Innovation in Motion
TSUBAKI

TSUBAKIMOTO CHAIN CO.
and Consolidated Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended March 31, 2018
with Independent Auditor's Report

Consolidated Balance Sheet

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2018**	2017	**2018**
Current assets:			
Cash and deposits (Notes 5 and 19)	**¥ 29,590**	¥ 26,332	**$ 278,500**
Short-term investments (Notes 5, 6 and 19)	**4,646**	7,965	**43,732**
Trade notes and accounts receivable (Note 5)	**42,586**	41,109	**400,814**
Electronically recorded monetary claims (Notes 5 and 11)	**13,026**	9,651	**122,598**
Inventories (Note 7)	**37,676**	33,875	**354,602**
Deferred tax assets (Note 9)	**2,829**	3,095	**26,632**
Other current assets	**5,024**	3,715	**47,290**
Allowance for doubtful accounts (Note 5)	**(406)**	(344)	**(3,823)**
Total current assets	**134,974**	125,400	**1,270,347**
Property, plant and equipment, at cost:			
Land (Notes 8 and 12)	**37,358**	37,142	**351,608**
Buildings and structures (Notes 8 and 17)	**69,614**	66,462	**655,198**
Machinery, equipment and vehicles (Note 17)	**119,276**	112,040	**1,122,599**
Tools, furniture and fixtures (Note 17)	**26,596**	25,058	**250,320**
Construction in progress	**8,496**	6,270	**79,969**
Subtotal	**261,342**	246,974	**2,459,697**
Less accumulated depreciation	**(148,057)**	(141,539)	**(1,393,478)**
Property, plant and equipment, net (Note 24)	**113,285**	105,435	**1,066,218**
Investments and other assets:			
Investments in securities (Notes 5 and 6)	**26,150**	22,913	**246,122**
Investments in unconsolidated subsidiaries and an affiliate	**3,403**	3,751	**32,034**
Long-term loans receivable	**14**	14	**137**
Deferred tax assets (Note 9)	**1,533**	2,458	**14,436**
Intangible assets	**2,968**	3,841	**27,938**
Other assets	**3,744**	3,525	**35,240**
Allowance for doubtful accounts	**(123)**	(125)	**(1,159)**
Total investments and other assets	**37,692**	36,379	**354,749**
Total assets (Note 24)	**¥ 285,952**	¥ 267,215	**$ 2,691,316**

See accompanying notes to consolidated financial statements.

Liabilities and net assets	2018 (Millions of yen)	2017 (Millions of yen)	2018 (Thousands of U.S. dollars (Note 1))
Current liabilities:			
Short-term loans (Notes 5 and 8)	¥ 11,216	¥ 9,953	$ 105,565
Current portion of long-term debt and finance lease obligations (Notes 5 and 8)	154	10,373	1,449
Trade notes and accounts payable (Note 5)	23,227	23,701	218,615
Electronically recorded obligations (Note 5)	10,921	651	102,792
Income taxes payable (Note 9)	3,239	2,631	30,490
Accrued bonuses to employees	4,082	3,965	38,425
Accrued expenses	3,574	3,117	33,643
Provision for loss on construction contracts (Note 14)	51	89	484
Other current liabilities	14,328	12,073	134,855
Total current liabilities	70,796	66,558	666,321
Long-term liabilities:			
Long-term debt and finance lease obligations (Notes 5 and 8)	15,402	14,519	144,962
Long-term accounts payable	54	33	511
Liability for retirement benefits (Note 10)	13,621	13,395	128,198
Provision for retirement benefits for directors and Audit & Supervisory Board members	101	106	952
Deferred tax liabilities (Note 9)	9,868	10,173	92,884
Deferred tax liabilities on land revaluation (Note 12)	5,001	5,001	47,071
Asset retirement obligations	425	415	4,006
Other long-term liabilities	915	793	8,616
Total long-term liabilities	45,390	44,439	427,205
Contingent liabilities (Note 11)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock:			
Authorized —299,000,000 shares in 2018 and 2017			
Issued —191,406,969 shares in 2018 and 2017	17,076	17,076	160,721
Capital surplus	13,559	12,661	127,617
Retained earnings (Note 25)	133,394	123,063	1,255,479
Treasury stock, at cost:			
2,139,235 shares in 2018 and 4,345,450 shares in 2017	(1,032)	(2,086)	(9,719)
Total shareholders' equity	162,998	150,715	1,534,099
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 6)	12,168	9,694	114,522
Net unrealized deferred gain on derivative instruments (Note 21)	47	21	442
Net unrealized loss on land revaluation (Note 12)	(10,614)	(10,614)	(99,899)
Translation adjustments	4,234	3,709	39,851
Retirement benefits liability adjustments (Note 10)	(916)	(1,053)	(8,624)
Total accumulated other comprehensive income	4,918	1,758	46,292
Non-controlling interests	1,848	3,744	17,396
Total net assets	169,765	156,218	1,597,789
Total liabilities and net assets	¥285,952	¥267,215	$2,691,316

Consolidated Statement of Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net sales (Note 24)	**¥215,716**	¥198,762	**$2,030,273**
Cost of sales (Notes 14 and 15)	**152,629**	138,191	**1,436,511**
Gross profit	**63,087**	60,571	**593,762**
Selling, general and administrative expenses (Note 15)	**42,392**	38,924	**398,987**
Operating income (Note 24)	**20,694**	21,647	**194,774**
Other income (expenses):			
Interest and dividend income	**899**	770	**8,469**
Interest expense	**(267)**	(284)	**(2,519)**
Equity in earnings of an affiliate	**5**	17	**53**
Foreign exchange gain (loss), net	**51**	(261)	**489**
Gain on sales of investments in securities (Note 6)	**0**	10	**0**
Loss on sales or disposal of property, plant and equipment, net	**(92)**	(73)	**(871)**
Loss on impairment of property, plant and equipment (Notes 16 and 24)	**—**	(28)	**—**
Loss on devaluation of investments in unconsolidated subsidiaries (Note 5)	**(281)**	(101)	**(2,649)**
Restructuring (Note 17)	**(297)**	(219)	**(2,802)**
Other, net	**451**	99	**4,252**
Profit before income taxes	**21,164**	21,575	**199,196**
Income taxes (Note 9):			
Current	**6,612**	6,698	**62,235**
Deferred	**(189)**	23	**(1,787)**
	6,422	6,721	**60,448**
Profit	**14,741**	14,854	**138,748**
Profit attributable to:			
Non-controlling interests	**75**	257	**711**
Owners of parent (Note 22)	**¥ 14,666**	¥ 14,596	**$ 138,036**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Profit	**¥14,741**	¥14,854	**$138,748**
Other comprehensive income (loss):			
Net unrealized holding gain on securities	**2,473**	2,105	**23,279**
Net unrealized deferred gain (loss) on derivative instruments	**25**	(33)	**240**
Translation adjustments	**569**	(2,601)	**5,359**
Retirement benefits liability adjustments	**136**	176	**1,287**
Share of other comprehensive income (loss) of an affiliate accounted for by the equity method	**10**	(34)	**99**
Total other comprehensive income (loss), net (Note 18)	**3,215**	(386)	**30,267**
Comprehensive income	**¥17,957**	¥14,467	**$169,015**
Comprehensive income attributable to:			
Owners of parent	**¥17,827**	¥14,369	**$167,783**
Non-controlling interests	**130**	97	**1,231**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2018

