

CONSOLIDATED FINANCIAL STATEMENTS

GLORY LTD. and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2017

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 77,051	¥ 67,133	\$ 686,790
Short-term investments (Notes 5 and 15)	242	1,420	2,157
Receivables (Note 15):			
Trade notes	4,065	3,683	36,233
Trade accounts	42,876	46,212	382,173
Unconsolidated subsidiaries and associated company	308	876	2,745
Other	681	439	6,070
Investments in leases (Notes 14 and 15)	2,824	2,917	25,172
Inventories (Note 6)	46,126	43,371	411,142
Deferred tax assets (Note 11)	4,905	4,529	43,720
Other current assets	2,023	1,907	18,032
Allowance for doubtful accounts	(503)	(675)	(4,483)
Total current assets	180,598	171,812	1,609,751
PROPERTY, PLANT AND EQUIPMENT:			
Land	11,920	11,955	106,248
Buildings and structures	34,905	34,199	311,124
Machinery and equipment	13,504	12,396	120,367
Furniture and fixtures	57,407	58,053	511,695
Construction in progress	157	59	1,399
Total	117,893	116,662	1,050,833
Accumulated depreciation	(82,235)	(80,829)	(732,997)
Net property, plant and equipment	35,658	35,833	317,836
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 15)	9,106	7,654	81,166
Investments in unconsolidated subsidiaries and associated company (Note 15)	905	1,112	8,067
Software	3,931	3,938	35,039
Goodwill	51,573	63,797	459,693
Customer relationships	22,221	27,344	198,066
Deferred tax assets (Note 11)	3,323	4,335	29,619
Other investments and other assets	5,700	5,907	50,806
Allowance for doubtful accounts	(194)	(59)	(1,729)
Total investments and other assets	96,565	114,028	860,727
TOTAL	¥ 312,821	¥ 321,673	\$ 2,788,314

See notes to consolidated financial statements.

<u>LIABILITIES AND EQUITY</u>	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u> <u>(Note 1)</u>
CURRENT LIABILITIES:			<u>2017</u>
Short-term borrowings (Notes 7 and 15)	¥ 25,603	¥ 16,886	\$ 228,211
Current portion of long-term debt (Notes 7 and 15)	8,844	9,424	78,831
Current portion of long-term lease obligations (Notes 7, 14 and 15)	949	950	8,458
Payables (Note 15):			
Trade notes	1,054	1,169	9,395
Trade accounts	17,247	17,346	153,730
Unconsolidated subsidiaries and associated company	929	1,148	8,281
Other	4,407	3,428	39,282
Income taxes payable (Note 15)	2,904	2,230	25,885
Accrued expenses	16,195	16,090	144,353
Deferred income	10,872	9,917	96,907
Provision for stock grant to directors and executive officers (Note 9)	62	68	553
Other current liabilities	<u>3,378</u>	<u>2,964</u>	<u>30,109</u>
Total current liabilities	<u>92,444</u>	<u>81,620</u>	<u>823,995</u>
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	13,271	22,629	118,290
Liability for retirement benefits (Note 8)	4,419	6,608	39,389
Long-term lease obligations (Notes 7, 14 and 15)	1,745	1,667	15,554
Deferred tax liabilities (Note 11)	6,458	8,444	57,563
Provision for stock grant to directors and executive officers (Note 9)	117	68	1,043
Other long-term liabilities	<u>2,924</u>	<u>2,350</u>	<u>26,063</u>
Total long-term liabilities	<u>28,934</u>	<u>41,766</u>	<u>257,902</u>
CONTINGENT LIABILITIES (Note 17)			
EQUITY (Notes 10 and 19):			
Common stock,			
Authorized: 150,000,000 shares in 2017 and 2016;			
Issued: 68,638,210 shares in 2017 and 2016	12,893	12,893	114,921
Capital surplus	20,974	20,952	186,951
Retained earnings	158,504	151,654	1,412,817
Treasury stock - at cost (Note 9)			
4,496,099 shares in 2017 and 2,749,737 shares in 2016	(12,090)	(6,142)	(107,764)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	822	236	7,327
Foreign currency translation adjustments	8,182	17,820	72,929
Defined retirement benefit plans	<u>(1,336)</u>	<u>(2,572)</u>	<u>(11,908)</u>
Total	187,949	194,841	1,675,273
Noncontrolling interests	<u>3,494</u>	<u>3,446</u>	<u>31,144</u>
Total equity	<u>191,443</u>	<u>198,287</u>	<u>1,706,417</u>
TOTAL	<u>¥ 312,821</u>	<u>¥ 321,673</u>	<u>\$ 2,788,314</u>

GLORY LTD. and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2017</u>	<u>2016</u>	<u>2017</u>
NET SALES	¥ 222,581	¥ 226,952	\$ 1,983,965
COST OF SALES (Note 13)	<u>135,908</u>	<u>137,357</u>	<u>1,211,409</u>
Gross profit	86,673	89,595	772,556
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 13)	<u>66,308</u>	<u>69,043</u>	<u>591,033</u>
Operating income	<u>20,365</u>	<u>20,552</u>	<u>181,523</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	542	456	4,831
Interest expense	(585)	(661)	(5,214)
Foreign currency exchange (loss) gain – net	(3,459)	(3,395)	(30,832)
Other – net	<u>298</u>	<u>814</u>	<u>2,656</u>
Other expenses net	<u>(3,204)</u>	<u>(2,786)</u>	<u>(28,559)</u>
INCOME BEFORE INCOME TAXES	17,161	17,766	152,964
INCOME TAXES (Note 11):			
Current	(6,870)	(6,439)	(61,236)
Deferred	<u>1,133</u>	<u>(1,231)</u>	<u>10,099</u>
Total income taxes	<u>(5,737)</u>	<u>(7,670)</u>	<u>(51,137)</u>
NET INCOME	11,424	10,096	101,827
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(1,041)</u>	<u>(1,267)</u>	<u>(9,279)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 10,383</u>	<u>¥ 8,829</u>	<u>\$ 92,548</u>
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.u):			
Basic net income	¥160.35	¥134.38	\$1.43
Cash dividends applicable to the year	60.00	56.00	0.53

See notes to consolidated financial statements.

GLORY LTD. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2017</u>	<u>2016</u>	<u>2017</u>
NET INCOME	¥ 11,424	¥ 10,096	\$ 101,827
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized gain (loss) on available-for-sale securities	586	(828)	5,223
Foreign currency translation adjustments	(9,971)	(7,678)	(88,876)
Defined retirement benefit plan	<u>1,236</u>	<u>(5,102)</u>	<u>11,017</u>
Total other comprehensive income (loss)	<u>(8,149)</u>	<u>(13,608)</u>	<u>(72,636)</u>
COMPREHENSIVE INCOME (LOSS)	<u>¥ 3,275</u>	<u>¥ (3,512)</u>	<u>\$ 29,191</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE			
TO:			
Owners of the parent	¥2,437	¥(4,451)	\$21,722
Noncontrolling interests	838	939	7,469

See notes to consolidated financial statements.

