Appendix

BANDO CHEMICAL INDUSTRIES, LTD. and Subsidiaries

Fiscal year ended March 31, 2018
(April 1, 2017 — March 31, 2018)

Consolidated financial statements, Notes to consolidated financial statements

Consolidated Balance Sheets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
March 31, 2018 and 2017

Assets	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 4) 2018
Current Assets:			
Cash and cash equivalents (Note 6)	**¥ 18,477**	¥ 18,936	**$ 173,900**
Time deposits (Note 6)	**471**	587	**4,433**
Notes and accounts receivable (Note 6):			
Trade	**18,951**	18,824	**178,362**
Other	**161**	261	**1,519**
Electronically recorded monetary claims - operating	**2,835**	1,789	**26,678**
Allowance for doubtful accounts	**(38)**	(39)	**(355)**
Inventories (Note 5)	**11,890**	10,904	**111,899**
Deferred tax assets (Note 11)	**570**	551	**5,360**
Other current assets	**1,021**	988	**9,610**
Total Current Assets	**54,337**	52,801	**511,406**
Property, Plant and Equipment:			
Land	**6,417**	6,436	**60,394**
Buildings and structures	**28,306**	27,857	**266,409**
Machinery and equipment	**58,412**	56,960	**549,758**
Construction in progress	**1,795**	1,168	**16,892**
Other	**14,250**	13,701	**134,121**
	109,180	106,122	**1,027,574**
Accumulated depreciation	**(79,771)**	(76,985)	**(750,783)**
Property, Plant and Equipment, Net	**29,409**	29,137	**276,791**
Other Assets:			
Intangible assets	**1,564**	1,549	**14,719**
Investments in securities (Notes 6 and 7)	**6,845**	6,183	**64,419**
Investments in affiliates (Note 6)	**5,598**	5,305	**52,692**
Deferred tax assets (Note 11)	**178**	404	**1,671**
Other, net (Note 6)	**1,305**	1,316	**12,288**
Total Other Assets	**15,490**	14,757	**145,789**
Total Assets	**¥ 99,236**	¥ 96,695	**$ 933,986**

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 4) 2018
Current Liabilities:			
Short-term borrowings (Notes 6 and 9)	**¥ 1,145**	¥ 1,421	**$ 10,778**
Current portion of long-term debt (Notes 6 and 9)	**1,804**	3,111	**16,980**
Notes and accounts payable (Note 6):			
Trade	**9,966**	9,259	**93,801**
Electronically recorded obligations - operating	**4,441**	3,407	**41,798**
Construction and other	**3,660**	3,627	**34,449**
Income taxes payable (Note 6)	**926**	1,065	**8,713**
Allowance for stock-based compensation	**16**	–	**146**
Provision for loss on liquidation of subsidiaries and associates	**–**	10	**–**
Other current liabilities (Notes 6 and 11)	**3,086**	2,873	**29,039**
Total Current Liabilities	**25,044**	24,773	**235,704**
Long-term Liabilities:			
Long-term debt (Notes 6 and 9)	**9,287**	10,982	**87,403**
Allowance for stock-based compensation	**40**	29	**376**
Net defined benefit liability (Note 10)	**1,123**	2,007	**10,572**
Other long-term liabilities (Notes 6 and 11)	**348**	163	**3,277**
Total Long-term Liabilities	**10,798**	13,181	**101,628**
Net Assets (Note 12)**:**			
Common stock			
Authorized: 187,000,000 shares			
Issued 2017 and 2018 – 47,213,536 shares	**10,952**	10,952	**103,077**
Capital surplus	**2,995**	2,995	**28,190**
Retained earnings	**49,372**	45,923	**464,673**
Treasury stock, at cost			
2017 – 1,367,394 shares			
2018 – 1,415,326 shares	**(1,421)**	(1,356)	**(13,374)**
Total Shareholders' Equity	**61,898**	58,514	**582,566**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	**2,553**	2,060	**24,026**
Deferred gains on hedges	**–**	1	**–**
Foreign currency translation adjustments	**(1,545)**	(1,644)	**(14,546)**
Remeasurements of defined benefit plans	**257**	(410)	**2,426**
Total Accumulated Other Comprehensive Income	**1,265**	7	**11,906**
Non-controlling interests	**231**	220	**2,182**
Total Net Assets	**63,394**	58,741	**596,654**
Total Liabilities and Net Assets	**¥ 99,236**	¥ 96,695	**$ 933,986**

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

Consolidated Statements of Income	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 4) 2018
Net Sales	¥ **91,263**	¥ 88,387	$ **858,954**
Cost of Sales	**63,731**	61,596	**599,824**
Gross profit	**27,532**	26,791	**259,130**
Selling, General and Administrative Expenses (Note 13)	**21,196**	20,895	**199,493**
Operating Income	**6,336**	5,896	**59,637**
Other Income (Expenses):			
Interest and dividend income	**273**	239	**2,566**
Interest expense	**(208)**	(232)	**(1,958)**
Equity in earnings of affiliates	**477**	592	**4,486**
Foreign exchange losses, net	**(340)**	(41)	**(3,197)**
Gain on sale of investments in securities	**48**	80	**448**
Loss on disposal of property, plant and equipment	**(112)**	(63)	**(1,059)**
Impairment loss (Note 17)	**(185)**	(18)	**(1,739)**
Other, net	**124**	100	**1,178**
	77	657	**725**
Income before income taxes	**6,413**	6,553	**60,362**
Income Taxes (Note 11)**:**			
Current	**1,675**	1,737	**15,763**
Deferred	**(93)**	(164)	**(873)**
	1,582	1,573	**14,890**
Profit	**4,831**	4,980	**45,472**
Profit Attributable to Non-Controlling Interests	**35**	29	**336**
Profit Attributable to Shareholders of the Parent	¥ **4,796**	¥ 4,951	$ **45,136**

See accompanying notes to consolidated financial statements.

	Yen 2018	2017	U.S. dollars (Note 4) 2018
Per Share of Common Stock (Note 14)			
Basic net income	¥ **104.69**	¥ 107.90	$ **0.99**
Cash dividends	**30.00**	26.00	**0.28**