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized deferred gain on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥17,076	¥12,658	¥112,421	¥(2,074)	¥ 7,602	¥ 54	¥(10,614)	¥ 6,171	¥(1,229)	¥ 3,774	¥145,841
Cash dividends paid	—	—	(3,928)	—	—	—	—	—	—	—	(3,928)
Profit attributable to owners of parent for the year	—	—	14,596	—	—	—	—	—	—	—	14,596
Purchases of treasury stock	—	—	—	(12)	—	—	—	—	—	—	(12)
Decrease resulting from initial consolidation of subsidiaries	—	—	(22)	—	—	—	—	—	—	—	(22)
Transfer to capital surplus from retained earnings	—	3	(3)	—	—	—	—	—	—	—	—
Other net changes during the year	—	—	—	—	2,091	(33)	—	(2,462)	176	(29)	(256)
Balance at April 1, 2017	**¥17,076**	**¥12,661**	**¥123,063**	**¥(2,086)**	**¥ 9,694**	**¥ 21**	**¥(10,614)**	**¥ 3,709**	**¥(1,053)**	**¥ 3,744**	**¥156,218**
Cash dividends paid	—	—	**(4,544)**	—	—	—	—	—	—	—	**(4,544)**
Profit attributable to owners of parent for the year	—	—	**14,666**	—	—	—	—	—	—	—	**14,666**
Purchases of treasury stock	—	—	—	**(11)**	—	—	—	—	—	—	**(11)**
Disposal of treasury stock	—	**0**	—	**0**	—	—	—	—	—	—	**0**
Increase resulting from share exchange	—	**993**	—	**1,064**	—	—	—	—	—	—	**2,058**
Increase resulting from initial consolidation of subsidiary	—	—	**209**	—	—	—	—	—	—	—	**209**
Changes by purchase of shares of consolidated subsidiaries	—	**(96)**	—	—	—	—	—	—	—	—	**(96)**
Other net changes during the year	—	—	—	—	**2,473**	**25**	—	**524**	**136**	**(1,895)**	**1,264**
Balance at March 31, 2018	**¥17,076**	**¥13,559**	**¥133,394**	**¥(1,032)**	**¥12,168**	**¥ 47**	**¥(10,614)**	**¥ 4,234**	**¥ (916)**	**¥ 1,848**	**¥169,765**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized deferred gain on derivative instruments	Net unrealized loss on land revaluation	Translation adjustments	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2017	**$160,721**	**$119,171**	**$1,158,246**	**$(19,638)**	**$ 91,243**	**$201**	**$(99,899)**	**$34,912**	**$(9,911)**	**$ 35,240**	**$1,470,288**
Cash dividends paid	—	—	**(42,773)**	—	—	—	—	—	—	—	**(42,773)**
Profit attributable to owners of parent for the year	—	—	**138,036**	—	—	—	—	—	—	—	**138,036**
Purchases of treasury stock	—	—	—	**(106)**	—	—	—	—	—	—	**(106)**
Disposal of treasury stock	—	**2**	—	**3**	—	—	—	—	—	—	**5**
Increase resulting from share exchange	—	**9,347**	—	**10,022**	—	—	—	—	—	—	**19,369**
Increase resulting from initial consolidation of subsidiary	—	—	**1,969**	—	—	—	—	—	—	—	**1,969**
Changes by purchase of shares of consolidated subsidiaries	—	**(904)**	—	—	—	—	—	—	—	—	**(904)**
Other net changes during the year	—	—	—	—	**23,279**	**240**	—	**4,939**	**1,287**	**(17,844)**	**11,902**
Balance at March 31, 2018	**$160,721**	**$127,617**	**$1,255,479**	**$ (9,719)**	**$114,522**	**$442**	**$(99,899)**	**$39,851**	**$(8,624)**	**$ 17,396**	**$1,597,789**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Year Ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Profit before income taxes	**¥ 21,164**	¥ 21,575	**$ 199,196**
Adjustments for:			
Depreciation and amortization	**11,005**	10,342	**103,584**
Loss on impairment of property, plant and equipment	**—**	28	**—**
Restructuring loss	**167**	—	**1,575**
Amortization of goodwill	**400**	568	**3,768**
Loss on sales or disposal of property, plant and equipment, net	**92**	73	**871**
Loss on devaluation of investments in unconsolidated subsidiaries	**281**	101	**2,649**
Gain on sales of investments in securities	**(0)**	(9)	**(0)**
Increase (decrease) in allowance for doubtful accounts	**57**	(61)	**536**
Increase in liability for retirement benefits	**398**	248	**3,748**
Increase in trade notes and accounts receivable	**(4,642)**	(2,455)	**(43,690)**
Increase in inventories	**(3,486)**	(1,188)	**(32,817)**
Increase in trade notes and accounts payable	**8,848**	839	**83,276**
Other, net	**(619)**	973	**(5,826)**
Subtotal	**33,667**	31,037	**316,873**
Interest and dividends received	**916**	794	**8,627**
Interest paid	**(262)**	(271)	**(2,469)**
Income taxes paid	**(6,664)**	(6,126)	**(62,722)**
Net cash provided by operating activities	**27,657**	25,434	**260,308**
Cash flows from investing activities:			
(Decrease) increase in time deposits, net	**(1,857)**	1,050	**(17,481)**
Purchases of investments in securities	**(11)**	(229)	**(109)**
Proceeds from sales of investments in securities	**0**	19	**1**
Acquisition of shares of subsidiaries resulting in change in scope of consolidation	**—**	(239)	**—**
Purchases of shares of subsidiaries	**(141)**	—	**(1,336)**
Proceeds from sales of shares of a subsidiary	**—**	18	**—**
Payment for investments in unconsolidated subsidiaries and an affiliate	**—**	(168)	**—**
Decrease in short-term loans receivable, net	**2**	143	**20**
(Increase) decrease in long-term loans receivable, net	**(0)**	1	**(5)**
Purchases of property, plant and equipment	**(15,542)**	(14,151)	**(146,279)**
Proceeds from sales of property, plant and equipment	**167**	135	**1,579**
Payments for asset retirement obligations	**(5)**	—	**(52)**
Net cash used in investing activities	**(17,389)**	(13,420)	**(163,661)**
Cash flows from financing activities:			
Increase in short-term loans, net	**1,042**	913	**9,807**
Proceeds from long-term loans	**1,022**	566	**9,621**
Repayment of long-term loans	**(10,432)**	(1,254)	**(98,186)**
Repayment of finance lease obligations	**(203)**	(231)	**(1,917)**
Payments for installment payables	**—**	(8)	**—**
Cash dividends paid	**(4,544)**	(3,928)	**(42,773)**
Cash dividends paid to non-controlling interests	**(64)**	(127)	**(610)**
Purchases of treasury stock	**(11)**	(12)	**(106)**
Sales of treasury stock	**0**	—	**5**
Net cash used in financing activities	**(13,191)**	(4,084)	**(124,159)**
Effect of exchange rate changes on cash and cash equivalents	**374**	(649)	**3,529**
Net (decrease) increase in cash and cash equivalents	**(2,548)**	7,279	**(23,983)**
Cash and cash equivalents at beginning of the year	**34,142**	26,422	**321,339**
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	**118**	440	**1,119**
Cash and cash equivalents at end of the year (Note 19)	**¥ 31,712**	¥ 34,142	**$ 298,475**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2018

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan. In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥106.25 = U.S. $1.00, the exchange rate prevailing on March 31, 2018. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements both in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions have been eliminated in consolidation.

The balance sheet dates of certain consolidated subsidiaries are December 31 or January 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the periods from January 1 or February 1 through March 31 have been adjusted, if necessary. For one overseas consolidated subsidiary whose fiscal year-end is December 31, for consolidation purposes, the financial statements are prepared as of and for the year ended March 31.

The number of consolidated subsidiaries and an affiliate accounted for by the equity method for the years ended March 31, 2018 and 2017 is summarized below:

	2018	2017
Domestic subsidiaries	**8**	9
Overseas subsidiaries	**51**	51
Overseas affiliate	**1**	1

(b) Cash and cash equivalents

For the preparation of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(c) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(d) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

All securities held by the Company and its consolidated subsidiaries are classified as "other securities" and have been accounted for as outlined above.

(e) Derivatives and hedging activities

Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt ("special treatment"). Receivables, payables and loans hedged by forward foreign exchange contracts which meet certain conditions are accounted for by the allocation method. Under the allocation method, such receivables, payables and loans denominated in foreign currencies are translated at the corresponding contract rates.

The hedge effectiveness of derivative transactions is assessed by comparing the cumulative changes in cash flows or fair values of the underlying hedged items with those of the hedging instruments in the period from the start of the hedging relationship to the assessment date. However, an assessment of hedge effectiveness is omitted for forward foreign exchange contracts meeting certain conditions for applying the allocation method and interest-rate swaps meeting certain conditions for applying the special treatment.

(f) Inventories

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method, the individual identification method or the moving average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market.

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

Property, plant and equipment are stated at cost. The Company and its domestic consolidated subsidiaries mainly calculate depreciation by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings (other than structures attached to the buildings) and structures attached to buildings and other structures acquired on or after April 1, 2017. The foreign consolidated subsidiaries mainly calculated depreciation by the straight-line method over the estimated useful lives of the respective assets.

The principal estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 13 years

(h) Goodwill

Goodwill is amortized primarily over a period of 5 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leases

For lease transactions involving the transfer of ownership, leased assets are depreciated by the same depreciation method applied to property, plant and equipment owned by the lessee.

For lease transactions not involving the transfer of ownership, leased assets are depreciated over their lease term using the straight-line method with a residual value of zero.

(j) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which are charged to income in the current year.