GLORY LTD. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2017

	Thousands of Shares		Millions of Yen			
	Common Stock	Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2015	68,638	(2,951)	¥ 12,893	¥ 20,630	¥ 145,166	¥ (5,818)
Net income attributable to owners of the parent					8,829	
Cash dividends, ¥57 per share					(3,750)	
Purchase of treasury stock		(0)				(722)
Disposal of treasury stock		202		322		398
Change in scope of consolidation (Note 2.a)					1,409	
Net change in the year						
BALANCE, MARCH 31, 2016	68,638	(2,749)	12,893	20,952	151,654	(6,142)
Net income attributable to owners of the parent					10,383	
Cash dividends, ¥59 per share					(3,864)	
Purchase of treasury stock		(1,774)				(6,082)
Disposal of treasury stock		27		22		134
Change in scope of consolidation (Note 2.a)					371	
Adjustments due to change in accounting period of consolidated subsidiaries					(40)	
Net change in the year						
BALANCE, MARCH 31, 2017	<u>68,638</u>	<u>(4,496)</u>	<u>¥ 12,893</u>	<u>¥ 20,974</u>	<u>¥ 158,504</u>	<u>¥ (12,090)</u>

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
	BALANCE, APRIL 1, 2016	\$ 114,921	\$ 186,755	\$ 1,351,760
Net income attributable to owners of the parent			92,548	
Cash dividends, \$0.53 per share			(34,441)	
Purchase of treasury stock				(54,212)
Disposal of treasury stock		196		1,194
Change in scope of consolidation (Note 2.a)			3,307	
Adjustments due to change in accounting period of consolidated subsidiaries			(357)	
Net change in the year				
BALANCE, MARCH 31, 2017	<u>\$ 114,921</u>	<u>\$ 186,951</u>	<u>\$ 1,412,817</u>	<u>\$ (107,764)</u>

See notes to consolidated financial statements.

Millions of Yen					
Accumulated Other Comprehensive Income					
Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
¥ 1,064	¥ 24,963	¥ 2,533	¥ 201,431	¥ 3,114	¥ 204,545
			8,829		8,829
			(3,750)	(605)	(4,355)
			(722)		(722)
			720		720
	206	(3)	1,612		1,612
(828)	(7,349)	(5,102)	(13,279)	937	(12,342)
236	17,820	(2,572)	194,841	3,446	198,287
			10,383		10,383
			(3,864)	(791)	(4,655)
			(6,082)		(6,082)
			156		156
	130		501		501
			(40)		(40)
586	(9,768)	1,236	(7,946)	839	(7,107)
<u>¥ 822</u>	<u>¥ 8,182</u>	<u>¥ (1,336)</u>	<u>¥ 187,949</u>	<u>¥ 3,494</u>	<u>¥ 191,443</u>

Thousands of U.S. Dollars (Note 1)					
Accumulated Other Comprehensive Income					
Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
\$ 2,104	\$ 158,837	\$ (22,925)	\$ 1,736,706	\$ 30,716	\$ 1,767,422
			92,548		92,548
			(34,441)	(7,051)	(41,492)
			(54,212)		(54,212)
			1,390		1,390
	1,159		4,466		4,466
			(357)		(357)
5,223	(87,067)	11,017	(70,827)	7,479	(63,348)
<u>\$ 7,327</u>	<u>\$ 72,929</u>	<u>\$ (11,908)</u>	<u>\$ 1,675,273</u>	<u>\$ 31,144</u>	<u>\$ 1,706,417</u>

GLORY LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2017</u>	<u>2016</u>	<u>2017</u>
OPERATING ACTIVITIES:			
Income before income taxes	¥ 17,161	¥ 17,766	\$ 152,964
Adjustments for:			
Income taxes – paid	(5,871)	(7,819)	(52,331)
Depreciation and amortization	9,469	10,328	84,401
Amortization of goodwill	4,073	5,054	36,304
Provision for doubtful receivables	20	159	178
Net gain on sales of investment securities	(19)	(283)	(169)
Changes in assets and liabilities, net of affects from newly consolidated subsidiaries:			
Decrease in trade notes and accounts receivable	841	3,511	7,496
Increase in inventories	(4,288)	(2,429)	(38,221)
Increase (decrease) in notes, accounts and other payable	2,791	(2,828)	24,877
Decrease in interest payable	(31)	(15)	(276)
(Decrease) increase in liability for retirement benefits	(748)	3,523	(6,667)
Increase in provision for stock grant to directors and executive officers	42	136	374
Increase (decrease) in lease obligations	81	(60)	722
Decrease (increase) in leased investment assets	93	(198)	829
Increase (decrease) in accrued consumption taxes	690	(1,624)	6,150
Increase in accrued expenses	1,808	1,039	16,116
Other – net	3,976	1,882	35,441
Total adjustments	<u>12,927</u>	<u>10,376</u>	<u>115,224</u>
Net cash provided by operating activities	<u>30,088</u>	<u>28,142</u>	<u>268,188</u>
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	54	66	481
Purchases of property, plant and equipment	(5,221)	(8,410)	(46,537)
Purchases of intangible assets	(1,556)	(1,607)	(13,869)
Proceeds from sales and redemption of investment securities	755	3,408	6,730
Purchases of investment securities	(871)	(476)	(7,764)
Decrease (increase) in time deposits – net	786	(220)	7,006
Acquisition of investments in subsidiaries with changes in scope of consolidation	(315)	(450)	(2,808)
Other – net	(265)	(26)	(2,362)
Net cash used in investing activities	<u>(6,633)</u>	<u>(7,715)</u>	<u>(59,123)</u>
	<u>¥ 23,455</u>	<u>¥ 20,427</u>	<u>\$ 209,065</u>

GLORY LTD. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2017</u>	<u>2016</u>	<u>2017</u>
FORWARD	¥ 23,455	¥ 20,427	\$ 209,065
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings – net	8,819	(2,500)	78,609
Repayments of long-term debt	(9,128)	(9,987)	(81,362)
Purchase of treasury stock	(6,082)	(722)	(54,212)
Disposal of treasury stock	82	721	731
Dividends paid	(3,864)	(3,750)	(34,441)
Dividends paid for noncontrolling interests	(791)	(606)	(7,052)
Other – net		(1)	
Net cash used in financing activities	<u>(10,964)</u>	<u>(16,845)</u>	<u>(97,727)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(2,055)	(1,645)	(18,317)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,436	1,937	93,021
CASH AND CASH EQUIVALENTS OF NEWLY- CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	711	973	6,337
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO CHANGE IN ACCOUNTING PERIOD OF CONSOLIDATED SUBSIDIARIES	(1,229)		(10,955)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>67,133</u>	<u>64,223</u>	<u>598,387</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 77,051</u>	<u>¥ 67,133</u>	<u>\$ 686,790</u>

See notes to consolidated financial statements.