Consolidated Statements of Comprehensive Income	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 4) 2018
Profit	¥ **4,831**	¥ 4,980	$ **45,472**
Other Comprehensive Income (Note 15)**:**			
Unrealized gains (losses) on available-for-sale securities	**496**	629	**4,664**
Deferred gains on derivative instruments	**(1)**	0	**(5)**
Foreign currency translation adjustments	**47**	(365)	**441**
Remeasurements of defined benefit plans	**667**	823	**6,281**
Share of other comprehensive income in affiliates	**34**	(112)	**319**
Total other comprehensive income	**1,243**	975	**11,700**
Comprehensive Income	¥ **6,074**	¥ 5,955	$ **57,172**
Comprehensive Income Attributable to:			
Shareholders of the parent	¥ **6,053**	¥ 5,929	$ **56,975**
Non-controlling interests	**21**	26	**197**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Thousands of shares	Millions of yen									
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency transaction adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2016	47,214	¥10,952	¥2,970	¥42,091	¥(257)	¥1,431	¥1	¥(1,170)	¥(1,232)	¥419	¥55,205
Profit attributable to shareholders of the parent	–	–	–	4,952	–	–	–	–	–	–	4,952
Cash dividends	–	–	–	(1,120)	–	–	–	–	–	–	(1,120)
Purchases of treasury stock	–	–	–	–	(1,643)	–	–	–	–	–	(1,643)
Disposal of treasury stock	–	–	5	–	544	–	–	–	–	–	549
Change in ownership interest of the parent arising from transactions with non-controlling shareholders	–	–	20	–	–	–	–	–	–	–	20
Net change in the year	–	–	–	–	–	629	0	(474)	822	(199)	778
Balance at April 1, 2017	47,214	10,952	2,995	45,923	(1,356)	2,060	1	(1,644)	(410)	220	58,741
Profit attributable to shareholders of the parent	**–**	**–**	**–**	**4,796**	**–**	**–**	**–**	**–**	**–**	**–**	**4,796**
Cash dividends	**–**	**–**	**–**	**(1,347)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,347)**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(156)**	**–**	**–**	**–**	**–**	**–**	**(156)**
Disposal of treasury stock	**–**	**–**	**–**	**–**	**91**	**–**	**–**	**–**	**–**	**–**	**91**
Net change in the year	**–**	**–**	**–**	**–**	**–**	**493**	**(1)**	**99**	**667**	**11**	**1,269**
Balance at March 31, 2018	**47,214**	**¥10,952**	**¥2,995**	**¥49,372**	**¥(1,421)**	**¥2,553**	**¥ –**	**¥(1,545)**	**¥257**	**¥231**	**¥63,394**

	Thousands of U.S. dollars (Note 4)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency transaction adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2017	$103,077	$28,190	$432,215	$(12,765)	$19,389	$5	$(15,472)	$(3,855)	$2,074	$552,858
Profit attributable to shareholders of the parent	**–**	**–**	**45,136**	**–**	**–**	**–**	**–**	**–**	**–**	**45,136**
Cash dividends	**–**	**–**	**(12,678)**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,678)**
Purchases of treasury stock	**–**	**–**	**–**	**(1,470)**	**–**	**–**	**–**	**–**	**–**	**(1,470)**
Disposal of treasury stock	**–**	**–**	**–**	**861**	**–**	**–**	**–**	**–**	**–**	**861**
Net change in the year	**–**	**–**	**–**	**–**	**4,637**	**(5)**	**926**	**6,281**	**108**	**11,947**
Balance at March 31, 2018	**$103,077**	**$28,190**	**$464,673**	**$(13,374)**	**$24,026**	**$ –**	**$(14,546)**	**$2,426**	**$2,182**	**$596,654**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	**2018**
Cash Flows from Operating Activities:			
Income before income taxes	**¥ 6,413**	¥ 6,553	**$ 60,362**
Adjustments for:			
Income taxes paid	**(1,912)**	(1,523)	**(17,997)**
Income taxes refunded	**12**	85	**117**
Depreciation and amortization	**4,384**	4,101	**41,258**
Amortization of goodwill and negative goodwill	**10**	9	**91**
Impairment loss	**185**	18	**1,739**
(Decrease) increase in allowance for doubtful accounts	**(4)**	19	**(38)**
Increase in provision for stock-based compensation	**26**	29	**248**
Decrease in provision for loss on liquidation of subsidiaries and associates	**(11)**	(17)	**(99)**
Increase in liability for retirement benefits	**80**	277	**754**
Foreign exchange losses (gains), net	**67**	(52)	**628**
Equity in earnings of affiliates	**(477)**	(592)	**(4,486)**
Loss on sales and disposal of property, plant and equipment	**109**	58	**1,030**
Changes in assets and liabilities:			
Increase in notes and accounts receivable－trade	**(1,189)**	(2,519)	**(11,194)**
Increase in inventories	**(1,033)**	(542)	**(9,721)**
Increase in notes and accounts payable - trade	**1,749**	172	**16,463**
Other, net	**586**	724	**5,505**
Net Cash Provided by Operating Activities	**8,995**	6,800	**84,660**
Cash Flows from Investing Activities:			
Decrease (Increase) in time deposits	**126**	(50)	**1,184**
Purchases of property, plant and equipment	**(4,465)**	(4,004)	**(42,021)**
Proceeds from sales of property, plant and equipment	**30**	105	**283**
Purchases of intangible assets	**(575)**	(515)	**(5,413)**
Purchases of investments in securities	**(51)**	(20)	**(478)**
Proceeds from sales of investments in securities	**136**	110	**1,278**
Other, net	**(3)**	(265)	**(29)**
Net Cash Used in Investing Activities	**(4,802)**	(4,639)	**(45,196)**
Cash Flows from Financing Activities:			
Decrease in short-term borrowings	**(207)**	(115)	**(1,948)**
Proceeds from long-term borrowings	**100**	553	**941**
Payments on long-term borrowings	**(3,048)**	(529)	**(28,691)**
Proceeds from issuance of bonds	**–**	5,957	**–**
Redemption of bonds	**–**	(3,000)	**–**
Purchases of treasury stock	**(155)**	(1,642)	**(1,462)**
Proceeds from sales of treasury stock	**95**	367	**895**
Cash dividends paid	**(1,347)**	(1,119)	**(12,678)**
Cash dividends paid to non-controlling interests	**(9)**	(26)	**(89)**
Other, net	**(35)**	(24)	**(317)**
Net Cash Provided by (Used in) Financing Activities	**(4,606)**	422	**(43,349)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(46)**	(83)	**(432)**
Net Increase (Decrease) in Cash and Cash Equivalents	**(459)**	2,500	**(4,317)**
Cash and Cash Equivalents at Beginning of Year	**18,936**	16,436	**178,217**
Cash and Cash Equivalents at End of Year	**¥ 18,477**	¥ 18,936	**$ 173,900**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Bando Chemical Industries, Ltd. and Consolidated Subsidiaries

1. Description of Business

Bando Chemical Industries, Ltd. (hereinafter, the "Company") is a pioneer belt manufacturer in Japan. The Company manufactures and sells power transmission belts for automobiles, industrial machines, agricultural machines, home appliances and information terminal devices, heavy and light duty conveyor belts, products for office automation and household appliances and films for a variety of markets.

2. Basis for Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

3. Summary of Significant Accounting Policies

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 23 subsidiaries (collectively, the "Companies") as of March 31, 2018 (25 subsidiaries as of March 31, 2017).

Higashinihon Bando Co., Ltd. was excluded from the scope of consolidation as a result of the absorption-type merger with Nishinihon Bando Co., Ltd. in April 2017. The company name was changed to Bando Industrial Components & Services, Ltd. after the merger.

Bando Asia & Pacific Co., Ltd. was founded in July 2017 and included in the scope of consolidation.

Pengeluaran Getah Bando (Malaysia) Sdn. Bhd. was excluded from the scope of consolidation as its liquidation was completed in January 2018.