(l) Provision for retirement benefits for directors and Audit & Supervisory Board members

Directors and Audit & Supervisory Board members of domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. Provision for retirement benefits for directors and Audit & Supervisory Board members have been made at an estimated amount based on the internal rules.

(m) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for anticipated future losses on outstanding projects if such future loss on construction projects is anticipated at the year end and the loss amount can be reasonably estimated.

(n) Retirement benefits to employees

The liability for retirement benefits to employees is recorded based on the retirement benefit obligation less the fair value of the pension plan assets. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period which is shorter than the average estimated remaining years of service of the eligible employees (10 years).

As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by the simplified method. Under the simplified method, the retirement benefit obligation for employees is stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet dates.

(o) Recognition of contract revenue and cost

The Company and its consolidated subsidiaries recognize revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company and its consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

(p) Intangible assets and research and development costs

Amortization of intangible assets other than software capitalized is calculated by the straight-line method over the estimated useful lives of the respective assets.

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

(q) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests, net unrealized holding gain on securities, and net unrealized deferred gain on derivative instruments are translated at their historical exchange rates. Revenue and expense accounts of the overseas consolidated subsidiaries are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of profit but are reported as “Translation adjustments” as a component of accumulated other comprehensive income (loss) and as “Non-controlling interests” in the accompanying consolidated balance sheets.

(r) Distribution of retained earnings

Under the Companies Act of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such distributions. Please refer to “Distribution of retained earnings” in Note 25.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

(1) Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets

On February 16, 2018, the Accounting Standards Board of Japan (hereinafter referred to as the “ASBJ”) issued “Revised Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28) and “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26).

(a) Overview

The accounting treatment of taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was revised and the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as (Category 1) was clarified.

(b) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2019.

(c) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of the revised implementation guidance on its consolidated financial statements.

(2) Accounting Standard and Implementation Guidance for Revenue Recognition

On March 30, 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(a) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue recognition.

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

(b) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

4. SUPPLEMENTAL INFORMATION

Change in share trading unit size and share consolidation

The Company, at the Board of Directors meeting held on March 22, 2018, resolved to partially amend the Company's Articles of Incorporation, changing the share trading unit size pursuant to the provision of Paragraph 1, Article 195 of the Companies Act of Japan, in addition to resolving to submit a proposal concerning a share consolidation to the 109th Ordinary General Meeting of Shareholders (hereafter referred to as the "Ordinary General Meeting of Shareholders") held in June 28, 2018.

Additionally, the proposal concerning the share consolidation was subsequently approved by the Ordinary General Meeting of Shareholders.

The details of the proposal are as follows:

1. Purpose of the change in share trading unit size and share consolidation

Stock exchanges nationwide have been encouraging domestic listed companies to transition to a standard trading unit of 100 shares for the purpose of improving market convenience for investors and other market participants as per the "Action Plan for Consolidating Trading Units."

Considering the purpose of this action plan, the Company has decided to change its share trading unit size from 1,000 shares to 100 shares.

2. Details of the share consolidation

(1) Class of shares to be consolidated

Common stock

(2) Method and ratio of the share consolidation

Shares of the Company's common stock will be consolidated on a one-for-five basis on October 1, 2018 based on the number of shares owned by shareholders who are registered in the final register of shareholders as of September 30, 2018 (effectively September 28, 2018.)

(3) Total number of authorized shares after the share consolidation

59,800,000 shares (299,000,000 shares before the consolidation)

Pursuant to the provisions of Paragraph 2, Article 182 of the Companies Act of Japan, the total number of authorized shares stipulated in the Articles of Incorporation shall be deemed to be amended as stated above on the effective date of the share consolidation (October 1, 2018.)

(4) Decrease in number of shares due to the share consolidation

Number of issued shares before the share consolidation (as of March 31, 2018)	191,406,969 shares
Decrease in number of shares due to the share consolidation	153,125,576 shares
Number of issued shares after the share consolidation	38,281,393 shares

Note: "Decrease in number of shares due to the share consolidation" and "Number of issued shares before the share consolidation" are theoretical numbers calculated based on the number of issued shares before the consolidation and the share consolidation ratio.

(5) Treatment of any fractional amounts less than one share

For any fractional amounts of less than one share that may result from the share consolidation, pursuant to Article 235 of the Companies Act of Japan, the Company will sell fractional shares collectively and distribute the proceeds to the shareholders on a pro rata basis.

3. Schedule of share consolidation and change in number of shares per unit

March 22, 2018	Date of the Resolution Board of Directors
June 28, 2018	Date of the Approval by the Ordinary General Meeting of Shareholders
October 1, 2018	Date on which the change in share trading unit size, the share consolidation and amendment of the Articles of Incorporation are effective

4. Impact on per share information

Assuming the share consolidation was executed at the beginning of fiscal year ended March 31, 2017, per share information as of and for the years ended March 31, 2018 and 2017 is as follows:

	Yen		U.S. dollars
	2018	2017	**2018**
Net assets per share	**¥4,435.96**	¥4,075.50	**$41.75**
Profit attributable to owners of parent per share	**387.44**	390.13	**3.65**

5. FINANCIAL INSTRUMENTS

(1) Overview

(a) Policies for financial instruments

The Company and its consolidated subsidiaries obtain necessary funding principally by bank borrowings and bonds issuance. Temporary surplus funds are managed through low-risk financial assets. Derivatives are utilized for mitigating fluctuation risks of foreign currency exchange rates or interest rates, and not utilized for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables, notes, accounts receivable and electronically recorded monetary claims, are exposed to the credit risk of customers. The Company and its consolidated subsidiaries conduct their business globally and the trade receivables denominated in foreign currencies incurred from export transactions are exposed to the fluctuation risk of foreign currencies. This risk is mitigated by utilizing forward foreign exchange contracts.

Securities are mainly composed of stocks of the companies with which the Group has business relationships or capital alliances and they are exposed to fluctuation risk of market prices.

Almost all trade payables, notes, accounts payable and electronically recorded obligations, are due within one year. Certain trade payables resulting from import transactions, are denominated in foreign currencies and the Company and its consolidated subsidiaries utilize forward foreign exchange contracts, as with trade receivables. Loans and bonds are utilized for necessary financing of operating funds and capital expenditures. Certain portions of loans are exposed to the fluctuation risks of foreign currency exchange rates and interest rates because of borrowings in foreign currency and floating interest rates and these risks are hedged by utilizing derivative transactions (interest-rate swap agreements and currency swap agreements).

Derivative transactions are entered into to hedge the foreign currency fluctuation risk of trade receivables, trade payables and debt securities denominated in foreign currencies by utilizing forward foreign exchange contracts, and to hedge interest rate fluctuation risks and foreign currency fluctuation risks of certain loans by utilizing interest-rate swap agreements and currency swap agreements. Refer to “Derivatives and hedging activities” in Note 2 “Summary of Significant Accounting Policies” and Note 21 “Derivatives and Hedging Activities” for information on hedge accounting, such as hedging instruments and hedged items.

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with internal rules of credit management of the Company, each business department manages the collection due dates and receivable balances of its customers, periodically monitors the financial conditions of customers and tries to identify credit risk of customers with worsening financial conditions at the early stage to mitigate any risk. Consolidated subsidiaries perform similar credit management.

The Company and certain consolidated subsidiaries enter into derivative transactions with financial institutions with high credit ratings to mitigate the risk of credit loss in the event of nonperformance by the counterparties.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates and interest rates)

The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts for hedging currency fluctuation risk arising from trade receivables, trade payables and debt securities denominated in foreign currencies. The Company also utilizes interest-rate swap agreements and currency swap agreements to mitigate interest rate risk and foreign currency exchange risk on debt denominated in foreign currencies.

The Company and its consolidated subsidiaries continuously review securities holdings by monitoring periodically the market value and financial condition of the securities’ issuers (companies with business relationships or business alliances with the Company and its consolidated subsidiaries) and by evaluating those relationships.

Each business department determines the amount of each forward foreign exchange contract within the actual underlying transaction amount, and the responsible finance department enters into and manages these forward foreign exchange contracts. The finance department enters into and manages interest-rate swap agreements and currency swap agreements in the course of undertaking borrowing contracts.

(iii) Monitoring of liquidity risk (the risk that the Company and its consolidated subsidiaries may not be able to meet its obligations on scheduled due dates)

The Company and its consolidated subsidiaries manage liquidity risk by preparing cash flow plans on a timely basis and so forth.

(iv) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is determined based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 21 do not necessarily indicate the market risk of the derivative transactions.