GLORY LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2017

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which GLORY LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to \$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation* - The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 44 significant (39 in 2016) subsidiaries (together, the "Group"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Consolidated Subsidiaries

March 31, 2017		March 31, 2016	
Name	Year-End	Name	Year-End
Hokkaido GLORY Co., Ltd.	March 31	Hokkaido GLORY Co., Ltd.	March 31
GLORY NASCA Ltd.	March 31	GLORY NASCA Ltd.	March 31
GLORY Products Ltd.	March 31	GLORY Products Ltd.	March 31
Glory Global Solutions Inc.	March 31	Glory Global Solutions Inc.	March 31
Glory Global Solutions (Singapore) Pte. Ltd.	March 31	Glory Global Solutions (Singapore) Pte. Ltd.	March 31
Sitrade Italia S.p.A.	December 31	Sitrade Italia S.p.A.	December 31
GLORY Denshi Kogyo (Suzhou) Ltd.	March 31	GLORY Denshi Kogyo (Suzhou) Ltd.	December 31
GLORY (PHILIPPINES), INC.	March 31	GLORY (PHILIPPINES), INC. *1	March 31
Glory Global Solutions (Shanghai) Co., Ltd.	March 31	Glory Global Solutions (Shanghai) Co., Ltd.	December 31
Glory Global Solutions Ltd.	March 31	Glory Global Solutions Ltd.	March 31
Glory Global Solutions (International) Ltd.	March 31	Glory Global Solutions (International) Ltd.	March 31
Glory Global Solutions (France) S.A.S.	March 31	Glory Global Solutions (France) S.A.S.	March 31
32 other companies	March 31	27 other companies	March 31

Note: *1 GLORY (PHILIPPINES), INC. has been included in the scope of consolidation from this fiscal year due to its increase in materiality. This was not applied retrospectively, and the effects on the retained earnings are recognized as "change in scope of consolidation" in the consolidated statement of change in equity.

To increase the accuracy of consolidated financial information, a provisional settlement of accounts has been made on March 31 for 7 subsidiaries whose fiscal closing date is December 31, including GLORY Denshi Kogyo (Suzhou) Ltd., Glory Global Solutions (Shanghai) Co., Ltd., GLORY Denshi Kogyo (Shenzhen) Ltd.. Profit and loss which occurred from January 1, 2016 to March 31, 2016, has resulted in "adjustments due to change in accounting period of consolidated subsidiaries" in the consolidated statement of changes in equity. The balance sheet date of Sitrade Italia S.p.A. is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted as necessary.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in all unconsolidated subsidiaries and an associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition, which is presented as goodwill in the consolidated balance sheet, is being amortized over a reasonable estimated period.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. *Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** - Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.
- c. *Cash Equivalents*** - Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

- d. Inventories** - Inventories are stated at the lower of cost, determined by the periodic average method for finished products and work in process and by the moving average method for merchandise, raw materials and supplies, or net selling value.
- e. Short-Term Investments and Investment Securities** - Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, for which there is positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost, determined by the moving average method. For-other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- f. Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries other than buildings acquired on or after April 1, 1998, is computed by the declining-balance method, while depreciation of property, plant and equipment of its consolidated foreign subsidiaries is mainly computed by the straight-line method at rates based on estimated useful lives of the assets. Buildings of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 1998, and building improvements and structures of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 2016 are depreciated by the straight-line method.
- g. Long-Lived Assets** - The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- h. Software Costs** - The cost of software for sale is amortized at the higher of either the amount to be amortized in proportion to the actual sales volume of the software during the current year to the estimated total sales volume over the estimated salable years of the software or the amount to be amortized by the straight-line method over three years. The costs of software for internal use are amortized by the straight-line method over the estimated useful life of five years.
- i. Customer Relationships** - Customer relationships are carried at cost less accumulated amortization, which is calculated by the straight-line method over 20 years.
- j. Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the accounts outstanding.
- k. Retirement and Pension Plans** - The liability (asset) for retirement benefits of employees is accounted for based on projected benefit obligations and plan assets at the consolidated balance sheet date. The actuarial differences are mainly amortized from the next year using the declining-balance method over 15 years which is within the average remaining service period. The prior service costs are mainly amortized by the declining-balance method over 15 years, which is within the average remaining service period. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (Prepaid for retirement benefits).

- l. Asset Retirement Obligations** - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- m. Employee and Management Stock Ownership Plan** - In accordance with PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts," upon transfer of treasury stock to the employee stock-ownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year-end, the Company shall record (1) the Company stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust. (See Note 9)
- n. Research and Development Costs** - Research and development costs are charged to income as incurred.
- o. Leases (Lessee)** - Finance lease assets that do not transfer ownership of the property to the lessee are depreciated using the straight-line method over the lease term with no residual value.
- p. Bonuses to Directors** - Bonuses to directors are accrued at the year-end to which such bonuses are attributable.
- q. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly-owned domestic subsidiaries.

- r. Foreign Currency Transactions** - Both short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts or currency swaps.

However, receivables denominated in a foreign currency that is covered by forward exchange contracts are translated at the contract rate. Long-term debt denominated in a foreign currency that is covered by a currency swap is translated at the contract rate. The difference resulting from receivables and long-term debt translated at the historical rate and the contract rate is credited (charged) to income as an interest adjustment.

- s. **Foreign Currency Financial Statements** - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" and "Non-controlling interests" in equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- t. **Derivatives and Hedging Activities** - The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Foreign exchange forward contracts, interest rate and currency swaps and interest rate swaps are utilized by the Group to reduce foreign currency exchange rate and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures for export sales. Deposits and trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Long-term debt denominated in foreign currencies for which interest rate and currency swaps are used to hedge the foreign currency fluctuations are translated at the contracted rate if the interest rate and currency swaps qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

- u. **Per Share Information** - Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because there are no potentially dilutive securities outstanding.

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

The Company's own stock in "Board Incentive Plan (BIP) Trust Account" and "Employee Stock Ownership Plan (ESOP) Trust Account" (See Note 9) recorded as treasury shares within equity includes treasury stock excluded from the average number of shares during the period used for calculating net income per share and treasury shares excluded from the number of shares outstanding at the end of the fiscal year used for calculating net asset per share.

- v. **Accounting Changes and Error Corrections** - Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

3. ACCOUNTING CHANGE

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

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

4. BUSINESS COMBINATION

Transactions between Entities under Common Control

As of February 28, 2017, the Company invested in loans of Glory Global Solutions Ltd., which is wholly-owned subsidiary of the Company, and underwrote preferred stock.

1. Outline of business combination

(1) Name of combining entities and details of business

① Name of combining entities

The Company and GLORY Global Solutions Ltd.

② Details of business

The business of the Company primarily involves manufacturing, sale, and maintenance of money handling machines. The business of GLORY Global Solutions Ltd. primarily involves strategy-making and management of overseas business.

(2) Date of business combination

February 28, 2017

(3) Legal form of the business combination

Acquisition of shares through in kind contribution of loans (Debt Equity Swap)

(4) Entity name after combination

No change in entity name

(5) Other information

The Company underwrote the capital increase with the aim of improving the financial position of GLORY Global Solutions Ltd. through a debt equity swap.