BL Autotec (Shanghai), Ltd. was excluded from the scope of consolidation as its liquidation was complete in March 2018.

Investments in 7 affiliates, on which the Company have significant influence, are accounted for by the equity method as of March 31, 2018 and 2017, respectively.

Four overseas consolidated subsidiaries with fiscal year-end of December 31 prepare the provisional financial statements for consolidation purpose as of March 31.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

(2) Foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. The foreign currency exchange gains or losses from transactions are charged to income.

Assets and liabilities of the overseas subsidiaries are translated into Japanese yen at the exchange rate prevailing at each balance sheet date. Income and expense accounts are translated at the average exchange rate for the year. Differences arising from such translations are recorded as foreign currency translation adjustments and non-controlling interests in the consolidated balance sheet.

(3) Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible to cash and exposed to insignificant risk of fluctuation of values.

(4) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the amounts calculated based on the past loss experience and an additional estimate of potential losses in the specific receivables.

(5) Provision for loss on liquidation of subsidiaries and associates

Provision for loss on liquidation of subsidiaries and associates is provided for estimated losses arising from the liquidation of a certain consolidated subsidiary or associate of the Company.

(6) Allowance for stock-based compensation

Allowance for stock-based compensation is provided for the issuance of the Company's stocks through the Director's Compensation BIP Trust Plan at the estimated amounts of stocks to be issued based on the points allocated to directors in accordance with the stocks issuing rules.

(7) Inventories

Finished goods, work in process and raw materials are stated at the lower of cost determined by the first-in, first-out method or net selling value. Merchandise and supplies are stated at the lower of cost determined by the gross average method or net selling value.

Meanwhile, inventories held by domestic consolidated subsidiaries are stated at the lower of cost determined principally by the gross average method or net selling value. Inventories held by overseas consolidated subsidiaries are stated at the lower of cost determined mostly by the first-in, first-out method or net selling value.

(8) Investments in securities

Investments in securities are classified into three categories: trading securities, held-to-maturity debt securities or available-for-sale securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is recognized in income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, reported in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method.

(9) Property, plant and equipment

Property, plant and equipment except for lease assets are depreciated principally by the declining-balance method over their estimated useful lives. Buildings acquired on or after April 1, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their estimated useful lives. Useful lives are as follows: three to 50 years for buildings and structures, and five to ten years for machinery and equipment.

(10) Goodwill

Goodwill represents the cost in excess of fair value of net assets acquired in business combination accounted for by the purchase method. Goodwill is amortized over ten years by the straight-line method.

(11) Other intangible assets

Capitalized computer software costs for internal use are amortized by the straight-line method over five years.

(12) Research and development costs

Research and development costs are charged to income as incurred.

(13) Leases

Leased assets under finance leases which do not transfer ownership to the lessee are capitalized and depreciated or amortized by the straight-line method with no residual value over their lease terms.

(14) Retirement benefits

Employees serving the Company and certain of its consolidated subsidiaries are generally entitled to retirement benefits determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur. The Companies principally account for allowance for retirement benefits based on projected benefit obligations and plan assets at each balance sheet date. The retirement benefit obligations are attributed to each period on a benefit formula basis over estimated years of the eligible employees.

Prior service cost is amortized by the straight-line method over ten years from the year in which they arise.

Actuarial gain or loss is amortized by the straight-line method over ten years from the next year in which they arise.

Certain consolidated subsidiaries adopt the simplified method to calculate net defined benefit liability and retirement benefit costs.

(15) Income taxes

The provision for income taxes is computed based on income before income taxes in the consolidated statements of income. The liability method is used to recognize deferred tax assets and liabilities for the future tax consequences of the temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes. The Companies provide a valuation allowance when they believe that deferred tax assets are not recoverable based on expected future taxable income.

The Company and certain of its domestic consolidated subsidiaries have applied the consolidated taxation system.

(16) Derivatives and hedging activities

The Companies use derivative financial instruments to manage their exposures to changes in foreign currency exchange rates and interest rates. Interest rate swap contracts are used to reduce interest rate risk. Interest rate and currency swap contracts are used to reduce interest rate risk and foreign exchange risk. The Companies do not enter into derivatives for trading or speculative purpose.

If derivatives are used for hedging purpose and qualify for hedging accounting, gains or losses on derivatives are deferred until maturity of hedged items. The interest rate swap contracts which qualify for hedge accounting and meet certain hedging criteria are not measured at market value, but the differential paid or received under the swap contracts is recognized and included in interest expense.

(17) Per share information

Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the year.

Cash dividends per share presented in the consolidated statements of income are dividends attributable to the respective years including dividends to be paid after the year-end.

(18) Accounting standards and implementation issued not yet applied

Application of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28, February 16, 2018)
Application of Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, February 16, 2018)

(a) Outline
These guidances reviewed the treatment of future taxable temporary differences related to stocks of subsidiaries, etc. in non-consolidated financial statements and clarified the treatment of recoverability of deferred tax assets in companies falling under (Category 1).

(b) Planned date of application
To be applied from the beginning of the fiscal year ending March 31, 2019

(c) Impact of the application of these accounting standards, etc.
The amount of the impact is being evaluated at the time of preparing the consolidated financial statements.

Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 30, 2018)
Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30, March 30, 2018)

(a) Outline
These are comprehensive accounting standards for revenue recognition. Revenue will be recognized through the following five steps.
Step 1: Identify the contract with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligation in the contract
Step 5: Recognize revenue when (or as) the performance obligation is satisfied

(b) Planned date of application
To be applied from the beginning of the fiscal year ending March 31, 2022

(c) Impact of the application of these accounting standards, etc.
The amount of the impact is being evaluated at the time of preparing the consolidated financial statements.

(19) Transactions to issue own shares to employees through a trust

From the current fiscal year, the Company has introduced an employee incentive plan, "Employee Stock Ownership Plan Trust ("ESOP")" for the purpose of enhancing corporate value for the medium and long-term perspective.

The Company has applied "Practical Solution on Transactions to Issue Own Shares to Employees through Trusts" (ASBJ PITF No.30, March 26, 2015) for accounting of the Trust contract.

(a) Outline
The Company has established a trust ("Trust") for certain employees who participate in the "Bando Chemical Industries Employee Stock Ownership Plan ("Company's ESOP")" and meet certain requirements as its beneficiaries. The Trust has acquired the total number of the Company's shares expected to be acquired by the Company's ESOP over five years during the predetermined acquisition period, and will subsequently sell these shares to the Company's ESOP on a certain date of every month.

(b) The Company's shares held by the Trust
The Company's shares held by the Trust are included in net assets as treasury stock at the carrying amount at the Trust (excluding ancillary expenses). The carrying amount and number of the Company's shares held by the Trust

as of March 31, 2018 are ¥283 million ($2,666 thousand) and 275 thousand shares, as of March 31, 2017 were ¥367 million and 357 thousand shares, respectively.

(c) The carrying amount of the borrowing recorded in the gross price method
As of March 31, 2018: ¥317 million ($2,984 thousand)
As of March 31, 2017: ¥408 million

(20) Performance-based Stock Compensation Plan for Directors, etc.