(2) Fair value of financial instruments

Carrying value, fair value, and the difference related to financial instruments at March 31, 2018 and 2017 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

Millions of yen

	2018			2017		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets:						
Cash and deposits	¥ 29,590	¥ 29,590	¥ —	¥ 26,332	¥ 26,332	¥ —
Trade notes and accounts receivable	42,586	—	—	41,109	—	—
Electronically recorded monetary claims	13,026	—	—	9,651	—	—
Allowance for doubtful accounts*1	(406)	—	—	(344)	—	—
	55,206	55,206	—	50,416	50,416	—
Short-term investments and investments in securities	30,440	30,440	—	30,522	30,522	—
Total assets	¥115,237	¥115,237	¥ —	¥107,271	¥107,271	¥ —
Liabilities:						
Trade notes and accounts payable	¥ 23,227	¥ 23,227	¥ —	¥ 24,811	¥ 24,811	¥ —
Electronically recorded obligations	13,751	13,751	—	651	651	—
Short-term loans	11,216	11,216	—	9,953	9,953	—
Long-term debt*2	15,365	15,479	(114)	24,681	24,878	(196)
Total liabilities	¥ 63,561	¥ 63,675	¥(114)	¥ 60,096	¥ 60,293	¥(196)
Derivatives, net*3	¥ 128	¥ 128	¥ —	¥ (296)	¥ (296)	¥ —

Thousands of U.S. dollars

	2018		
	Carrying value	Fair value	Difference
Assets:			
Cash and deposits	$ 278,500	$ 278,500	$ —
Trade notes and accounts receivable	400,814	—	—
Electronically recorded monetary claims	122,598	—	—
Allowance for doubtful accounts*1	(3,823)	—	—
	519,589	519,589	—
Short-term investments and investments in securities	286,503	286,503	—
Total assets	$1,084,592	$1,084,592	$ —
Liabilities:			
Trade notes and accounts payable	$ 218,615	$ 218,615	$ —
Electronically recorded obligations	129,428	129,428	—
Short-term loans	105,565	105,565	—
Long-term debt*2	144,613	145,687	(1,074)
Total liabilities	$ 598,222	$ 599,296	$(1,074)
Derivatives, net*3	$ 1,211	$ 1,211	$ —

*1 Allowance for doubtful accounts on specific bad debts is deducted from "Trade notes, accounts receivable" and "Electronically recorded monetary claims."
*2 Long-term debt includes the current portion of long-term debt.
*3 Assets and liabilities arising from derivatives are shown at net value, and the amount in parentheses represents a net liability position.

Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions

Assets

Cash and deposits, trade notes and accounts receivable, electronically recorded monetary claims

Since these items are settled in a short time period, their carrying value approximates fair value.

Short-term investments and investments in securities

The fair value of equity securities is based on their quoted market price. Since certificates of deposit are settled in a short time period, their carrying value approximates fair value.

For information on securities classified by holding purpose, please refer to Note 6 "Short-Term Investments and Investments in Securities" of the notes to the consolidated financial statements.

Liabilities

Trade notes and accounts payable, electronically recorded obligations, short-term loans

Since these items are settled in a short time period, their carrying value approximates fair value.

Long-term debt

The fair value of long-term loans is based on the present value of the total principal and interest discounted by the estimated interest rates to be applied if similar new loans are made.

A long-term loan with a floating interest rate is hedged by interest-rate swap agreements and accounted for as a loan with a fixed interest rate. The fair value of this long-term loan hedged by interest-rate swap agreements is based on the present value of the total principal, interest and cash flows of interest-rate swap agreements discounted by the reasonably estimated interest rate to be applied if a similar new loan was made.

The fair value of bonds payable is based on present value of the total of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and current credit risk.

Derivative transactions

Please refer to Note 21 "Derivatives and Hedging Activities."

The amounts of financial instruments for which it is extremely difficult to determine the fair value are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unlisted securities	**¥1,711**	¥1,771	**$16,106**

Because no quoted market price is available and it is extremely difficult to determine the fair value, these amounts are not included in the preceding table related to carrying value and fair value of financial instruments.

Losses on devaluation of investments in unconsolidated subsidiaries for the years ended March 31, 2018 and 2017 amounted to ¥281 million ($2,649 thousand) and ¥101 million, respectively.

The redemption schedule for monetary assets and securities with maturities subsequent to March 31, 2018 and 2017 are as follows:

	Millions of yen			
	2018			
	Due within one year	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and deposits	**¥29,547**	**¥—**	**¥—**	**¥—**
Trade notes and accounts receivable	**42,586**	**—**	**—**	**—**
Electronically recorded monetary claims	**13,026**	**—**	**—**	**—**
Short-term investments and investments in securities:				
Other securities with maturity dates				
Debt securities	**317**	**—**	**—**	**—**
Other	**4,329**	**—**	**—**	**—**
	¥89,806	**¥—**	**¥—**	**¥—**

	Millions of yen			
	2017			
	Due within one year	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and deposits	¥26,298	¥ —	¥—	¥—
Trade notes and accounts receivable	41,109	—	—	—
Electronically recorded monetary claims	9,651	—	—	—
Short-term investments and investments in securities:				
Other securities with maturity dates				
Debt securities	—	335	—	—
Other	7,965	—	—	—
	¥85,025	¥335	¥—	¥—

	Thousands of U.S. dollars			
	2018			
	Due within one year	Due after one year through five years	Due after five years through ten years	Over ten years
Cash and deposits	**$278,091**	**$—**	**$—**	**$—**
Trade notes and accounts receivable	**400,814**	**—**	**—**	**—**
Electronically recorded monetary claims	**122,598**	**—**	**—**	**—**
Short-term investments and investments in securities:				
Other securities with maturity dates				
Debt securities	**2,984**	**—**	**—**	**—**
Other	**40,748**	**—**	**—**	**—**
	$845,237	**$—**	**$—**	**$—**

6. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

(a) Short-term investments and investments in securities with determinable market value classified as other securities at March 31, 2018 and 2017 are summarized as follows:

						Millions of yen
			2018			2017
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥25,722**	**¥ 8,307**	**¥17,414**	¥22,137	¥ 8,296	¥13,841
Subtotal	**25,722**	**8,307**	**17,414**	22,137	8,296	13,841
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**72**	**88**	**(16)**	83	88	(4)
Debt securities	**317**	**320**	**(2)**	335	341	(5)
Other	**4,329**	**4,329**	**—**	7,965	7,965	—
Subtotal	**4,718**	**4,737**	**(19)**	8,385	8,395	(10)
Total	**¥30,440**	**¥13,045**	**¥17,395**	¥30,522	¥16,691	¥13,831

			Thousands of U.S. dollars
			2018
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	**$242,091**	**$ 78,188**	**$163,903**
Subtotal	**242,091**	**78,188**	**163,903**
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	**678**	**832**	**(153)**
Debt securities	**2,984**	**3,012**	**(28)**
Other	**40,748**	**40,748**	**—**
Subtotal	**44,411**	**44,592**	**(181)**
Total	**$286,503**	**$122,781**	**$163,721**

(b) Sales of other securities for the years ended March 31, 2018 and 2017 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	2018	2017	**2018**
Sales	**¥0**	¥19	**$1**
Gross realized gain	**0**	10	**0**
Gross realized loss	**0**	1	**0**

(c) The recording of a loss on devaluation of investments in securities is based on internal rules such as if the fair value at balance sheet date has fallen more than 50% from its carrying value or if fair value at the balance sheet date has continually fallen by more than 30% and less than 50% from its carrying value over the past 2 years.

There were no losses on devaluation of investments in securities for the years ended March 31, 2018 and 2017.

7. INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished goods	¥17,192	¥15,577	$161,809
Work in process	11,207	9,934	105,485
Raw materials and supplies	9,276	8,363	87,307
	¥37,676	¥33,875	$354,602

8. SHORT-TERM LOANS, LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

Short-term loans consisted principally of loans from banks and insurance companies at weighted average interest rates of 1.1% and 0.9% at March 31, 2018 and 2017, respectively.

Long-term debt and finance lease obligations at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans, principally from banks and insurance companies, due through 2023 at an average annual interest rate of 1.8% and 1.5% at March 31, 2018 and 2017, respectively:			
Secured	¥ —	¥ 26	$ —
Unsecured	5,365	14,654	50,495
Straight bonds payable due 2019 at an interest rate of 0.41%	10,000	10,000	94,117
Lease obligations	191	212	1,799
	15,556	24,893	146,412
Less current portion	154	10,373	1,449
Total	¥15,402	¥14,519	$144,962

Other interest-bearing liabilities included in other current liabilities and long-term accounts payable represented installment payables at an average annual interest rate of 2.1% at March 31, 2017.