2. Overview of accounting treatment

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

3. Matters related to additional acquisition of the subsidiary's share

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	<u>¥ 11,434</u>	<u>\$ 101,916</u>
Purchase price (the nominal amount of the claim to be invested in kind)	<u>¥ 11,434</u>	<u>\$ 101,916</u>

5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Short-term investments:			
Time deposits other than cash equivalents	¥ 242	¥ 920	\$ 2,157
Government, corporate, and other bonds	<u> </u>	<u>500</u>	<u> </u>
Total	<u>¥ 242</u>	<u>¥ 1,420</u>	<u>\$ 2,157</u>
Investment securities:			
Marketable equity securities	¥ 4,704	¥ 3,839	\$ 41,929
Nonmarketable equity securities	478	463	4,260
Government, corporate, and other bonds	2,603	2,717	23,202
Other	<u>1,321</u>	<u>635</u>	<u>11,775</u>
Total	<u>¥ 9,106</u>	<u>¥ 7,654</u>	<u>\$ 81,166</u>

The costs and aggregate fair values of marketable and investment securities at March 31, 2017 and 2016, were as follows:

<u>March 31, 2017</u>	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,579	¥1,181	¥(56)	¥4,704
Government bonds	3			3
Corporate bonds	23			23
Other	1,261	60		1,321
Held-to-maturity:				
Government bonds	1,000	50		1,050
Corporate bonds	1,577	42	(9)	1,610

<u>March 31, 2016</u>	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,525	¥687	¥(373)	¥3,839
Government bonds	3			3
Corporate bonds	29		(0)	29
Other	609	26	(0)	635
Held-to-maturity:				
Government bonds	1,000	66		1,066
Corporate bonds	2,186	52	(9)	2,229

<u>March 31, 2017</u>	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$31,901	\$10,518	\$(490)	\$41,929
Government bonds	27			27
Corporate bonds	205			205
Other	11,240	535		11,775
Held-to-maturity:				
Government bonds	8,913	446		9,359
Corporate bonds	14,057	374	(71)	14,360

Available-for-sale securities sold during the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Proceeds from sales	¥63	¥808	\$562
Gain on sales	19	283	169
Loss on sales	0		0

The Group recognized ¥9 million (\$80 thousand) in loss on valuation of investment securities for the year ended March 31, 2017.

6. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Finished products and merchandise	¥ 26,099	¥ 25,381	\$ 232,632
Work in process	8,491	6,527	75,684
Raw materials and supplies	<u>11,536</u>	<u>11,463</u>	<u>102,826</u>
Total	<u>¥ 46,126</u>	<u>¥ 43,371</u>	<u>\$ 411,142</u>

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

(a) Short-term borrowings as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Loans from banks and an insurance company	¥25,603	¥16,886	\$228,211

The annual average interest rate applicable to short-term borrowings at March 31, 2017 and 2016, was 0.8% and 0.8%, respectively.

(b) Long-term debt and lease obligations as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Loans from banks	¥ 22,115	¥ 32,053	\$ 197,121
Obligations under finance leases	<u>2,694</u>	<u>2,617</u>	<u>24,012</u>
Total	24,809	34,670	221,133
Less current portion	<u>(9,793)</u>	<u>(10,374)</u>	<u>(87,289)</u>
Long-term debt and lease obligations, less current portion	<u>¥ 15,016</u>	<u>¥ 24,296</u>	<u>\$ 133,844</u>

The annual average interest rate applicable to long-term debt at March 31, 2017 and 2016, was 1.2% and 1.2%, respectively.

(c) Annual maturities of long-term debt and lease obligations as of March 31, 2017, were as follows:

<u>Years Ending March 31</u>	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 9,793	\$ 87,289
2019	9,496	84,642
2020	4,908	43,747
2021	283	2,523
2022 and thereafter	<u>329</u>	<u>2,932</u>
Total	<u>¥ 24,809</u>	<u>\$ 221,133</u>

8. RETIREMENT AND PENSION PLANS

Employees of the Company and its domestic consolidated subsidiaries are covered by non-contributory and contributory funded defined benefit pension plans, and severance lump-sum payment plans. Certain foreign consolidated subsidiaries have contribution plans and defined benefit plans.

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u> <u>2017</u>
Balance at beginning of year (as previously reported)	¥ 57,337	¥ 50,727	\$ 511,071
Current service cost	2,519	2,376	22,453
Interest cost	412	620	3,672
Actuarial (gains) losses	(413)	5,236	(3,681)
Benefits paid	(1,417)	(1,505)	(12,630)
Past service cost	(107)	9	(954)
Others	177	(125)	1,577
Balance at end of year	<u>¥ 58,508</u>	<u>¥ 57,338</u>	<u>\$ 521,508</u>

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u> <u>2017</u>
Balance at beginning of year	¥ 50,730	¥ 51,303	\$ 452,179
Expected return on plan assets	363	645	3,236
Actuarial losses (gains)	727	(1,476)	6,480
Contributions from the employer	3,421	1,516	30,493
Benefits paid	(1,336)	(1,404)	(11,908)
Others	184	146	1,640
Balance at end of year	<u>¥ 54,089</u>	<u>¥ 50,730</u>	<u>\$ 482,120</u>

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u> <u>2017</u>
Funded defined benefit obligation	¥ 57,758	¥ 56,580	\$ 514,823
Plan assets	<u>(54,089)</u>	<u>(50,730)</u>	<u>(482,120)</u>
Total	3,669	5,850	32,703
Unfunded defined benefit obligation	<u>750</u>	<u>758</u>	<u>6,686</u>
Net liability for defined benefit obligation	<u>¥ 4,419</u>	<u>¥ 6,608</u>	<u>\$ 39,389</u>

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Liability for retirement benefits	<u>¥ 4,419</u>	<u>¥ 6,608</u>	<u>\$ 39,389</u>
Net liability for defined benefit obligation	<u>¥ 4,419</u>	<u>¥ 6,608</u>	<u>\$ 39,389</u>

- (4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Service cost	¥ 2,519	¥ 2,376	\$ 22,453
Interest cost	412	620	3,672
Expected return on plan assets	(363)	(645)	(3,236)
Recognized actuarial losses (gains)	596	(365)	5,312
Amortization of prior service cost	<u>(160)</u>	<u>(157)</u>	<u>(1,426)</u>
Net periodic benefit costs	<u>¥ 3,004</u>	<u>¥ 1,829</u>	<u>\$ 26,775</u>

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Prior service cost	¥ (52)	¥ (166)	\$ (464)
Actuarial losses (gains)	<u>1,736</u>	<u>(7,077)</u>	<u>15,474</u>
Total	<u>¥ 1,684</u>	<u>¥ (7,243)</u>	<u>\$ 15,010</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2017</u>	<u>2016</u>	<u>2017</u>
Unrecognized prior service cost	¥ 320	¥ 372	\$ 2,852
Unrecognized actuarial gains	<u>(2,192)</u>	<u>(3,927)</u>	<u>(19,538)</u>
Total	<u>¥ (1,872)</u>	<u>¥ (3,555)</u>	<u>\$ (16,686)</u>

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Debt investments	43%	46%
Equity investments	25	25
Cash and cash equivalents		1
General account assets of life insurance	18	14
Others	<u>14</u>	<u>14</u>
Total	<u>100%</u>	<u>100%</u>

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2017 and 2016, are set forth as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	Mainly 0.6 - 1.0%	Mainly 0.6 - 1.0%
Expected rate of return on plan assets	Mainly 0.6 - 1.0%	Mainly 0.9 - 1.5%

(9) Defined contribution pension plan

Contributions to the defined contribution pension plan of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016, were ¥526 million (\$4,688 thousand) and ¥617 million, respectively.