The Company has introduced the "Directors Compensation Board Incentive Plan (BIP) Trust" as the Performance-based Stock Compensation Plan ("Plan") for directors (excluding non-executive directors and overseas residents) and executive officers (collectively, "Directors, etc."), with the purpose of further clarifying the linkage between the remuneration of Directors, etc. and the value of the Company's shares and increasing their motivation to improve performance and increase the corporate value in the mid- to long-term.

The Company accounts for the Trust contract in accordance with "Practical Solution on Transactions to Issue Own Shares to Employees through Trusts" (ASBJ PITF No.30, March 26, 2015).

(a) Outline
The Plan is a performance-based stock compensation plan under which a trust purchases the Company's shares with the fund contributed by the Company and issues those shares to the Company's Directors, etc. based on their level of performance achievement. However, in principle, Directors, etc. can receive the Company's shares upon their retirement.

(b) The Company's shares held by the Trust
The Company's shares held by the Trust are included in net assets as treasury stock at the carrying amount at the Trust (excluding ancillary expenses). The carrying amount and number of the Company's shares held by the Trust as of March 31, 2018 are ¥276 million ($2,598 thousand) and 276 thousand shares, as of March 31, 2017 were ¥284 million and 283 thousand shares respectively.

The estimated amount of the aforementioned officers' remuneration attributable to the current fiscal year is recorded as Allowance for stock-based compensation.

4. U.S. Dollar Amounts

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars.

The rate of ¥106.25 = U.S.$1.00, the approximate rate of exchange as at March 31, 2018, has been used for the purpose of such translations.

5. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Merchandise and finished goods	¥ **7,100**	¥ 6,755	$ **66,823**
Work in process	**1,708**	1,509	**16,080**
Raw materials and supplies	**3,081**	2,640	**28,996**
Total	¥ **11,890**	¥ 10,904	$ **111,899**

6. Financial Instruments

(1) Policy for financial instruments

The Companies raise funds from stable and low-cost financing sources, mainly bank borrowings and bonds, as needed in light of the financial plan developed as a part of the annual management plan. The Companies invest temporary cash surplus in highly liquid and secured financial instruments. The Companies use derivatives to the extent necessary for financial risk management purposes.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade, Electronically recorded monetary claims - operating are exposed to customers' credit risk. Receivables denominated in foreign currencies are exposed to foreign exchange risk.

Investments in securities, mainly equity instruments, are exposed to market risk. The Companies quarterly review fair values of marketable securities.

Payables such as notes and accounts payable-trade, Electronically recorded obligations - operating are generally paid within four months. Payables denominated in foreign currencies are exposed to foreign exchange risk.

Bank borrowings and bonds are used to fund working capital and capital expenditures. Some of them are exposed to interest rate risk. The Companies reduce such risk arising from certain long-term borrowings by interest rate swap contracts.

Derivatives include foreign currency forward contracts used to hedge foreign exchange risk on receivables and payables denominated in foreign currencies, and interest rate swap contracts used to hedge interest rate risk on bank borrowings, and interest rate and currency swap contracts used to hedge interest rate risk and foreign exchange risk on bank borrowings.

(3) Risk management for financial instruments

(a) Credit risk management

The Companies regularly monitor the financial position of customers to reduce the risk of defaults.

Since the Companies enter into derivative transactions only with highly-rated financial institutions, they believe there is little risk of defaults.

(b) Market risk management

The Companies use foreign currency forward contracts to hedge foreign exchange risk identified by currency and month for receivables and payables denominated in foreign currencies. With respect to investments in securities, the Companies regularly monitor fair values and the financial positions of the issuers and review the holding purpose of these securities.

(c) Liquidity risk management in financing activities

The Companies prepare and update the cash management plan in a timely manner, and maintain a certain level of liquidity on hand to reduce liquidity risk.

(4) Fair values of financial instruments

Fair values of financial instruments include market prices and values calculated reasonably when market prices are not readily available. As calculation of such value incorporates variable factors, using different assumptions may result in different values. The contract amounts and other information described in Note 8, "Derivatives" are not indicative of market risk exposure to derivative transactions.

Book values and fair values of the financial instruments as of March 31, 2018 and 2017 were as follows:

Financial instruments whose fair values were not readily available were excluded from the following table:

	Millions of yen					
	2018			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥ 18,477	¥ 18,477	¥ —	¥ 18,936	¥ 18,936	¥ —
Time deposits	471	471	—	587	587	—
Notes and accounts receivable-trade	18,951	18,951	—	18,824	18,824	—
Electronically recorded monetary claims - operating	2,835	2,835	—	1,789	1,789	—
Investments in securities						
Available-for-sale securities	6,710	6,710	—	6,047	6,047	—
Total	¥ 47,444	¥ 47,444	¥ —	¥ 46,183	¥ 46,183	¥ —
Notes and accounts payable-trade	¥ 9,966	¥ 9,966	¥ —	¥ 9,259	¥ 9,259	¥ —
Electronically recorded obligations - operating	4,441	4,441	—	3,407	3,407	—
Short-term borrowings	1,145	1,145	—	1,421	1,421	—
Income taxes payable	926	926	—	1,065	1,065	—
Long-term borrowings	5,003	5,014	11	7,992	8,023	31
Bonds due after one year	6,000	6,008	8	6,000	6,001	1
Total	¥ 27,481	¥ 27,500	¥ 19	¥ 29,144	¥ 29,176	¥ 32
Derivative transactions						
Contracts to which hedge accounting was not applied	¥ 9	¥ 9	¥ —	¥ 4	¥ 4	¥ —
Contracts to which hedge accounting was applied	—	—	—	12	12	—

	Thousands of U.S. dollars					
	2018					
	Book value		Fair value		Difference	
Cash and cash equivalents	$	173,900	$	173,900	$	—
Time deposits		4,433		4,433		—
Notes and accounts receivable–trade		178,362		178,362		—
Electronically recorded monetary claims – operating		26,678		26,678		—
Investments in securities						
Available–for–sale securities		63,151		63,151		—
Total	$	446,524	$	446,524	$	—
Notes and accounts payable–trade	$	93,801	$	93,801	$	—
Electronically recorded obligations – operating		41,798		41,798		—
Short–term borrowings		10,778		10,778		—
Income taxes payable		8,713		8,713		—
Long–term borrowings		47,084		47,189		105
Bonds due after one year		56,470		56,540		70
Total	$	258,644	$	258,819	$	175
Derivative transactions						
Contracts to which hedge accounting was not applied	$	87	$	87	$	—
Contracts to which hedge accounting was applied		—		—		—

Cash and cash equivalents, Time deposits, Notes and accounts receivable–trade, Electronically recorded monetary claims – operating

The fair values approximate book values because of the short–term maturities of these instruments.

Investments in securities

The fair values are measured at the quoted market prices of the stock exchange.

Notes and accounts payable–trade, Electronically recorded obligations – operating, Short–term borrowings, Income taxes payable

The fair values approximate book values because of the short–term maturities of these instruments.