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2018 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 154	$ 1,449
2020	10,045	94,546
2021	3,714	34,955
2022	893	8,411
2023	339	3,193
2024 and thereafter	409	3,856
Total	¥15,556	$146,412

Assets pledged as collateral for short-term loans of ¥65 million ($611 thousand) and ¥120 million, the current portion of long-term debt of nil and ¥26 million at March 31, 2018 and 2017, respectively, were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	¥ 483	¥ 486	$ 4,551
Land	1,242	1,242	11,692
	¥1,726	¥1,728	$16,244

The Company has concluded line-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lines of credit	¥15,000	¥15,000	$141,176
Credit utilized	—	—	—
Available credit	¥15,000	¥15,000	$141,176

9. INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017.

Disclosure of a reconciliation between the statutory and effective tax rates for the years ended March 31, 2018 and 2017 has been omitted as such difference was immaterial.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Liability for retirement benefits	**¥ 4,035**	¥ 3,995	**$ 37,982**
Accrued bonuses	**938**	917	**8,830**
Inventories	**644**	547	**6,070**
Loss on impairment	**526**	418	**4,957**
Other	**5,291**	6,091	**49,806**
Gross deferred tax assets	**11,437**	11,969	**107,647**
Less: valuation allowance	**(1,570)**	(1,601)	**(14,778)**
Total deferred tax assets	**9,867**	10,368	**92,869**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(5,205)**	(4,112)	**(48,991)**
Deferred gain on replacement of property	**(4,038)**	(4,046)	**(38,005)**
Undistributed earnings of overseas subsidiaries	**(2,405)**	(2,103)	**(22,636)**
Net unrealized gain on revaluation of assets and liabilities of subsidiaries	**(1,798)**	(2,183)	**(16,924)**
Other	**(1,926)**	(2,542)	**(18,127)**
Total deferred tax liabilities	**(15,372)**	(14,988)	**(144,685)**
Net deferred tax liabilities	**¥ (5,505)**	¥ (4,620)	**$ (51,815)**

Change in deferred tax assets and deferred tax liabilities due to reduction in corporate income tax rate

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States. Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.

The effect of this change in tax rate for the year ended March 31, 2018 was immaterial.

10. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain consolidated overseas subsidiaries also have defined benefit pension plans and defined contribution pension plans.

As permitted under the accounting standard for retirement benefits, certain domestic consolidated subsidiaries calculate their retirement benefit obligation for their employees by the simplified method.

The changes in the retirement benefit obligation for the years ended March 31, 2018 and 2017 are as follows (excluding the retirement benefit obligation calculated by the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥13,320**	¥13,439	**$125,372**
Service cost	**676**	683	**6,370**
Interest cost	**42**	42	**398**
Actuarial loss	**67**	7	**636**
Retirement benefits paid	**(516)**	(742)	**(4,865)**
Prior service cost	**0**	(47)	**0**
Other	**108**	(61)	**1,019**
Balance at the end of the year	**¥13,699**	¥13,320	**$128,933**

The changes in plan assets for the years ended March 31, 2018 and 2017 are as follows (excluding the retirement benefit obligation calculated by the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥1,244**	¥1,243	**$11,716**
Expected return on plan assets	**25**	22	**241**
Actuarial gain (loss)	**34**	(40)	**327**
Contributions by the Group	**106**	109	**1,002**
Retirement benefit paid	**(53)**	(57)	**(503)**
Other	**52**	(32)	**490**
Balance at the end of the year	**¥1,410**	¥1,244	**$13,275**

The changes in the liability for retirement benefits calculated by the simplified method for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥1,319**	¥1,237	**$12,417**
Retirement benefit expenses	**115**	141	**1,087**
Retirement benefits paid	**(73)**	(41)	**(694)**
Contributions to the plans	**(28)**	(28)	**(270)**
Other	**—**	10	**—**
Balance at the end of the year	**¥1,332**	¥1,319	**$12,541**

A reconciliation of the ending balance of retirement benefit obligation and plan assets and liability for retirement benefits recorded in the consolidated balance sheets at March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Funded retirement benefit obligation	**¥ 1,916**	¥ 1,810	**$ 18,042**
Plan assets at fair value	**(1,744)**	(1,571)	**(16,418)**
	172	239	**1,624**
Unfunded retirement benefit obligation	**13,448**	13,155	**126,574**
Net liability for retirement benefits in the balance sheet	**13,621**	13,395	**128,198**
Liability for retirement benefit obligation	**13,621**	13,395	**128,198**
Net liability for retirement benefits in the balance sheet	**¥13,621**	¥13,395	**$128,198**

The above table includes retirement benefit obligations calculated by the simplified method.

The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥ 676**	¥ 683	**$ 6,370**
Interest cost	**42**	42	**398**
Expected return on plan assets	**(25)**	(22)	**(241)**
Amortization of unrecognized actuarial loss	**229**	302	**2,164**
Amortization of unrecognized prior service cost	**0**	(47)	**0**
Retirement benefit expense calculated by the simplified method	**115**	141	**1,087**
Other	**72**	3	**677**
Retirement benefit expenses	**¥1,111**	¥1,103	**$10,457**

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Actuarial loss	**¥197**	¥254	**$1,855**

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized actuarial loss	**¥1,320**	¥1,517	**$12,428**

The composition of plan assets by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 is as follows:

	2018	2017
Debt securities	**12%**	13%
Equity securities	**8%**	9%
General accounts at life insurance companies	**33%**	35%
Other	**47%**	43%
Total	**100%**	100%

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rates	**Principally 0.10%**	Principally 0.10%
Expected rate of return on plan assets	**Principally 2.0%**	Principally 2.0%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and expected rate of return from multiple plan assets at present and in the future.

Total contributions required to be paid by the Company and its consolidated subsidiaries to the defined contribution pension plans amounted to ¥1,077 million ($10,137 thousand) and ¥666 million for the years ended March 31, 2018 and 2017, respectively.

11. CONTINGENT LIABILITIES

At March 31, 2018 and 2017, the Company and its consolidated subsidiaries were contingently liable for the following items:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Notes receivable discounted	**¥ 34**	¥ 15	**$ 321**
Electronically recorded monetary claims discounted	**7**	13	**74**
Guarantees of loans made by employees	**28**	37	**270**
Guarantees of loans made by an unconsolidated subsidiaries	**442**	132	**4,166**

12. NET UNREALIZED LOSS ON LAND REVALUATION

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the “Law on Land Revaluation.” Differences on land revaluation have been accounted for as “Net unrealized loss on land revaluation” under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the “Enforcement Act Concerning Land Revaluation.” The carrying value of this land exceeded its corresponding fair value by ¥11,000 million ($103,529 thousand) and ¥12,000 million at March 31, 2018 and 2017, respectively.

13. SHAREHOLDERS' EQUITY

The Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The Company's legal reserve amounted to ¥3,376 million ($31,781 thousand) at March 31, 2018 and 2017.

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2018 and 2017 are summarized as follows:

				Number of shares
				2018
	April 1, 2017	Increase	Decrease	March 31, 2018
Issued shares of common stock	**191,406,969**	**—**	**—**	**191,406,969**
Treasury stock	**4,345,450**	**12,165**	**2,218,380**	**2,139,235**

				Number of shares
				2017
	April 1, 2016	Increase	Decrease	March 31, 2017
Issued shares of common stock	191,406,969	—	—	191,406,969
Treasury stock	4,330,756	14,694	—	4,345,450

Increase in the number of shares of treasury stock was due to purchases of fractional shares of less than one unit. Decrease in the number of shares of treasury stock was due to assignment of treasury stock by share exchange 2,217,700 and sales of fractional shares of less than one unit 680.

14. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

Reversal of and provision for loss on construction contracts included in cost of sales for the years ended March 31, 2018 and 2017 amounted to ¥(37) million ($460 thousand) and ¥58 million, respectively.

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2018 and 2017 amounted to ¥4,495 million ($42,307 thousand) and ¥4,341 million, respectively.

16. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The amount of loss on impairment of property, plant and equipment was included in restructuring loss in the consolidated statement of income for the year ended March 31, 2018.

The amount of loss on impairment of property, plant and equipment for the year ended March 31, 2017 has been omitted as such amount was immaterial.

17. LOSS ON BUSINESS RESTRUCTURING

Restructuring loss consisted of factory restructuring expenses of the Company for the year ended March 31, 2018.

Major factors of the restructuring loss are loss on impairment of property, plant and equipment, dismantling costs and others.