9. STOCK INCENTIVE PLAN FOR DIRECTORS AND EXECUTIVE OFFICERS

Stock Incentive Plan for Members of the Board of Directors

With the aim of improving medium-and-long term corporate achievement and to improve corporate value by encouraging Board members to enhance stock value, the Company has introduced a performance based stock incentive plan (the "Board Incentive Plan (BIP)") for Board members (excluding external directors and part-time directors) and Presidents of domestic subsidiaries (Board members).

Overview of the Stock Plan

The Plan specifies Board members who meet certain requirements as beneficiaries. The Company has established a trust (the "BIP Trust") into which the Company contributes the funds required to purchase the number of Company's shares expected to be delivered to its Board members according to established granting policies. A third-party administrator purchases the Company's shares using the funds in the BIP trust. According to the rules for granting shares, the BIP Trust delivers the Company's shares to the eligible Board members on an annual basis or at the time of retirement, based on the Board Member's position and achievements.

Matters Relating to the Company Shares Held by the Trust

The shares held by the BIP Trust are recorded as treasury stock within equity at the stock's carrying value. The carrying amount of shares and the number of shares held by the BIP Trust was ¥180 million (\$1,604 thousand) and 55,365 shares as of March 31, 2017, ¥107 million and 30,000 shares as of March 31, 2016 respectively.

Stock Incentive Plan for Executive Officers

With the aim of improving medium-and-long term corporate achievement and to improve corporate value by encouraging management to enhance stock value, the Company has introduced a stock incentive plan (the "Employee Stock Ownership Plan (ESOP)") for certain executive officers.

Overview of the Incentive Plan

The Plan specifies certain executive officers who meet certain requirements as beneficiaries. The Company established a trust (the "ESOP Trust") into which the Company contributes the funds required to purchase the number of Company's shares expected to be delivered to certain executive officers according to established granting policies. A third-party administrator purchases the Company's shares using the funds in the ESOP trust. According to the rules for granting shares, the ESOP Trust delivers the Company's shares to the eligible executive officers on an annual basis or at the time of retirement, based on the executive officers' position and achievements.

Matters Relating to the Company Shares Held by the Trust

The shares held by the ESOP Trust are recorded as treasury stock within equity at the stock's carrying value. The carrying amount of shares and the number of shares held by the ESOP Trust was ¥548 million (\$4,885 thousand) and 153,585 shares as of March 31, 2017, ¥614 million and 172,000 shares as of March 31, 2016, respectively.

Per Share Information

As noted in Note 2.u, the Company applied PITF No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts." Due to the method by which that net assets per share are calculated, the Company's shares remaining in the "Board Incentive Plan (BIP) Trust Account" and "Employee Stock Ownership Plan (ESOP) Trust Account" and recorded as treasury shares, are included in treasury shares subtracted from shares issued as of the end of the period (208,950 shares for the current fiscal year and 202,000 shares for the previous fiscal year, respectively). Also, due to the method by which net income per share is calculated, shares of the above trusts are included in the treasury shares subtracted from the average number of shares during the period (203,195 shares in the current fiscal year and 117,557 shares in the previous fiscal year respectively).

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, such as (1) having the Board of Directors, (2) having independent auditors, (3) having a board of corporate auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

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

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights. (Except for treasury stock held by Board Incentive Plan (BIP) Trust and Employee Stock Ownership Plan (ESOP) Trust.)

11. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.8% and 33.1% for the years ended March 31, 2017 and 2016, respectively. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of March 31, 2017 and 2016, are as follows:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u>
Deferred tax assets due to:			<u>2017</u>
Liability for retirement benefits	¥ 1,215	¥ 1,822	\$ 10,830
Unrealized profit eliminated	1,198	1,260	10,678
Accrued bonuses	2,201	1,944	19,618
Research and development expenditures	1,367	1,342	12,185
Depreciation and amortization	347	347	3,093
Inventories	609	540	5,428
Loss on valuation of investment securities	155	150	1,382
Allowance for doubtful accounts	90	71	802
Other	2,183	2,444	19,458
Gross deferred tax assets	<u>9,365</u>	<u>9,920</u>	<u>83,474</u>
Less valuation allowance	<u>(786)</u>	<u>(847)</u>	<u>(7,006)</u>
Total gross deferred tax assets	<u>¥ 8,579</u>	<u>¥ 9,073</u>	<u>\$ 76,468</u>
Deferred tax liabilities due to:			
Intangibles assets	¥ (5,180)	¥ (7,038)	\$ (46,172)
Net unrealized gain on securities	(380)	(219)	(3,387)
Other	<u>(1,249)</u>	<u>(1,396)</u>	<u>(11,133)</u>
Total gross deferred tax liabilities	<u>(6,809)</u>	<u>(8,653)</u>	<u>(60,692)</u>
Net deferred tax assets	<u>¥ 1,770</u>	<u>¥ 420</u>	<u>\$ 15,776</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Normal effective statutory tax rate	30.8%	33.1%
Expenses not deductible for income tax purposes, such as entertainment expenses	2.6	1.9
Income not taxable for income tax purposes	(2.4)	(1.1)
Tax credit related to research expenses	(4.5)	(5.1)
Amortization of goodwill	7.3	9.4
Tax rate differences with foreign consolidated subsidiaries	(1.5)	(2.3)
Valuation allowance	1.5	0.1
Effect of tax rate reduction		3.3
Per capita levy	0.9	0.8
Other – net	<u>(1.3)</u>	<u>3.1</u>
Actual effective tax rate	<u>33.4%</u>	<u>43.2%</u>

12. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general, and administrative expenses in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016, mainly consisted of the following:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u>
Employees' salaries and bonuses	¥23,817	¥24,825	\$212,292
Provision for employees' bonuses	4,011	3,903	35,752
Provision for stock grant to directors and executive officers	123	136	1,096
Retirement benefit expenses	1,861	1,445	16,588
Amortization of goodwill	4,073	5,054	36,304
Depreciation expense	4,347	5,054	38,747
Rent expense	4,605	4,651	41,046

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to administrative expenses and manufacturing costs for the years ended March 31, 2017 and 2016, were ¥13,965 million (\$124,476 thousand) and ¥12,591 million, respectively.