Long–term borrowings

The fair values represent present values of the aggregated interest and principal discounted at interest rates that would be applied to new similar borrowings. Long–term borrowings include the current portion of long–term borrowings.

Bonds

The fair values are measured at the quoted market prices.

Derivative transactions

Please see Note 8, “Derivatives.”

Financial instruments whose fair values were not available as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Available-for-sale securities			
Unlisted equity securities	**¥ 135**	¥ 136	**$ 1,267**
Investments in affiliates	**5,598**	5,305	**52,692**
Total	**¥ 5,733**	¥ 5,441	**$ 53,959**

The above items were not included in investments in securities (available-for-sale securities) because their market price was not available and it was extremely difficult to determine their fair values.

Monetary assets and investments in securities with maturities as of March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Due within 1 year	Due after 1 year through 5 years	Due after 5years through 10 years	Due after 10 years
Cash and cash equivalents	**¥ 18,477**	**¥ —**	**¥ —**	**¥ —**
Time deposits	**471**	**—**	**—**	**—**
Notes and accounts receivable-trade	**18,951**	**—**	**—**	**—**
Electronically recorded monetary claims - operating	**2,835**	**—**	**—**	**—**
Total	**¥ 40,734**	**¥ —**	**¥ —**	**¥ —**

	Millions of yen			
	2017			
	Due within 1 year	Due after 1 year through 5 years	Due after 5years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 18,936	¥ —	¥ —	¥ —
Time deposits	587	—	—	—
Notes and accounts receivable-trade	18,824	—	—	—
Electronically recorded monetary claims - operating	1,789	—	—	—
Total	¥ 40,136	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2018			
	Due within 1 year	Due after 1 year through 5 years	Due after 5years through 10 years	Due after 10 years
Cash and cash equivalents	**$ 173,900**	**$ —**	**$ —**	**$ —**
Time deposits	**4,433**	**—**	**—**	**—**
Notes and accounts receivable-trade	**178,362**	**—**	**—**	**—**
Electronically recorded monetary claims - operating	**26,678**	**—**	**—**	**—**
Total	**$ 383,373**	**$ —**	**$ —**	**$ —**

Please see Note 9, "Short-term Borrowings and Long-term Debt" for annual maturities of long-term debt.

7. Investments in Securities

Marketable securities classified as available-for-sale securities as of March 31, 2018and 2017 were as follows:

	Millions of yen					
	2018			2017		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:						
Equity securities	¥ 3,103	¥ 6,710	¥ 3,607	¥ 2,032	¥ 4,920	¥ 2,888
Securities with gross unrealized losses:						
Equity securities	–	–	–	1,137	1,127	(10)
Total	¥ 3,103	¥ 6,710	¥ 3,607	¥ 3,169	¥ 6,047	¥ 2,878

	Thousands of U.S. dollars		
	2018		
	Acquisition cost	Fair value (Book value)	Unrealized gains (losses)
Securities with gross unrealized gains:			
Equity securities	$ 29,206	$ 63,151	$ 33,945
Securities with gross unrealized losses:			
Equity securities	–	–	–
Total	$ 29,206	$ 63,151	$ 33,945

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Proceeds	¥ 136	¥ 110	$ 1,278
Realized gains	48	80	448
Realized losses	0	—	4

The Companies recognize impairment losses on available-for-sale securities when the market value declines by more than 30 percent and the possibility of market value recovery is remote.

8. Derivatives

Derivative transactions to which hedge accounting was not applied for the years ended March 31, 2018 and 2017 were as follows:

(1) Currencies

	Millions of yen							
	2018				2017			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)
Foreign currency forward contracts:								
Sell:								
U.S. Dollar	¥ 138	¥ —	¥ 3	¥ 3	¥ 210	¥ —	¥ 2	¥ 2
Euro	230	—	6	6	121	—	(0)	(0)
Buy:								
Japanese yen	¥ 38	¥ —	¥ 0	¥ 0	¥ 74	¥ —	¥ 2	¥ 2
U.S. Dollar	3	—	0	0	8	—	(0)	(0)

	Thousands of U.S. dollars			
	2018			
	Contract amount	Contract amount due after 1 year	Fair value	Unrealized gains (losses)
Foreign currency forward contracts:				
Sell:				
U.S. Dollar	$ 1,297	$ —	$ 28	$ 28
Euro	2,161	—	55	55
Buy:				
Japanese yen	$ 362	$ —	$ 4	$ 4
U.S. Dollar	25	—	0	0

* The fair value is based on prices provided by financial institutions.

Derivative transactions to which hedge accounting was applied for the years ended March 31, 2018 and 2017 were as follows:

(1) Interest rate

	Millions of yen							
	2018				2017			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts: Floating rate receipt, fixed rate payment	Long-term borrowings	¥ 2,200	¥ 1,500	*	Long-term borrowings	¥ 4,900	¥ 2,200	*

	Thousands of U.S. dollars			
	2018			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts: Floating rate receipt, fixed rate payment	Long-term borrowings	$ 20,706	$ 14,118	*

* The fair value of such derivative transactions was included in that of hedged items.

(2) Interest rate and currencies

	Millions of yen							
	2018				2017			
	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value	Main hedged item	Contract amount	Contract amount due after 1 year	Fair value
Interest rate swap contracts:								
Floating rate receipt, fixed rate payment:								
Japanese yen receipt /India rupee payment	Long-term borrowings	¥ —	¥ —	¥ —	Long-term borrowings	¥ 80	¥ —	¥ 13
U.S. dollar receipt /India rupee payment		—	—	—		176	—	(1)
Total		¥ —	¥ —	¥ —		¥ 256	¥ —	¥ 12

* The fair value is based on prices provided by financial institutions.

9. Short-term Borrowings and Long-term Debt

Short-term borrowings as of March 31, 2018 and 2017 represented bank overdrafts with weighted average interest rates of 3.93% and 3.75%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unsecured long-term borrowings from banks and other financial institutions with weighted average interest rate of 0.93% in 2018 and 0.99% in 2017	¥ **5,003**	¥ 7,992	$ **47,804**
Unsecured bonds due 2022, 0.24% and due 2024, 0.40%	**6,000**	6,000	**56,471**
Obligations under finance leases	**88**	101	**828**
	11,091	14,093	**104,383**
Less current portion of long-term debt	**1,804**	3,111	**16,980**
Total	¥ **9,287**	¥ 10,982	$ **87,403**

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

Year ending at March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ **1,804**	$ **16,980**
2020	**1,611**	**15,165**
2021	**1,409**	**13,265**
2022	**3,162**	**29,746**
2023	**103**	**972**
2024 and thereafter	**3,002**	**28,255**
Total	¥ **11,091**	$ **104,383**

10. Retirement Benefits

The details of retirement benefits for the year ended March 31, 2018 and 2017 were as follows:

The Company and certain of its consolidated subsidiaries have defined contribution pension plans and defined benefit pension plans for employees. The Company places plan assets in an employee retirement benefit trust. Certain domestic consolidated subsidiaries join the Smaller Enterprise Retirement Allowance Mutual Aid system.

Certain consolidated subsidiaries adopt the simplified method to calculate net defined benefit liability and retirement benefit costs.

