidated balance sheets at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Cash and bank deposits	¥ 8,929	¥ 12,374	$ 84,046
Bank overdraft	(1,145)	(2,747)	(10,778)
Cash and cash equivalents	¥ 7,784	¥ 9,627	$ 73,268

19. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the meeting of the Board of Directors of the Company held on May 16, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12 ($0.11) per share	¥684	$6,438

20. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," 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 for which such information is evaluated regularly by the chief operating decisionmaker 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 performed in order to decide how resources are allocated among the Group. The Group conducts packaging business, which mainly consists of shrink labels and self-adhesive (tack) labels in Japan, the Americas, Europe, PAGO, and ASEAN. Each of the regions are an independently managed unit that can conduct production and sales in their respective region. PAGO AG and its associated companies conduct their business mainly in Switzerland, Germany, and Italy. The Company defines the business area of PAGO AG and its associated companies as "PAGO."

Amounts of stock investments to subsidiaries in "Segment assets," which were allocated to the "Japan" segment for the year ended March 31, 2017, are allocated to "Reconciliations" for the year ended March 31, 2018. This allocation policy was reconsidered in the process of establishing the new medium-term business plan in order to monitor the performance in each segment more appropriately. "Amounts of Sales, Profit (Loss), Assets, Liabilities, and Other Items for Each Reportable Segment" for the year ended March 31, 2017 are reclassified in accordance with the methods of presentation applied for the year ended March 31, 2018.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities, 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."

(3) Information about Sales, Profit (Loss), Assets, Liabilities, and Other Items

Millions of Yen

2018

	Reportable Segment							
	Japan	Americas	Europe	PAGO	ASEAN	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 92,34	¥ 32,130	¥ 15,192	¥ 11,857	¥ 3,202	¥ 154,724		¥ 154,724
Intersegment sales or transfers	1,24	744	1,977	594	6	4,570	¥ (4,570)	
Total	¥ 93,59	¥ 32,874	¥ 17,169	¥ 12,451	¥ 3,208	¥ 159,294	¥ (4,570)	¥ 154,724
Segment profit (loss)	¥10,01	¥ 3,130	¥ (712)	¥ (943)	¥ (48)	¥ 11,444	¥ 61	¥ 11,505
Segment assets	80,51	30,418	19,803	15,904	3,503	150,141	(336)	149,805
Segment liabilities	39,50	6,064	13,803	2,648	1,702	63,722	(3,261)	60,461
Other:								
Depreciation	4,58	2,644	1,108	707	211	9,259	(24)	9,235
Amortization of goodwill								
Investment associated company under equity method	3,78					3,784		3,784
Increase in property, plant and equipment and intangible assets	5,61	1,619	1,024	296	124	8,673	75	8,748

Millions of Yen

2017

	Reportable Segment							
	Japan	Americas	Europe	PAGO	ASEAN	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 86,17	¥ 28,816	¥ 13,075	¥ 11,543	¥ 2,372	¥ 141,977		¥ 141,977
Intersegment sales or transfers	1,21	391	1,661	404	22	3,688	¥ (3,688)	
Total	¥ 87,38	¥ 29,207	¥ 14,736	¥ 11,947	¥ 2,394	¥ 145,665	¥ (3,688)	¥ 141,977
Segment profit (loss)	¥ 9,32	¥ 2,443	¥ (643)	¥ (1,347)	¥ 23	¥ 9,800	¥ (36)	¥ 9,764
Segment assets	75,56	31,024	18,725	15,486	3,240	144,042	(1,096)	142,946
Segment liabilities	39,57	6,921	12,769	4,665	1,311	65,237	(4,126)	61,111
Other:								
Depreciation	4,33	2,488	1,016	544	188	8,573	(24)	8,549
Amortization of goodwill				29		29		29
Investment associated company under equity method	4,00					4,006		4,006
Increase in property, plant and equipment and intangible assets	6,96	1,026	1,432	340	319	10,077	(116)	9,961

Thousands of U.S. Dollars

2018

	Reportable Segment							
	Japan	Americas	Europe	PAGO	ASEAN	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 869,192	$ 302,428	$ 142,997	$ 111,606	$ 30,140	$ 1,456,363		$ 1,456,363
Intersegment sales or transfers	11,757	7,003	18,609	5,591	56	43,016	$ (43,01)	
Total	$ 880,949	$ 309,431	$ 161,606	$ 117,197	$ 30,196	$ 1,499,379	$ (43,01)	$ 1,456,363
Segment profit (loss)	$ 94,287	$ 29,462	$ (6,702)	$ (8,876)	$ (452)	$ 107,719	$ 57	$ 108,293
Segment assets	757,840	286,314	186,399	149,699	32,973	1,413,225	(3,16)	1,410,062
Segment liabilities	371,847	57,078	129,923	24,925	16,020	599,793	(30,69)	569,098
Other:								
Depreciation	43,195	24,887	10,429	6,655	1,986	87,152	(22)	86,926
Amortization of goodwill								
Investment associated company under equity method	35,617					35,617		35,617
Increase in property, plant and equipment and intangible assets	52,805	15,239	9,639	2,786	1,167	81,636	70	82,342