14. LEASES

(a) Lessee

The minimum rental commitments under noncancelable operating leases as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u>
Due within one year	¥ 71	¥ 70	\$ 633
Due after one year	<u>368</u>	<u>429</u>	<u>3,280</u>
Total	<u>¥ 439</u>	<u>¥ 499</u>	<u>\$ 3,913</u>

(b) Lessor

The net investments in leases as of March 31, 2017 and 2016, are summarized as follows:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u>
Gross lease receivables	¥ 3,655	¥ 3,737	\$ 32,579
Unearned interest income	<u>831</u>	<u>820</u>	<u>7,407</u>
Investments in leases	<u>¥ 2,824</u>	<u>¥ 2,917</u>	<u>\$ 25,172</u>

Maturities of investment in leases for finance leases that are deemed not to transfer ownership of the leased property to the lessee as of March 31, 2017, are as follows:

<u>Years Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2018	¥ 1,046	\$ 9,323
2019	822	7,327
2020	624	5,562
2021	488	4,350
2022	351	3,129
2023 and thereafter	<u>324</u>	<u>2,888</u>
Total	<u>¥ 3,655</u>	<u>\$ 32,579</u>

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group invests cash surpluses in low-risk financial assets and uses financial instruments, such as short-term bank loans. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal policies, which include monitoring of payment terms and balances of each counterparty. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, they are hedged partially by using foreign currency forward contracts on the basis of internal policies.

Short-term investments and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Such instruments are managed by monitoring market values and the financial position of issuers on a regular basis.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Short-term borrowings are mainly used to fund the Group's ongoing operations. Long-term debt is utilized for financing of business transactions and capital investments. Although a part of such bank loans are exposed to foreign currency exchange rate and interest rate fluctuations, those risks are mitigated by using derivatives. As this method of hedging meets the requirements of the special treatment of interest rate swaps, we have not assessed the effectiveness of the method.

Derivatives include foreign currency forward contracts, interest rate swap agreements and currency swap agreements. Please see Note 16 for more details about derivatives.

(3) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Please see Note 16 for the details of fair value for derivatives.

(a) Fair value of financial instruments

The carrying amounts, fair values and unrealized gain/loss of financial instruments as of March 31, 2017 and 2016, were as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (b)).

<u>March 31, 2017</u>	<u>Millions of Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 77,051	¥ 77,051	¥
Receivables:			
Trade notes	4,065		
Trade accounts	42,876		
Unconsolidated subsidiaries and associated company	197		
Subtotal	47,138		
Allowance for doubtful accounts *1	(493)		
Receivables – net	46,645	46,643	(2)
Investments in leases	2,824		
Allowance for doubtful accounts *1	(10)		
Investments in leases – net	2,814	3,240	426
Short-term investments and investment securities	8,869	8,952	83
 Total	 ¥ 135,379	 ¥ 135,886	 ¥ 507
 Payables:			
Trade notes	¥ 1,054	¥ 1,054	¥
Trade accounts	17,247	17,247	
Unconsolidated subsidiaries and associated company	183	183	
Short-term borrowings	25,603	25,603	
Long-term debt	22,115	22,365	250
Income taxes payable	2,904	2,904	
Long-term lease obligations	2,694	2,686	(8)
 Total	 ¥ 71,800	 ¥ 72,402	 ¥ 242

<u>March 31, 2016</u>	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 67,133	¥ 67,133	¥
Receivables:			
Trade notes	3,683		
Trade accounts	46,212		
Unconsolidated subsidiaries and associated company	777		
Subtotal	50,672		
Allowance for doubtful accounts *1	(580)		
Receivables – net	50,092	50,094	2
Investments in leases	2,917		
Allowance for doubtful accounts *1	(95)		
Investments in leases – net	2,822	2,825	3
Short-term investments and investment securities	8,611	8,721	110
Total	¥ 128,658	¥ 128,773	¥ 115

Payables:			
Trade notes	¥ 1,169	¥ 1,169	¥
Trade accounts	17,346	17,346	
Unconsolidated subsidiaries and associated company	1,148	1,148	
Short-term borrowings	16,886	16,886	
Long-term debt	32,053	32,537	484
Income taxes payable	2,230	2,230	
Long-term lease obligations	2,617	2,571	(46)
Total	¥ 73,449	¥ 73,887	¥ 438

<u>March 31, 2017</u>	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 686,790	\$ 686,790	\$
Receivables:			
Trade notes	36,233		
Trade accounts	382,173		
Unconsolidated subsidiaries and associated company	1,756		
Subtotal	420,162		
Allowance for doubtful accounts *1	(4,394)		
Receivables – net	415,768	415,750	(18)
Investments in leases	25,172		
Allowance for doubtful accounts *1	(89)		
Investments in leases – net	25,083	28,880	3,797
Short-term investments and investment securities	79,053	79,793	740
Total	\$ 1,206,694	\$ 1,211,213	\$ 4,519

<u>March 31, 2017</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Payables:			
Trade notes	\$ 10,420	\$ 10,420	\$
Trade accounts	152,705	152,705	
Unconsolidated subsidiaries and associated company	1,631	1,631	
Short-term borrowings	228,211	228,211	
Long-term debt	197,121	199,349	2,228
Income taxes payable	25,885	25,885	
Long-term lease obligations	<u>24,013</u>	<u>23,942</u>	<u>(71)</u>
Total	<u>\$ 639,995</u>	<u>\$ 642,143</u>	<u>\$ 2,157</u>

Note: *1 Allowances for doubtful accounts taken for receivables and investments in leases are subtracted.

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Receivables

The carrying values are used for short-term receivables as they approximate fair their value. The fair values of long-term receivables, such as installment receivables, are measured at present values discounted by the swap interest rate.

Investments in Leases

The fair values of investments in leases are measured at their present values discounted by the swap interest rate.

Short-Term Investments and Investment Securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Information on the fair value of marketable and investment securities by classification is included in Note 5.

Payables, Short-Term Borrowings and Income Taxes Payable

The carrying values of payables, short-term borrowings and income taxes payable approximate fair value because of their short maturities.

Long-Term Debt and Long-Term Lease Obligations

The fair values of long-term debt and long-term lease obligations are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate. The specific matching criteria of interest rate and currency swaps are applicable to some long-term debts. The fair values of these items are determined by discounting the combined total of interest and principal, with which the interest rate and currency swaps have been accounted for, at the Group's assumed corporate borrowing rate. The carrying values of floating-rate long-term debt approximate fair value because the floating rates reflect the short-term market rate.

Derivatives

Fair value information for derivatives is included in Note 16.

- (b) Financial instruments whose fair value cannot be reliably determined as of March 31, 2017 and 2016, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	U.S. Dollars <u>2017</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥1,383	¥1,575	\$12,327

The above financial instruments are not included in short-term investments and investment securities described in table (a) because they do not have market values, and it is difficult to estimate future cash flows.

The carrying amounts of investments in unconsolidated subsidiaries and an associated company included in the above table for the years ended March 31, 2017 and 2016, were ¥905 million (\$8,067 thousand) and ¥1,112 million, respectively.