(1) Defined benefit plans

(a) Movement in retirement benefit obligations, except defined benefit plans to which the simplified method was applied

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Beginning balance	**¥ 11,557**	¥ 11,735	**$ 108,773**
Service cost	**559**	561	**5,261**
Interest cost	**65**	48	**609**
Actuarial losses (gains) arising during the year	**364**	(53)	**3,429**
Retirement benefits paid	**(627)**	(749)	**(5,896)**
Prior year service cost arising during the year	**0**	4	**1**
Other	**(6)**	11	**(60)**
Ending balance	**¥ 11,912**	¥ 11,557	**$ 112,117**

(b) Movement in plan assets, except defined benefit plans to which the simplified method was applied

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Beginning balance	**¥ 9,917**	¥ 9,151	**$ 93,340**
Expected return on plan assets	**174**	158	**1,640**
Actuarial gains arising during the year	**879**	518	**8,273**
Contributions paid by the employer	**817**	820	**7,691**
Retirement benefits paid	**(621)**	(743)	**(5,850)**
Other	**(4)**	13	**(40)**
Ending balance	**¥ 11,162**	¥ 9,917	**$ 105,054**

(c) Movement in net defined benefit liability of defined benefit plans to which the simplified method was applied

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Beginning balance	**¥ 367**	¥ 333	**$ 3,455**
Retirement benefit costs	**170**	170	**1,601**
Retirement benefit paid	**(28)**	(8)	**(269)**
Contributions to the plans	**(136)**	(128)	**(1,278)**
Ending balance	**¥ 373**	¥ 367	**$ 3,509**

(d) Reconciliation of retirement benefit obligations and plan assets with net defined benefit liability and net defined benefit asset on the Consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations under the funded plans	¥ 12,655	¥ 12,331	$ 119,107
Fair value of plan assets	(11,681)	(10,447)	(109,945)
	974	1,884	9,162
Retirement benefit obligations under the unfunded plans	149	123	1,410
Net liabilities or assets recorded on the Consolidated balance sheets	1,123	2,007	10,572
Net defined benefit liability	1,123	2,007	10,572
Net defined benefit asset	–	(0)	–
Net liabilities or assets recorded on the Consolidated balance sheets	¥ 1,123	¥ 2,007	$ 10,572

* Defined benefit plans to which the simplified method was applied are included in the above table.

(e) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 559	¥ 561	$ 5,261
Interest cost	65	48	609
Expected return on plan assets	(174)	(158)	(1,640)
Amortization of actuarial losses	449	616	4,225
Amortization of prior service cost	(2)	2	(18)
Retirement benefit costs based on the simplified method	170	170	1,602
Total retirement benefit costs of defined benefit plans	¥ 1,067	¥ 1,239	$ 10,039

(f) Remeasurements of defined benefit plans (Other comprehensive income)
Breakdown of remeasurements of defined benefit plans (before tax effects)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	¥ (2)	¥ (2)	$ (19)
Actuarial losses	964	1,187	9,069
Total	¥ 962	¥ 1,185	$ 9,050

(g) Remeasurements of defined benefit plans (Accumulated other comprehensive income)
Breakdown of remeasurements of defined benefit plans (before tax effects)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service cost	¥ 24	¥ 27	$ 234
Unrecognized actuarial losses (gains)	347	(617)	3,262
Total	¥ 371	¥ (590)	$ 3,496

(h) Plan assets
Plan assets consisted of the following:

	2018	2017
Equity securities	42%	43%
Bonds	38	38
General account	11	10
Cash and deposits	6	6
Other	3	2
Total	100%	100%

* Employee retirement benefit trust set up for the corporate pension plan accounts for 16% and 17% of total plan assets for the year ended March 31, 2018 and 2017.

Expected rate of return on plan assets
The long-term expected rate of return on plan assets is determined based on the current and expected allocation of plan assets and on the current and expected future long-term rates of return on various assets composing plan assets.

(i) Actuarial assumptions

The principal actuarial assumptions at March 31, 2018 were as follows:

	2018	2017
Discount rate	**Mainly 0.6%**	Mainly 0.4%
Expected rate of return on plan assets	**Mainly 2.1%**	Mainly 2.0%

* Expected salary increase rate was not used in calculation of projected benefit obligation under the point-based benefit system.

(2) Defined contribution pension plans

Contributions to the defined contribution pension plans were ¥194 million ($1,823 thousand) and ¥193 million for the year ended March 31, 2018 and 2017, respectively.

11. Income Taxes

Deferred tax assets and liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Contributions to retirement benefit trust	**¥ 1,146**	¥ 1,135	**$ 10,787**
Net defined benefit liability	**316**	580	**2,976**
Loss on valuation of shares of subsidiaries and associates	**–**	647	**–**
Tax loss carryforwards	**123**	376	**1,158**
Non-deductible valuation loss	**502**	526	**4,723**
Impairment loss	**214**	194	**2,014**
Elimination of gains arising from intercompany transactions	**668**	633	**6,290**
Other	**522**	444	**4,913**
Valuation allowance for deferred tax assets	**(412)**	(1,260)	**(3,879)**
Total	**¥ 3,079**	¥ 3,275	**$ 28,982**
Deferred tax liabilities:			
Gain on set-up of retirement benefit trust	**¥ (928)**	¥ (928)	**$ (8,733)**
Unrealized gain on available-for-sale securities	**(1,052)**	(819)	**(9,905)**
Elimination of losses arising from intercompany transactions	**(302)**	(281)	**(2,839)**
Other	**(304)**	(327)	**(2,865)**
Total	**¥ (2,586)**	¥ (2,355)	**$ (24,342)**
Net deferred tax assets*	**¥ 493**	¥ 920	**$ 4,640**

* Net deferred tax assets were included in the following accounts in the consolidated balance sheets as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current assets – Deferred tax assets	**¥ 570**	¥ 551	**$ 5,360**
Other assets – Deferred tax assets	**178**	404	**1,671**
Current liabilities – Other	**0**	3	**3**
Long-term liabilities – Other	**254**	32	**2,388**

Reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Statutory tax rate	**30.8%**	30.8%
Different income tax rates applicable to income in certain foreign countries	**(4.0)**	(5.5)
Equity in earnings of affiliates	**(2.3)**	(2.8)
Nondeductible expenses	**1.1**	1.2
Tax deduction	**(1.3)**	(1.9)
Foreign withholding tax	**0.4**	0.2
Change in valuation allowance	**(1.8)**	(1.6)
Adjustment on deferred tax assets at year-end due to tax rate change		0.0
Undistributed earnings of foreign subsidiaries	**1.2**	1.1
Other, net	**0.6**	2.5
Effective income tax rate	**24.7%**	24.0%

Change in the method of presentation
"Prior year income taxes" which was separately presented for the year ended March 31, 2017 is included in "Other, net" for the year ended March 31, 2018 because it became immaterial.
Some figures for the year ended March 31, 2017 in the table above were reclassified to reflect this change in presentation. As a result, 0.1% presented as "Prior year income taxes" for the year ended March 31, 2017 was reclassified into "Other, net."