Among them, information on loss on impairment of property, plant and equipment is as follows:

(1) Description of the impaired asset group

Location	Use	Classification
Saitama Prefecture, Japan	Manufacturing facilities for transportation equipment	Buildings and others

(2) Reason to recognize the impairment loss

Due to the decision to dismantle the materials handling systems buildings and structures along with the Company's factory restructuring, the book values of the assets were written down to their respective recoverable amounts.

(3) Impairment loss amount and the breakdown

Classification	Millions of yen 2018	Thousands of U.S. dollars 2018
Buildings and structures	¥114	$1,081
Machinery, equipment and vehicles	52	493
Tools, furniture and fixtures	0	0
	¥167	$1,575

(4) Method of asset grouping

Assets are grouped principally by each business or each business location.

(5) Calculation method of recoverable amount

The recoverable amount of the asset group was measured by value in use. The amount was not discounted as such effect is immaterial due to the short period until dismantlement.

Restructuring loss consisted of factory restructuring expenses of domestic subsidiaries for the year ended March 31, 2017.

18. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 3,564	¥ 3,046	$ 33,548
Reclassification adjustments	—	(10)	—
Before tax effect	3,564	3,036	33,548
Tax effect	(1,091)	(930)	(10,268)
Net unrealized holding gain on securities	2,473	2,105	23,279
Net unrealized deferred (loss) gain on derivative instruments:			
Amount arising during the year	36	(47)	346
Tax effect	(11)	14	(105)
Net unrealized deferred (loss) gain on derivative instruments	25	(33)	240
Translation adjustments:			
Amount arising during the year	569	(2,601)	5,359
Reclassification adjustments	—	—	—
Translation adjustments	569	(2,601)	5,359
Retirement benefits liability adjustments:			
Amount arising during the year	(78)	(26)	(737)
Reclassification adjustments	275	281	2,592
Before tax effect	197	254	1,855
Tax effect	(60)	(77)	(567)
Retirement benefits liability adjustments	136	176	1,287
Share of other comprehensive income (loss) gain of an affiliate accounted for by the equity method:			
Amount arising during the year	10	(34)	99
Reclassification adjustments	—	—	—
Share of other comprehensive income gain (loss) of an affiliate accounted for by the equity method	10	(34)	99
Other comprehensive income (loss)	¥ 3,215	¥ (386)	$ 30,267

19. SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliations of cash and deposits shown in the consolidated balance sheets at March 31, 2018 and 2017 and cash and cash equivalents shown in the consolidated statements of cash flows for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cash and deposits	**¥29,590**	¥26,332	**$278,500**
Time deposits with maturities exceeding three months	**(2,207)**	(155)	**(20,773)**
Short-term investments	**4,329**	7,965	**40,748**
Cash and cash equivalents	**¥31,712**	¥34,142	**$298,475**

20. LEASES

Future minimum lease payments subsequent to March 31, 2018 for non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥215	$2,027
2020 and thereafter	310	2,921
	¥525	$4,948

21. DERIVATIVES AND HEDGING ACTIVITIES

(1) Derivative transactions to which hedge accounting is not applied

(a) Currency related

The notional amounts of forward foreign exchange contracts to which hedge accounting has not been applied, the estimated fair value of the outstanding derivatives positions and unrealized gain (loss) at March 31, 2018 and 2017 are summarized as follows:

		Millions of yen					
		2018			2017		
Classification	Transactions	Notional amount	Estimated fair value*	Unrealized gain (loss)	Notional amount	Estimated fair value*	Unrealized gain (loss)
Over-the-counter transactions	Forward foreign exchange contracts:						
	Sell:						
	U.S. dollars	**¥2,452**	**¥ 94**	**¥ 94**	¥2,826	¥(137)	¥(137)
	Chinese yuan	**1,869**	**(63)**	**(63)**	2,038	(117)	(117)
	Euros	**1,521**	**21**	**21**	1,240	(24)	(24)
	Canadian dollars	**180**	**10**	**10**	177	(4)	(4)
	Australian dollars	**112**	**6**	**6**	210	(16)	(16)
	Buy:						
	Japanese yen	**435**	**(8)**	**(8)**	443	(26)	(26)
	U.S. dollars	**43**	**0**	**0**	19	(0)	(0)
	Canadian dollars	**2**	**(0)**	**(0)**	—	—	—
	Total	**¥6,618**	**¥ 61**	**¥ 61**	¥6,955	¥(327)	¥(327)

Classification	Transactions	Thousands of U.S. dollars 2018 Notional amount	Estimated fair value*	Unrealized gain (loss)
Over-the-counter transactions	Forward foreign exchange contracts:			
	Sell:			
	U.S. dollars	**$23,085**	**$ 886**	**$ 886**
	Chinese yuan	**17,596**	**(596)**	**(596)**
	Euros	**14,316**	**205**	**205**
	Canadian dollars	**1,700**	**100**	**100**
	Australian dollars	**1,056**	**57**	**57**
	Buy:			
	Japanese yen	**4,098**	**(78)**	**(78)**
	U.S. dollars	**412**	**1**	**1**
	Canadian dollars	**23**	**(0)**	**(0)**
	Total	**$62,290**	**$ 574**	**$ 574**

* Estimated fair value is determined mainly based on the prices quoted by financial institutions.

(b) Interest-rate related

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

(2) Derivative transactions to which hedge accounting is applied

(a) Currency related

The notional amounts of forward foreign exchange contracts to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2018 and 2017 are summarized as follows:

			Millions of yen					
			2018			2017		
Method of hedge accounting	Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value*2	Notional amount	Due after one year	Estimated fair value*2
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:							
	Sell:							
	U.S. dollars	Accounts receivable (Forecasted transactions)	**¥2,300**	**¥—**	**¥ 49**	¥2,345	¥ —	¥ 29
	Euros		**1,417**	**—**	**19**	1,106	—	9
	Chinese yuan		**1,215**	**—**	**1**	1,301	—	(10)
	Canadian dollars		**174**	**—**	**6**	142	—	0
	Australian dollars		**163**	**—**	**3**	162	—	(2)
	Thai Baht	Accounts receivable–other (Forecasted transactions)	**1,325**	**—**	**(27)**	—	—	—
	Total		**¥6,597**	**¥—**	**¥ 53**	¥5,057	¥ —	¥ 28
	Buy:							
	U.S. dollars	Accounts payable (Forecasted transactions)	**¥ —**	**¥—**	**¥ —**	¥ 52	¥ —	¥ 0
	Total		**¥ —**	**¥—**	**¥ —**	¥ 52	¥ —	¥ 0
Principle method for forward foreign exchange contracts	Forward foreign exchange contracts:							
	Sell:							
	U.S. dollars	Foreign currency bond	**¥ 328**	**¥—**	**¥ 13**	¥ 328	¥328	¥ 1

Method of hedge accounting	Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value*2
			Thousands of U.S. dollars		
			2018		
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:				
	Sell:				
	U.S. dollars	Accounts receivable (Forecasted transactions)	$21,655	$—	$ 470
	Euros		13,345	—	180
	Chinese yuan		11,438	—	17
	Canadian dollars		1,643	—	59
	Australian dollars		1,542	—	36
	Thai Baht	Accounts receivable–other (Forecasted transactions)	12,472	—	(256)
	Total		$62,097	$—	$ 507
	Buy:				
	U.S. dollars	Accounts payable (Forecasted transactions)	$ —	$—	$ —
	Total		$ —	$—	$ —
Principle method for forward foreign exchange contracts	Forward foreign exchange contracts:				
	Sell:				
	U.S. dollars	Foreign currency bond	$ 3,088	$—	$ 128

*1 For forward foreign exchange contracts, other than those corresponding to the forecasted transactions above, accounted for by the allocation method (refer to Note 2(e)), their fair value is included in that of the accounts receivable or payable and is disclosed in Note 5 "Financial Instruments."
*2 Estimated fair value is determined mainly based on the prices quoted by financial institutions.

(b) Interest-rate and currency related

The notional amounts of currency swap contracts that include interest-rate swaps to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2017 are summarized as follows:

Method of hedge accounting	Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value
					Millions of yen
					2017
Swap rates and currency applied to underlying long-term debt	Currency swap contracts including interest-rate swaps:				
	(Receive/U.S. dollars and pay/Japanese yen, and Receive/ floating and pay/ fixed)	Long-term loans	¥8,200	¥—	*

* Since interest-rate currency swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 5 "Financial Instruments."

There is no currency swap contracts that include interest-rate swaps to which hedge accounting has been applied at March 31, 2018.