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

	Millions of Yen			
	Due in	Due after	Due after	Due after 10
	1 Year or Less	1 Year through 5 Years	5 Years through 10 Years	
<u>March 31, 2017</u>				
Cash and cash equivalents	¥ 77,051			
Receivables	46,256	¥ 882		
Investments in leases	804	1,751	¥ 269	
Short-term investments and investment securities	<u>242</u>	<u>2,601</u>	<u>—</u>	<u>¥ 3</u>
Total	<u>¥ 124,353</u>	<u>¥ 5,234</u>	<u>¥ 269</u>	<u>¥ 3</u>

	Millions of Yen			
	Due in	Due after	Due after	Due after 10
	1 Year or Less	1 Year through 5 Years	5 Years through 10 Years	
<u>March 31, 2016</u>				
Cash and cash equivalents	¥ 67,133			
Receivables	49,728	¥ 944		
Investments in leases	877	1,774	¥ 266	
Short-term investments and investment securities	<u>1,424</u>	<u>2,563</u>	<u>126</u>	<u>¥ 3</u>
Total	<u>¥ 119,162</u>	<u>¥ 5,281</u>	<u>¥ 392</u>	<u>¥ 3</u>

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2017</u>				
Cash and cash equivalents	\$ 686,790			
Receivables	412,301	\$ 7,861		
Investments in leases	7,167	15,607	\$ 2,398	
Short-term investments and investment securities	<u>2,157</u>	<u>23,184</u>	<u> </u>	<u>\$ 27</u>
Total	<u>\$ 1,108,415</u>	<u>\$ 46,652</u>	<u>\$ 2,398</u>	<u>\$ 27</u>

Please see Note 7 for annual maturities of long-term debt and long-term lease obligations.

16. DERIVATIVES

The Group enters into foreign currency forward contracts, interest rate swap agreements and currency swap agreements. The foreign currency forward contracts and currency swap agreements are designed to hedge certain exposures to foreign currency exchange rate fluctuations on monetary assets and liabilities denominated in foreign currencies and to manage stabilization of income. The interest rate swap agreements are designed to hedge certain exposures to interest rate fluctuations on long-term debt. The Group does not hold or issue any financial instruments for trading or speculative purposes. The Group does not anticipate any losses arising from credit risk because the counterparties to these derivatives are limited to major international financial institutions. Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization.

Derivative Transactions to Which Hedge Accounting Is Not Applied

There were no derivative transactions to which hedge accounting is not applied for the years ended March 31, 2017 and 2016.

Derivative Transactions to Which Hedge Accounting Is Applied

	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2017</u>				
Foreign currency forward contracts: Selling Euro	Deposits, Receivables	¥ 1,985		*1
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	13,859	¥8,315	*2
Interest rate and currency swaps (fixed-rate and Japanese yen payment, floating-rate and U.S.\$ receipt)	Long-term debt	3,821	2,292	*2
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and U.S.\$ receipt)	Long-term debt	2,337	1,403	*2

	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2016</u>				
Foreign currency forward contracts: Selling Euro	Receivables	¥ 2,265		*1
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	19,913	¥14,224	*2
Interest rate and currency swaps (fixed-rate and Japanese yen payment, floating-rate and U.S.\$ receipt)	Long-term debt	5,349	3,821	*2
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and U.S.\$ receipt)	Long-term debt	3,480	2,486	*2
	Thousands of U.S. Dollars			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>March 31, 2017</u>				
Foreign currency forward contracts: Selling Euro	Deposits, Receivables	\$ 17,693		*1
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	123,532	\$74,115	*2
Interest rate and currency swaps (fixed-rate and Japanese yen payment, floating-rate and U.S.\$ receipt)	Long-term debt	34,058	20,430	*2
Interest rate and currency swaps (fixed-rate and Euro payment, floating-rate and U.S.\$ receipt)	Long-term debt	20,831	12,506	*2

Note: *1 Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed in Note 15.

Note: *2 Fair value of interest rate swaps and interest rate and currency swaps, for which special treatment is applied, is included in fair value of the corresponding long-term debt for which hedge accounting is applied disclosed in Note 15.

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

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

17. CONTINGENT LIABILITIES

At March 31, 2017 and 2016, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u>
Guarantees for bank loans drawn by its employees	¥ 28	¥ 33	\$ 250
Guarantees for lease obligations owed by its customers	331	566	2,950

18. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of
	<u>2017</u>	<u>2016</u>	<u>U.S. Dollars</u>
Unrealized (loss) gain on available-for-sale securities:			
Gains arising during the year	¥ 855	¥ (1,516)	\$ 7,621
Reclassification adjustments to profit or loss	<u>(10)</u>	<u>284</u>	<u>(89)</u>
Amount before income tax effect	845	(1,232)	7,532
Income tax effect	<u>(259)</u>	<u>404</u>	<u>(2,309)</u>
Total	<u>¥ 586</u>	<u>¥ (828)</u>	<u>\$ 5,223</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (9,962)	¥ (7,658)	\$ (88,796)
Reclassification adjustments to profit or loss	<u>(9,962)</u>	<u>(7,658)</u>	<u>(88,796)</u>
Amount before income tax effect	(9,962)	(7,658)	(88,796)
Income tax effect	<u>(9)</u>	<u>(20)</u>	<u>(80)</u>
Total	<u>¥ (9,971)</u>	<u>¥ (7,678)</u>	<u>\$ (88,876)</u>
Defined retirement benefit plan(s):			
Adjustments arising during the year	¥ 1,140	¥ (6,816)	\$ 10,161
Reclassification adjustments to profit or loss	<u>544</u>	<u>(427)</u>	<u>4,849</u>
Amount before income tax effect	1,684	(7,243)	15,010
Income tax effect	<u>(448)</u>	<u>2,141</u>	<u>(3,993)</u>
Total	<u>¥ 1,236</u>	<u>¥ (5,102)</u>	<u>\$ 11,017</u>
Total other comprehensive (loss) income	<u>¥ (8,149)</u>	<u>¥ (13,608)</u>	<u>\$ (72,636)</u>

19. SUBSEQUENT EVENTS

(a) Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2017, was approved at the Company's shareholders' meeting held on June 23, 2017:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥30 (\$0.27) per share	¥1,924	\$17,149

20. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decisionmaker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group consists of the following segments: the Financial market, Retail and Transportation market, Amusement market and Overseas market. The Financial market consists of sales and maintenance services to domestic financial institutions, OEM clients, and others. The Retail and Transportation market consists of sales and maintenance services to domestic supermarkets, department stores, cash-in-transit companies, railroad companies, tobacco companies, hospitals, local governments, general companies, and others in Japan. The Amusement market consists of sales and maintenance services to domestic amusement halls. The Overseas market consists of sales and maintenance services to overseas financial institutions, cash-in-transit companies, retail stores, casinos, OEM clients, and others.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Income by reportable segment is operating income.