12. Net Assets

Significant provisions in the Act that affect financial and accounting matters are summarized below:

(1) Dividends

The Act allows Japanese companies to pay dividends at any time during the year in addition to the year-end dividend upon resolution at the shareholders' meeting.

The Act permits Japanese companies to distribute dividends in kind (non-cash assets) to shareholders subject to certain limitations and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Act continues to provide certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of equity after dividends must be maintained at no less than ¥3 million.

(2) Increases/decreases and transfer of common stock, reserve and surplus

The Act requires that an amount equal to 10% of dividends must be appropriated as legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the sum of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(3) Treasury stock and treasury stock acquisition rights

The Act also permits Japanese companies to repurchase/dispose of treasury stock by resolution of the Board of Directors. The amount of treasury stock to be purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Act, stock acquisition rights are presented as a separate component of equity.

The Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2018 and 2017 principally consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Salaries	¥ **6,113**	¥ 5,906	$ **57,532**
Packing and delivery expenses	**2,398**	2,324	**22,566**
Research and development costs	**1,153**	1,124	**10,848**
Retirement benefit costs	**608**	677	**5,718**
Allowance for stock-based compensation	**34**	29	**318**
Provision for doubtful accounts	**－**	29	**－**

14. Net Income per Share

The Companies had no dilutive securities for the years ended March 31, 2018 and 2017.

Basic net income per share for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to shareholders of the parent	¥ **4,796**	¥ 4,951	$ **45,136**

	Thousands of shares	
	2018	2017
Weighted-average number of shares	**45,808**	45,890

	Yen		U.S. dollars
	2018	2017	2018
Net income per share	¥ **104.69**	¥ 107.90	$ **0.99**

Effective October 1, 2016, the Company carried out a share consolidation at a rate of one share for every two shares. Net income per share is calculated assuming that the share consolidation had been carried out at the beginning of the fiscal year ended March 31, 2017.

15. Consolidated Statements of Comprehensive Income

Reclassification adjustments regarding other comprehensive income and related income tax effects for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gains (losses) on available-for-sale securities:			
Recognized during the year	¥ **777**	¥ 986	$ **7,312**
Reclassification adjustments	**(48)**	(80)	**(448)**
Before tax effects adjustments	**729**	906	**6,864**
Income tax effects	**(233)**	(277)	**(2,200)**
Unrealized gains (losses) on available-for-sale securities	**496**	629	**4,664**
Deferred gains on hedges:			
Recognized during the year	**–**	0	**–**
Before tax effects adjustments	**(1)**	0	**(7)**
Income tax effects	**0**	(0)	**2**
Deferred gain on hedges	**(1)**	0	**(5)**
Foreign currency translation adjustments:			
Recognized during the year	**5**	(351)	**46**
Reclassification adjustments	**42**	(14)	**395**
Foreign currency translation adjustments	**47**	(365)	**441**
Remeasurements of defined benefit plans:			
Recognized during the year	**492**	574	**4,631**
Reclassification adjustments	**470**	612	**4,419**
Before tax effects adjustment	**962**	1,186	**9,050**
Income tax effects	**(295)**	(363)	**(2,769)**
Remeasurements of defined benefit plans	**667**	823	**6,281**
Share of other comprehensive income in affiliates accounted for by the equity method:			
Recognized during the year	**34**	(112)	**319**
Share of other comprehensive income in affiliates accounted for by the equity method	**34**	(112)	**319**
Total other comprehensive income	¥ **1,243**	¥ 975	$ **11,700**

16. Segment Information

(1) Description of reportable segments

The Companies' reportable segments are components for which separate financial information is available, whose operating results are reviewed regularly by the chief operating decision maker in order to decide allocations of resources and assess segment performance.

The Companies have adopted the division system. Each operating division develops a comprehensive strategy for respective products/services for domestic and overseas markets and conducts business activities. Therefore, the Companies consist of three reportable segments according to products based on operating divisions: "Automotive Parts Business," "Industrial Products Business," and "Advanced Elastomer Products Business."

The main products of each segment are as follows:

Segment name	Main products
Automotive Parts Business	Automotive power transmission belt products (accessory drive power transmission belts and system products), motorcycle power transmission belt products (variable speed belts for scooters, etc.)
Industrial Products Business	Industrial power transmission belt products (industrial machinery V-belts, toothed belts, pulleys, etc.), other power transmission products, conveyor belts (conveyor belts, resin conveyor belts, synchronous conveyor belts), conveyor system products, rice-hulling rolls, etc.
Advanced Elastomer Products Business	Cleaning blades, high-performance rollers, precision belts, polyurethane functional parts, precision polishing materials, films for construction materials, medical films, decorative display films, industrial films, etc.

(2) Methods of measurement for sales, profit or loss, assets and other items by reportable segments

The accounting treatments applied to the reportable segments is the same as those described in Note 3, "Summary of Significant Accounting Policies." Segment profit is based on operating income. Intersegment sales are based on market prices.

(3) Sales, profit or loss, assets and other items by reportable segments

Millions of yen

2018

	Reportable segments							
	Automotive Parts Business	Industrial Products Business	Advanced Elastomer Products Business	Total reportable segments	Other	Total	Adjustments	Consolidated Financial Statements
Net sales								
Sales to customers	¥ 41,617	¥ 32,281	¥ 15,128	¥ 89,026	¥ 2,237	¥ 91,263	¥ —	¥ 91,263
Intersegment sales	84	88	33	205	495	700	(700)	-
Total	¥ 41,701	¥ 32,369	¥ 15,161	¥ 89,231	¥ 2,732	¥ 91,963	¥ (700)	¥ 91,263
Segment profit (loss)	¥ 3,264	¥ 1,907	¥ 429	¥ 5,600	¥ 317	¥ 5,917	¥ 419	¥ 6,336
Segment assets	¥ 35,459	¥ 31,817	¥ 11,532	¥ 78,808	¥ 2,424	¥ 81,232	¥ 18,004	¥ 99,236
Other:								
Depreciation and amortization	¥ 2,330	¥ 1,239	¥ 751	¥ 4,320	¥ 98	¥ 4,418	¥ 49	¥ 4,467
Increase in property, plant and equipment and other intangible assets	¥ 2,868	¥ 988	¥ 574	¥ 4,430	¥ 113	¥ 4,543	¥ 587	¥ 5,130
Impairment loss	¥ —	¥ —	¥ 185	¥ 185	¥ —	¥ 185	¥ —	¥ 185