(c) Interest-rate related

The notional amounts of interest-rate swaps to which hedge accounting has been applied and the estimated fair value of the outstanding derivatives positions at March 31, 2018 and 2017 are summarized as follows:

			Millions of yen					
			2018			2017		
Method of hedge accounting	Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value	Notional amount	Due after one year	Estimated fair value
Special treatment for interest-rate swaps	Interest-rate swaps:							
	Fixed paid/floating received	Long-term loans	¥ —	¥ —	*1	¥ 670	¥ —	*1
	Fixed paid/fixed received*2	Straight bonds payable	10,000	10,000	*1	10,000	10,000	*1

			Thousands of U.S. dollars		
			2018		
Method of hedge accounting	Transactions	Hedged items	Notional amount	Due after one year	Estimated fair value
Special treatment for interest-rate swaps	Interest-rate swaps:				
	Fixed paid/floating received	Long-term loans	$ —	$ —	*1
	Fixed paid/fixed received*2	Straight bonds payable	94,117	94,117	*1

*1 Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt (refer to Note 2 (e)), their fair value is included in that of the long-term debt disclosed in Note 5 "Financial Instruments."
*2 These derivative transactions are used to hedge the fluctuation risk of interest rates during the transaction period until interest rate on the straight bond payable is determined.

22. AMOUNTS PER SHARE

Amounts per share at March 31, 2018 and 2017 and for the years then ended are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets	¥887.19	¥815.10	$8.35
Profit attributable to owners of parent	77.49	78.03	0.73
Cash dividends	24.00	24.00	0.23

The amounts per share of net assets are computed based on the number of shares of common stock outstanding at each year end.

Profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

Diluted profit attributable to owners of parent per share for the years ended March 31, 2018 and 2017 has not been presented because no potentially dilutive shares of common stock were outstanding.

Information used in the calculation of profit attributable to owners of parent per share is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent	¥14,666	¥14,596	$138,036
Profit attributable to owners of parent not available for distribution to shareholders of common stock	—	—	—
Profit attributable to owners of parent on which profit attributable to owners of parent per share is calculated	¥14,666	¥14,596	$138,036

	Thousands of shares	
	2018	2017
Weighted-average number of shares of common stock on which profit attributable to owners of parent per share is calculated	189,272	187,069

23. BUSINESS COMBINATION

Common Control Transaction

1. Acquired full ownership of a subsidiary through share exchange

(1) Overview of transaction

(a) Company name and business description of acquired company

Acquired company: Tsubaki Yamakyu Chain Co.

Business description: Design, manufacture and sales of a variety of chains, labor-saving devices and automated equipment.

(b) Date of the business combination

April 1, 2017

(c) Legal form of business combination

Share exchange

(d) Company name after business combination

There is no change.

(e) Overview of transaction including purpose of the transaction

The Company decided to make Tsubaki Yamakyu Chain Co. a wholly-owned subsidiary in order to improve the efficiency of Group management and respond swiftly and flexibly to changes in the business environment.

The share exchange makes the Company the wholly-owning parent company and Tsubaki Yamakyu Chain Co. a wholly-owned subsidiary. Pursuant to the share exchange agreement between both companies concluded on February 7, 2017, the share exchange was conducted effective on April 1, 2017.

In accordance with Article 796, Section 2 of the Companies Act of Japan, the Company executed the share exchange without obtaining approval at its general meeting of shareholders.

(2) Outline of accounting treatment

The transaction was treated as a “transaction with non-controlling shareholders,” which falls under the category of “common control transactions” set forth in “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on September 13, 2013) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 issued on September 13, 2013).

(3) Matters related to additional acquisition of shares of the subsidiary

(a) Acquisition cost of the acquired company and details of the type of consideration

Common shares of the Company	¥2,058 million ($19,369 thousand)
Acquisition cost	¥2,058 million ($19,369 thousand)

(b) Share exchange ratio by type of shares, method of calculation and number of shares issued

(i) Share exchange ratio by type of shares

Type of shares: common stock

One share of common stock of Tsubaki Yamakyu Chain Co., in exchange for 1.796 shares of the Company’s common stock. However, the Company did not allot any of its shares for the 1,285,200 shares of Tsubaki Yamakyu Chain Co. already owned by the Company.

(ii) Method of calculation of share exchange ratio

The fair value per share of the Company, as a listed company, was determined based on its average market stock price. The fair value per share of Tsubaki Yamakyu Chain Co., an unlisted company, was determined based on the discounted cash flow method calculated by an independent third-party appraisal agency, MYK Advisory Co., Ltd. The share exchange ratio was based on the combined results of these calculations and discussions between both parties.

(iii) Number of shares issued

2,217,700 shares

(4) Changes in ownership interests due to transaction with non-controlling shareholders

(a) Main reason for change in capital surplus

Additional acquisition of shares in a subsidiary

(b) Decrease in capital surplus due to transaction with non-controlling shareholders

¥96 million ($856 thousand)

2. Merger by absorption of wholly-owned subsidiary

(1) Overview of transaction

(a) Company name and business description of absorbed company

Absorbed company: Tsubaki E&M Co.

Business description: Manufacture and sales of power transmission products (reducers, variable speed drives and related products).

(b) Date of the business combination

October 1, 2017

(c) Legal form of business combination

Absorption-type merger treating the Company as a surviving company and Tsubaki E&M Co. as an absorbed company

(d) Company name after business combination

TSUBAKIMOTO CHAIN CO.

(e) Outline of transaction including purpose of the transaction

The Company decided to merge by absorption its wholly-owned subsidiary, Tsubaki E&M Co. in order to enhance the core technologies of the power transmission units and components business and increase its potential global growth through demonstrating the Group's comprehensive strength.

(2) Outline of accounting treatment

The transaction was treated as a common control transaction set forth in "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on September 13, 2013).

24. SEGMENT INFORMATION

(1) Outline of reportable segment information

The reportable segments of the Company are components for which obtaining separate financial information is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to the reportable segments. The Company classifies its business segments based on products and services. Each business segment determines comprehensive domestic and overseas strategies in addition to pursuing business expansion in its respective product and service area. The reportable segments that comprise the Company's operations are: Chains, Power Transmission Units and Components, Automotive Parts and Materials Handling Systems.

(2) Calculation methods used for sales, operating income or loss, assets and other items of each reportable segment

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 2. Intersegment sales are recorded at the same price used in transactions with third parties.

(3) Information on sales, operating income or loss, assets and other items of each reportable segment

Information by reportable segment for the years ended March 31, 2018 and 2017 is as follows:

Millions of yen

2018

	Reportable Segments								
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Subtotal	Other*1	Total	Adjustments and eliminations*2	Consolidated
Sales, operating income and assets:									
Sales to third parties	¥65,965	¥23,663	¥79,545	¥43,724	¥212,899	¥2,817	¥215,716	¥ —	¥215,716
Intersegment sales and transfers	1,373	493	—	462	2,329	514	2,843	(2,843)	—
Total	¥67,338	¥24,156	¥79,545	¥44,187	¥215,228	¥3,331	¥218,560	¥ (2,843)	¥215,716
Segment profit (loss) (Operating income (loss))	¥ 8,502	¥ 3,060	¥10,258	¥ 416	¥ 22,238	¥ (41)	¥ 22,197	¥ (1,502)	¥ 20,694
Segment assets	73,597	30,061	91,268	43,268	238,195	3,261	241,457	44,495	285,952
Other items:									
Depreciation and amortization	¥ 2,801	¥ 955	¥ 6,108	¥ 1,128	¥ 10,994	¥ 11	¥ 11,005	¥ —	¥ 11,005
Investments in an affiliate accounted for by the equity method	—	—	—	344	344	—	344	—	344
Increase in property, plant and equipment and intangible assets	2,860	1,075	12,022	2,131	18,090	26	18,116	—	18,116

Millions of yen

2017

	Reportable Segments								
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Subtotal	Other*1	Total	Adjustments and eliminations*3	Consolidated
Sales, operating income and assets:									
Sales to third parties	¥59,261	¥21,275	¥75,147	¥40,697	¥196,381	¥2,381	¥198,762	¥ —	¥198,762
Intersegment sales and transfers	1,339	288	—	345	1,973	620	2,594	(2,594)	—
Total	¥60,600	¥21,563	¥75,147	¥41,043	¥198,354	¥3,001	¥201,356	¥(2,594)	¥198,762
Segment profit (loss) (Operating income (loss))	¥ 7,102	¥ 2,218	¥12,385	¥ 706	¥ 22,413	¥ (1)	¥ 22,412	¥ (765)	¥ 21,647
Segment assets	70,831	30,919	80,181	42,954	224,886	2,980	227,866	39,348	267,215
Other items:									
Depreciation and amortization	¥ 2,696	¥ 914	¥ 5,585	¥ 1,135	¥ 10,332	¥ 10	¥ 10,342	¥ —	¥ 10,342
Investments in an affiliate accounted for by the equity method	—	—	—	351	351	—	351	—	351
Increase in property, plant and equipment and intangible assets	2,692	1,330	9,232	733	13,990	4	13,995	—	13,995