Note: Reconciliation of segment assets of ¥336 million ($3,163 thousand) and ¥1,096 million for the years ended March 31, 2018 and 2017, respectively, was mainly composed of offsetting of the receivables and the payables, investment account, and the capital account.

Reconciliation of segment liabilities of ¥3,261 million ($30,695 thousand) and ¥4,126 million for the years ended March 31, 2018 and 2017, respectively, was mainly composed of offsetting of the receivables and the payables.

(4) Information about Products and Services

	Millions of Yen						
	2018						
	Shrink Labels	Other Labels	Self-adhesive (Tack) Labels	Soft Pouches	Machinery	Others	Total
Sales to external customers	¥86,120	¥1,674	¥25,472	¥16,773	¥12,104	¥12,581	¥154,724

	Millions of Yen						
	2017						
	Shrink Labels	Other Labels	Self-adhesive (Tack) Labels	Soft Pouches	Machinery	Others	Total
Sales to external customers	¥79,972	¥1,485	¥23,450	¥14,286	¥10,953	¥11,831	¥141,977

	Thousands of U.S. Dollars						
	2018						
	Shrink Labels	Other Labels	Self-adhesive (Tack) Labels	Soft Pouches	Machinery	Others	Total
Sales to external customers	$810,617	$15,757	$239,759	$157,878	$113,931	$118,421	$1,456,363

(5) Information about Geographical Areas

a. Sales

Millions of Yen				
2018				
Japan	Americas	Europe	Others	Total
¥91,659	¥32,175	¥26,889	¥4,001	¥154,724

Millions of Yen				
2017				
Japan	Americas	Europe	Others	Total
¥85,569	¥28,904	¥24,207	¥3,297	¥141,977

Thousands of U.S. Dollars				
2018				
Japan	Americas	Europe	Others	Total
$862,754	$302,852	$253,097	$37,660	$1,456,363

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

Americas: USA, Canada, Mexico, Brazil, and other countries
Europe: EU countries and Switzerland
Others: ASEAN countries

b. Property, plant and equipment

Millions of Yen							
2018							
	Americas			Europe			
Japan		United States	Mexico		Poland	Others	Total
¥26,687	¥15,179	¥8,418	¥6,761	¥15,934	¥8,370	¥1,532	¥59,332

Millions of Yen							
2017							
	Americas			Europe			
Japan		United States	Mexico		Poland	Others	Total
¥26,004	¥16,736	¥9,574	¥7,162	¥15,159	¥7,259	¥1,668	¥59,567

Thousands of U.S. Dollars							
2018							
	Americas			Europe			
Japan		United States	Mexico		Poland	Others	Total
$251,195	$142,875	$79,236	$63,639	$149,981	$78,784	$14,420	$558,471

(6) Information about Impairment Losses of Assets

	Millions of Yen						
	2018						
	Japan	Americas	Europe	PAGO	ASEAN	Others	Total
Impairment losses	¥	¥	¥	¥144	¥	¥	¥144

* Impairment losses recognized in PAGO are disclosed as reorganization expenses.

	Millions of Yen						
	2017						
	Japan	Americas	Europe	PAGO	ASEAN	Others	Total
Impairment losses	¥	¥	¥	¥221	¥	¥	¥221

	Thousands of U.S. Dollars						
	2018						
	Japan	Americas	Europe	PAGO	ASEAN	Others	Total
Impairment losses	$	$	$	$1,355	$	$	$1,355

* Impairment losses recognized in PAGO are disclosed as reorganization expenses.

(7) Information about Major Customers

Information about major customers is not disclosed because there is no customer who accounts for 10% or more of total sales to external customers in the consolidated statement of income.

(8) Information about Goodwill

Information about goodwill is not disclosed because there is no amortization of goodwill for the year ended March 31, 2018.

	Millions of Yen						
	2017						
	Japan	Americas	Europe	PAGO	ASEAN	Other	Total
Amortization of goodwill	¥	¥	¥	¥29	¥	¥	¥29
Goodwill at March 31, 2017							

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