	Millions of yen 2017							
	Reportable segments							
	Automotive Parts Business	Industrial Products Business	Advanced Elastomer Products Business	Total reportable segments	Other	Total	Adjustments	Consolidated Financial Statements
Net sales								
Sales to customers	¥ 40,233	¥ 31,368	¥ 14,777	¥ 86,378	¥ 2,009	¥ 88,387	¥ —	¥ 88,387
Intersegment sales	88	78	137	303	501	804	(804)	—
Total	¥ 40,321	¥ 31,446	¥ 14,914	¥ 86,681	¥ 2,510	¥ 89,191	¥ (804)	¥ 88,387
Segment profit (loss)	¥ 2,937	¥ 1,992	¥ 294	¥ 5,223	¥ 427	¥ 5,650	¥ 246	¥ 5,896
Segment assets	¥ 34,001	¥ 29,159	¥ 11,000	¥ 74,160	¥ 2,403	¥ 76,563	¥ 20,132	¥ 96,695
Other:								
Depreciation and amortization	¥ 2,172	¥ 1,184	¥ 686	¥ 4,042	¥ 102	¥ 4,144	¥ 38	¥ 4,182
Increase in property, plant and equipment and other intangible assets	¥ 2,050	¥ 950	¥ 672	¥ 3,672	¥ 15	¥ 3,687	¥ 872	¥ 4,559
Impairment loss	¥ —	¥ —	¥ 18	¥ 18	¥ —	¥ 18	¥ —	¥ 18

	Thousands of U.S. dollars 2018							
	Reportable segments							
	Automotive Parts Business	Industrial Products Business	Advanced Elastomer Products Business	Total reportable segments	Other	Total	Adjustments	Consolidated Financial Statements
Net sales								
Sales to customers	**$391,686**	**$ 303,829**	**$ 142,379**	**$ 837,894**	**$ 21,060**	**$858,954**	**$ —**	**$858,954**
Intersegment sales	**794**	**827**	**309**	**1,930**	**4,654**	**6,584**	**(6,584)**	**—**
Total	**$392,480**	**$ 304,656**	**$ 142,688**	**$ 839,824**	**$ 25,714**	**$865,538**	**$ (6,584)**	**$858,954**
Segment profit (loss)	**$ 30,715**	**$ 17,952**	**$ 4,041**	**$ 52,708**	**$ 2,982**	**$ 55,690**	**$ 3,947**	**$ 59,637**
Segment assets	**$333,727**	**$ 299,456**	**$ 108,538**	**$ 741,721**	**$ 22,817**	**$764,538**	**$ 169,448**	**$933,986**
Other:								
Depreciation and amortization	**$ 21,927**	**$ 11,658**	**$ 7,074**	**$ 40,659**	**$ 924**	**$ 41,583**	**$ 460**	**$ 42,043**
Increase in property, plant and equipment and other intangible assets	**$ 27,000**	**$ 9,299**	**$ 5,399**	**$ 41,698**	**$ 1,063**	**$ 42,761**	**$ 5,526**	**$ 48,287**
Impairment loss	**$ -**	**$ -**	**$ 1,739**	**$ 1,739**	**$ -**	**$ 1,739**	**$ -**	**$ 1,739**

*1 "Other" category represents operating segments not included in reportable segments.

*2 "Adjustments" are as follows:

(a) Adjustments of segment profit (loss) include ¥12 million ($115 thousand) and ¥16 million of the elimination of intersegment transactions, and ¥407 million ($3,882 thousand) and ¥230 million of corporate expenses for the years ended March 31, 2018 and 2017, respectively. Corporate expenses represent differences between the estimated general administrative expenses and research and development costs allocated to each reportable segment and the actual amount incurred.

(b) Adjustments of segment assets include ¥(4,690) million ($(44,143) thousand) and ¥(3,522) of the elimination of intersegment balances, and ¥22,694 million ($213,591 thousand) and ¥23,654 of corporate assets for the years ended March 31, 2018 and 2017, respectively.

(c) Adjustments of "Increase in property, plant and equipment and other intangible assets" is principally related to those not attributable to reportable segments.

*3 "Segment profit (loss)" is adjusted to operating income described in the consolidated statements of income.

*4 "Depreciation and amortization" includes amortization of long-term prepaid expenses.

*5 "Increase in property, plant and equipment and other intangible assets" includes an increase in long-term prepaid expenses.

Information related to reportable segments

Information about geographic areas was as follows:

(a) Net sales

Millions of yen									
2018					2017				
Japan	Asia	China	Other	Total	Japan	Asia	China	Other	Total
¥45,964	**¥25,871**	**¥9,034**	**¥10,394**	**¥91,263**	¥45,787	¥22,207	¥10,264	¥10,129	¥88,387

Thousands of U.S. dollars				
2018				
Japan	Asia	China	Other	Total
$432,607	**$243,493**	**$85,030**	**$97,824**	**$858,954**

(b) Property, plant and equipment

Millions of yen									
2018					2017				
Japan	Asia	China	Other	Total	Japan	Asia	China	Other	Total
¥17,680	**¥8,055**	**¥1,390**	**¥2,284**	**¥29,409**	¥17,765	¥7,426	¥1,281	¥2,665	¥29,137

Thousands of U.S. dollars				
2018				
Japan	Asia	China	Other	Total
$166,396	**$75,816**	**$13,078**	**$21,501**	**$276,791**

17. Impairment loss

The details of Impairment loss for the year ended March 31, 2018 and 2017 were as follows:

For the year ended March 31, 2018

			Amount	
Purpose of use	Location	Asset type	Millions of yen	Thousands of U.S. dollars
Business assets	Ashikaga, Tochigi	Buildings and structures	**¥ 85**	**$ 797**
		Machinery and equipment	**96**	**902**
		Construction in progress	**4**	**38**
		Other	**0**	**2**
	Total		**¥ 185**	**$ 1,739**

For the year ended March 31, 2017

			Amount
Purpose of use	Location	Asset type	Millions of yen
Business assets	Ashikaga, Tochigi	Machinery and equipment	¥ 8
		Construction in progress	9
		Other	1
	Total		¥ 18

In reviewing impairment loss, the Companies classify their operating assets mainly by operating division and idle assets by individual property.

As the recoverable amount of business assets, which is the aggregate of the undiscounted future cash flow, fell below the book value due to continued operating loss, the Company wrote down their book value and recognized impairment loss for the amount written down.

Recoverable amounts are measured using value in use, and value in use is determined as zero due to negative future cash flow.

18. Business combination

(Transaction under common control)

Merger of Nishinihon Bando Co., Ltd. and Higashinihon Bando Co., Ltd.,

1. Overview of business combination

(1) Names and business description of the merging companies

Surviving company

Name of company: Nishinihon Bando Co., Ltd.

Business description: Processing and sales of power transmission belt products, conveyor belts, polyurethane functional parts

Absorbed company

Name of company: Higashinihon Bando Co., Ltd.

Business description: Processing and sales of power transmission belt products, conveyor belts, polyurethane functional parts

(2) Date of business combination

April 1, 2017

(3) Legal form of business combination

Absorption-type merger with Nishinihon Bando Co., Ltd. as the surviving company and Higashinihon Bando Co., Ltd. as the absorbed company

(4) Name of company after the business combination

Bando Industrial Components & Services, Ltd

(5) Other matters

The aims of merging the Company's two domestic sales subsidiaries are to expand business as a nationwide company while firmly maintaining community-based sales system and to enhance the Group's profitability through securing consistent sales strategies among the Group and further improving management efficiency.

2. Outline of accounting treatment applied

The Company accounted for the business combination as a transaction under common control in accordance with "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".