	Thousands of U.S. dollars								
	2018								
	Reportable Segments								
	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Subtotal	Other*1	Total	Adjustments and eliminations*2	Consolidated
Sales, operating income and assets:									
Sales to third parties	$620,847	$222,718	$748,664	$411,529	$2,003,758	$26,514	$2,030,273	$ —	$2,030,273
Intersegment sales and transfers	12,928	4,641	—	4,353	21,923	4,841	26,764	(26,764)	—
Total	$633,775	$227,359	$748,664	$415,882	$2,025,682	$31,356	$2,057,038	$ (26,764)	$2,030,273
Segment profit (loss) (Operating income (loss))	$ 80,028	$ 28,801	$ 96,554	$ 3,921	$ 209,305	$ (390)	$ 208,914	$ (14,139)	$ 194,774
Segment assets	692,678	282,932	858,998	407,234	2,241,843	30,694	2,272,537	418,778	2,691,316
Other items:									
Depreciation and amortization	$ 26,365	$ 8,993	$ 57,493	$ 10,623	$ 103,477	$ 106	$ 103,584	$ —	$ 103,584
Investments in an affiliate accounted for by the equity method	—	—	—	3,240	3,240	—	3,240	—	3,240
Increase in property, plant and equipment and intangible assets	26,925	10,123	113,149	20,064	170,263	248	170,512	—	170,512

*1 The "Other" segment consists of business segments not classified into the aforementioned four reporting segments, including building maintenance business, insurance agency business and others.

*2 (1) The adjustments and eliminations of segment profit or loss of ¥1,502 million ($14,139 thousand) include the following: ¥85 million ($808 thousand) of intersegment profit eliminations and ¥1,588 million ($14,948 thousand) of corporate expenses, which are not allocable to the reportable segments.

(2) The adjustments and eliminations of segment assets of ¥44,495 million ($418,778 thousand) include the following: ¥934 million ($8,792 thousand) of intersegment transaction eliminations and ¥45,429 million ($427,571 thousand) of corporate assets, which are not allocable to the reportable segments. The corporate assets are mainly cash and cash equivalents and investments in securities.

*3 (1) The adjustments and eliminations of segment profit of ¥765 million include the following: ¥134 million of intersegment profit eliminations and ¥899 million of corporate expenses, which are not allocable to the reportable segments.

(2) The adjustments and eliminations of segment assets of ¥39,348 million include the following: ¥6,762 million of intersegment transaction eliminations and ¥46,110 million of corporate assets, which are not allocable to the reportable segments. The corporate assets are mainly cash and cash equivalents and investments in securities.

(4) Geographical information

Sales to third parties by country or geographical area for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Japan	¥ 95,982	¥ 89,588	$ 903,361
U.S.A.	39,704	39,865	373,693
Europe	24,670	22,298	232,196
Indian Ocean Rim	14,860	13,452	139,862
China	20,273	16,531	190,805
Korea and Taiwan	9,721	7,978	91,493
Other	10,503	9,047	98,860
Total	¥215,716	¥198,762	$2,030,273

Property, plant and equipment by country or geographical area at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Japan	¥ 74,350	¥ 70,592	$ 699,766
U.S.A.	14,713	14,422	138,476
Europe	5,744	4,831	54,062
Indian Ocean Rim	3,961	3,647	37,284
China	8,325	7,349	78,353
Korea and Taiwan	4,592	4,001	43,221
Other	1,599	590	15,053
Total	¥113,285	¥105,435	$1,066,218

The information by major customer for the years ended March 31, 2018 and 2017 is summarized as follows:

Customer	Related segment	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Tsubakimoto Kogyo Co., Ltd.	Chains, Power Transmission Units and Components, Automotive Parts, Materials Handling Systems	¥27,609	¥24,747	$259,855

(5) Impairment loss on property, plant and equipment per reportable segments

Millions of yen

2018	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Impairment loss	¥—	¥—	¥—	¥167	¥—	¥—	¥167

Millions of yen

2017	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Impairment loss	¥13	¥6	¥—	¥8	¥—	¥—	¥28

Thousands of U.S. dollars

2018	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Impairment loss	$—	$—	$—	$1,575	$—	$—	$1,575

(6) Information on amortization of goodwill per reportable segments and the balances as of and for the years ended March 31, 2018 and 2017

Millions of yen

2018	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Amortization	¥39	¥83	¥—	¥276	¥—	¥—	¥400
Balance at March 31, 2018	87	42	—	23	—	—	153

Millions of yen

2017	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Amortization	¥ 92	¥ 83	¥—	¥391	¥—	¥—	¥568
Balance at March 31, 2017	118	126	—	310	—	—	555

Thousands of U.S. dollars

2018	Chains	Power Transmission Units and Components	Automotive Parts	Materials Handling Systems	Other	Adjustments and eliminations	Consolidated
Amortization	$373	$789	$—	$2,604	$—	$—	$3,768
Balance at March 31, 2018	818	401	—	222	—	—	1,442

25. SUBSEQUENT EVENTS

(1) Distribution of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements as of and for the year ended March 31, 2018, was approved at the annual general meeting of the shareholders held on June 28, 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥13.0 ($0.12) per share)	¥2,460	$23,157

(2) Business combination through acquisition of shares

The Company decided that U.S. TSUBAKI HOLDINGS, INC., a wholly-owned subsidiary of the Company, would acquire the entire shares of Central Conveyor Company, LLC to convert it and its consolidated subsidiary into subsidiaries of the Company and on April 24, 2018, entered into an equity transfer agreement.

In addition, in accordance with the agreement, U.S. TSUBAKI HOLDINGS, INC. acquired all corresponding shares on June 15, 2018.

(a) Purpose of the acquisition of shares

The Group aims to expand the materials handlings business, in addition to the chains business and the automotive parts business in the U.S. market, where continuing large growth is expected, and be a comprehensive machine manufacturer in the U.S. In order to achieve its targets, the Company decided to acquire all the shares of Central Conveyor Company, LLC, which is an integrator of transport facilities with an excellent customer-base in the U.S. automotive industry.

(b) Names, business description and scale

Name: Central Conveyor Company, LLC

Business description: Design, manufacture, construction and sales of transport facility and material handling system

Scale: Consolidated net assets amounted to $31,000 thousand and total assets amounted to $111,000 thousand at December 31, 2017

(c) Date of share acquisition

June 15, 2018

(d) Acquisition cost and ownership ratio after acquisition of shares

Acquisition cost: $141,000 thousand.

Note: The acquisition cost includes interest-bearing liabilities and others in addition to consideration for acquisition of the shares. Further, in accordance with the share transfer agreement, price adjustments reflecting such items as the change in working capital will be conducted subsequently.

Ownership ratio after acquisition of shares: 100%

(e) Financing method

Borrowing from a financial institution

Detailed information on the accounting treatment of the business combination is omitted because it has not been determined at the present time.

(3) Borrowing of substantial funds

At the Board of Directors' meeting held on May 22, 2018, the Company resolved to borrow funds and subsequently it was carried out.

The details are as follows:

(a) Purpose of borrowings

Capital increase of U.S. TSUBAKI HOLDINGS, INC.

(b) Name of lender

Sumitomo Mitsui Banking Corporation

(c) Borrowed amount

¥16,000 million ($150,588 thousand)

(d) Interest rate

Basic interest rate plus spread (0.25% per annum)

(e) Execution date

June 12, 2018

(f) Repayment date

June 11, 2019

(g) Pledged assets or guarantees

None

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Independent Auditor's Report

The Board of Directors
TSUBAKIMOTO CHAIN CO.

We have audited the accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 TSUBAKIMOTO CHAIN CO. and its consolidated subsidiaries at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As described in Note 25 "Subsequent Events," TSUBAKIMOTO CHAIN CO. decided that U.S. TSUBAKI HOLDINGS, INC., its wholly-owned subsidiary would acquire the entire shares of Central Conveyor Company, LLC to make it and its consolidated subsidiary wholly-owned subsidiaries and on April 24, 2018, entered into an equity transfer agreement. In accordance with the agreement, U.S. TSUBAKI HOLDINGS, INC. acquired all corresponding shares on June 15, 2018.

Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 30, 2018
Osaka, Japan

Printed in Japan