3. Changes in reportable segments

The Company reclassified its operating segments and changed the classification of products that were previously included in the "Other" segment as follows: banknote recycling modules for horse race ticket vending machines to "Financial market" segment; cigarette vending machines, medical payment kiosks, RFID self-checkout systems for cafeterias, and ballot sorters for handwritten ballots to "Retail and transportation market" segment. These changes were effective from the current fiscal year. Due to these changes, segment information for the previous fiscal year is prepared and disclosed based on the reportable segment classifications after the changes.

4. Information about sales, profit (loss), assets, and other items is as follows.

	Millions of Yen				
	2017				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	¥ 53,302	¥ 42,657	¥ 20,434	¥ 103,788	¥ 220,181
Intersegment sales or transfers					
Total	53,302	42,657	20,434	103,788	220,181
Segment profit (loss)	6,510	3,469	737	9,901	20,617
Segment assets *1	40,246	33,584	20,974	141,965	236,769
Other:					
Depreciation	1,862	1,473	1,403	4,621	9,359
Amortization of goodwill				4,073	4,073
Increase in property, plant and equipment and intangible assets	¥ 1,919	¥ 1,465	¥ 1,010	¥ 3,558	¥ 7,952
	Millions of Yen				
	2016				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	¥ 51,820	¥ 45,531	¥ 21,506	¥ 105,596	¥ 224,453
Intersegment sales or transfers					
Total	51,820	45,531	21,506	105,596	224,453
Segment profit (loss)	6,773	3,764	1,112	9,225	20,874
Segment assets *1	36,925	35,127	20,975	158,426	251,453
Other:					
Depreciation	1,843	1,694	1,566	5,097	10,200
Amortization of goodwill				5,054	5,054
Increase in property, plant and equipment and intangible assets	¥ 2,031	¥ 1,903	¥ 1,433	¥ 4,034	¥ 9,401
	Thousands of U.S. Dollars				
	2017				
	Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total
Sales:					
Sales to external customers	\$ 475,105	\$ 380,221	\$ 182,137	\$ 925,109	\$ 1,962,572
Intersegment sales or transfers					
Total	475,105	380,221	182,137	925,109	1,962,572
Segment profit (loss)	58,027	30,921	6,569	88,252	183,769
Segment assets *1	358,731	299,349	186,951	1,265,398	2,110,429
Other:					
Depreciation	16,597	13,129	12,506	41,189	83,421
Amortization of goodwill				36,304	36,304
Increase in property, plant and equipment and intangible assets	\$ 17,105	\$ 13,058	\$ 9,003	\$ 31,714	\$ 70,880

Millions of Yen			
2017			
Other	Total	Reconciliations	Consolidated
¥ 2,400	¥ 222,581	¥	¥ 222,581
2,400	222,581		222,581
(252)	20,365		20,365
1,759	238,528	74,293	312,821
110	9,469		9,469
	4,073		4,073
¥ 112	¥ 8,064	¥	¥ 8,064

Millions of Yen			
2016			
Other	Total	Reconciliations	Consolidated
¥ 2,499	¥ 226,952	¥	¥ 226,952
2,499	226,952		226,952
(322)	20,552		20,552
2,166	253,619	68,054	321,673
128	10,328		10,328
	5,054		5,054
¥ 176	¥ 9,577	¥	¥ 9,577

Thousands of U.S. Dollars			
2017			
Other	Total	Reconciliations	Consolidated
\$ 21,393	\$ 1,983,965	\$	\$ 1,983,965
21,393	1,983,965		1,983,965
(2,246)	181,523		181,523
15,678	2,126,107	662,207	2,788,314
980	84,401		84,401
	36,304		36,304
\$ 998	\$ 71,878	\$	\$ 71,878

Note: *1 Reconciliations of segment assets are corporate assets of ¥74,293 million (\$662,207 thousand) and ¥68,054 million for the years ended March 31, 2017 and 2016, respectively, consisting of surplus funds of the Group.

5. Information about products and services

	Millions of Yen			
	2017			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	¥170,236	¥32,975	¥19,370	¥222,581

	Millions of Yen			
	2016			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	¥172,607	¥36,321	¥18,024	¥226,952

	Thousands of U.S. Dollars			
	2017			
	Money Handling Machines and Cash Management Systems	Vending Machines and Automatic Service Equipment	Other Merchandises and Products	Total
Sales to external customers	\$1,517,390	\$293,921	\$172,654	\$1,983,965

6. Information about geographical areas

(a) Sales

	Millions of Yen					
	2017					
	Japan	Asia/Oceania	United States of America	Americas Excluding United States of America	Europe	Total
	¥118,793	¥18,402	¥36,361	¥6,385	¥42,640	¥222,581

Millions of Yen					
2016					
Japan	Asia/ Oceania	United States of America	Americas Excluding United States of America	Europe	Total
¥121,356	¥19,494	¥34,054	¥6,218	¥45,830	¥226,952

Thousands of U.S. Dollars					
2017					
Japan	Asia/ Oceania	United States of America	Americas Excluding United States of America	Europe	Total
\$1,058,856	\$164,025	\$324,102	\$56,912	\$380,070	\$1,983,965

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

(b) Property, plant and equipment

Millions of Yen				
2017				
Japan	Asia/ Oceania	Americas	Europe	Total
¥31,066	¥1,687	¥1,693	¥1,212	¥35,658

Millions of Yen				
2016				
Japan	Asia/ Oceania	Americas	Europe	Total
¥31,256	¥1,980	¥1,144	¥1,453	¥35,833

Thousands of U.S. Dollars				
2017				
Japan	Asia/ Oceania	Americas	Europe	Total
\$276,905	\$15,037	\$15,090	\$10,804	\$317,836

7. Information about major customers

Information about major customers is not provided since sales for major customers accounted for less than 10% of total consolidated net sales.

8. Information about amortization of goodwill and unamortized balance by reportable segment

		Millions of Yen				
		2017				
		Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total	
Amortization of goodwill				¥ 4,073	¥ 4,073	
Goodwill at March 31, 2017				51,573	51,573	

		Millions of Yen				
		2016				
		Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total	
Amortization of goodwill				¥ 5,054	¥ 5,054	
Goodwill at March 31, 2016				63,797	63,797	

		Thousands of U.S. Dollars				
		2017				
		Reportable Segment				
	Financial Market	Retail and Transportation Market	Amusement Market	Overseas Market	Total	
Amortization of goodwill				\$ 36,304	\$ 36,304	
Goodwill at March 31, 2017				459,693	459,693	

* * * * *

Millions of Yen

2017

Other	Total	Reconciliations	Consolidated
	¥ 4,073		¥ 4,073
	51,573		51,573

Millions of Yen

2016

Other	Total	Reconciliations	Consolidated
	¥ 5,054		¥ 5,054
	63,797		63,797

Thousands of U.S. Dollars

2017

Other	Total	Reconciliations	Consolidated
	\$ 36,304		\$ 36,304
	459,693		459,693



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of GLORY LTD.:

We have audited the accompanying consolidated balance sheet of GLORY LTD. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GLORY LTD. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 23, 2017

Member of
Deloitte Touche Tohmatsu Limited