

Financial Information 2019

Iwatani Corporation

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Consolidated Balance Sheets

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2018	2019	2019
Current assets:			
Cash and cash equivalents (Note 7)	¥ 17,769	¥ 19,510	\$ 175,781
Time deposits (Note 7)	464	437	3,937
Notes and accounts receivable (Note 7)			
Trade	121,698	122,179	1,100,810
Other	4,863	5,165	46,535
Allowance for doubtful accounts	(328)	(269)	(2,423)
Inventories (Note 9)	39,367	41,019	369,573
Other	7,367	9,791	88,215
Total current assets	191,202	197,835	1,782,457
Property, plant and equipment:			
Land (Notes 10 and 15)	61,104	62,251	560,870
Buildings and structures (Note 10)	125,872	129,198	1,164,050
Machinery, vehicles, equipment and tools (Note 10)	165,063	171,622	1,546,283
Lease assets	9,112	7,232	65,159
Construction in progress	1,540	2,661	23,975
	362,693	372,966	3,360,356
Accumulated depreciation	(202,443)	(208,524)	(1,878,763)
Net property, plant and equipment	160,249	164,441	1,481,583
Intangible assets:			
Goodwill	14,313	14,135	127,353
Other	3,339	3,596	32,399
Total intangible assets	17,653	17,732	159,762
Investments and other assets:			
Investments in securities (Notes 7, 8 and 10)	50,186	45,532	410,235
Investments in nonconsolidated subsidiaries and affiliates (Note 7)	19,554	18,012	162,284
Net defined benefit asset (Note 12)	1,265	1,424	12,829
Deferred tax assets (Note 11)	3,589	3,263	29,399
Other	10,401	9,950	89,647
Allowance for doubtful accounts	(585)	(588)	(5,297)
Total investments and other assets	84,413	77,593	699,099
Total assets	¥ 453,518	¥ 457,603	\$ 4,122,920

See the accompanying Notes to the Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
LIABILITIES AND NET ASSETS	2018	2019	2019
Current liabilities:			
Short-term borrowings (Notes 7 and 10)	¥ 26,667	¥ 23,064	\$ 207,802
Current portion of long-term debt (Notes 7 and 10)	16,719	11,661	105,063
Notes and accounts payable–trade (Note 7)	71,782	72,512	653,320
Electronically recorded obligations–operating (Note 7)	23,076	25,873	233,111
Income taxes payable	6,369	5,436	48,977
Accrued bonuses	4,909	5,039	45,400
Other	28,994	29,134	262,492
Total current liabilities	178,519	172,722	1,556,194
Long-term liabilities:			
Long-term debt (Notes 7 and 10)	83,838	87,679	789,972
Deferred tax liabilities (Note 11)	6,918	5,806	52,311
Net defined benefit liability (Note 12)	5,843	5,770	51,986
Allowance for retirement benefits for directors and statutory auditors	1,538	1,639	14,767
Provision for loss on litigation (Note 2 (17))	—	157	1,414
Other	10,958	9,841	88,665
Total long-term liabilities	109,097	110,894	999,135
Total liabilities	287,617	283,617	2,555,338
Contingent liabilities (Note 13)			
Net assets (Note 18)			
Shareholders' equity:			
Common stock Authorized–120,000,000 shares in 2019 and 2018 Issued–50,273,005 shares in 2019 and 2018	20,096	20,096	181,061
Capital surplus	18,077	16,680	150,283
Retained earnings	96,455	112,968	1,017,821
Treasury stock, at cost 1,071,902 shares in 2019 1,068,451 shares in 2018	(1,508)	(1,521)	(13,703)
Total shareholders' equity	133,121	148,223	1,335,462
Accumulated other comprehensive income:			
Unrealized gains (losses) on securities	19,593	16,283	146,706
Deferred gains (losses) on hedges	(58)	661	5,955
Foreign currency translation adjustments	1,548	(22)	(198)
Remeasurements of defined benefit plans	203	263	2,369
Total accumulated other comprehensive income	21,287	17,186	154,842
Noncontrolling interests	11,491	8,577	77,277
Total net assets	165,901	173,986	1,567,582
Total liabilities and net assets	¥ 453,518	¥ 457,603	\$ 4,122,920

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2019	2019
Net sales	¥ 670,792	¥ 715,085	\$ 6,442,787
Cost of sales	502,764	544,471	4,905,586
Gross profit	168,027	170,613	1,537,192
Selling, general and administrative expenses (Note 19)	140,834	144,157	1,298,828
Operating income	27,193	26,456	238,363
Other income (expenses):			
Interest and dividend income	1,205	1,473	13,271
Interest expense	(1,076)	(962)	(8,667)
Equity in earnings of nonconsolidated subsidiaries and affiliates	241	590	5,315
Impairment loss on fixed assets (Note 15)	(45)	(135)	(1,216)
Other, net (Note 20)	1,521	2,015	18,154
	1,846	2,982	26,867
Income before income taxes	29,040	29,438	265,231
Income taxes (Note 11):			
Current	9,710	9,209	82,971
Deferred	758	59	531
	10,469	9,268	83,503
Net income	18,571	20,169	181,719
Net income attributable to noncontrolling interests	993	948	8,541
Net income attributable to owners of parent	¥ 17,577	¥ 19,221	\$ 173,177

	Yen		U.S. dollars (Note 4)
	2018	2019	2019
Per share (Note 17):			
Basic net income	¥ 357.20	¥ 390.62	\$ 3.51
Diluted net income	306.31	334.88	3.01
Cash dividends applicable to the period	55.00	65.00	0.58

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2019	2019
Net income	¥ 18,571	¥ 20,169	\$ 181,719
Other comprehensive income:			
Unrealized gains (losses) on securities	3,179	(3,306)	(29,786)
Deferred gains (losses) on hedges	(26)	717	6,460
Foreign currency translation adjustments	1,204	(1,586)	(14,289)
Remeasurements of defined benefit plans, net of tax	49	67	603
Share of other comprehensive income of associates accounted for using equity method	124	(106)	(955)
Total other comprehensive income	4,531	(4,214)	(37,967)
Comprehensive income	¥ 23,102	¥ 15,955	\$ 143,751
Comprehensive income attributable to:			
Owners of the parent	22,023	15,120	136,228
Noncontrolling interests	¥ 1,079	¥ 834	\$ 7,514

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

	Number of shares of common stock (thousands)	Millions of yen									
		Shareholders' equity				Accumulated other comprehensive income					Total
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Noncontrolling interests	
Balance as of April 1, 2017	251,365	¥ 20,096	¥ 18,107	¥ 80,849	¥ (1,478)	¥ 16,364	¥ (31)	¥ 355	¥ 153	¥ 10,464	¥ 144,879
Net income attributable to owners of parent for the year	—	—	—	17,577	—	—	—	—	—	—	17,577
Cash dividends	—	—	—	(1,970)	—	—	—	—	—	—	(1,970)
Purchase of treasury stock	—	—	—	—	(33)	—	—	—	—	—	(33)
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	—	1
Purchase of shares of consolidated subsidiaries	—	—	28	—	—	—	—	—	—	—	28
Decrease by merger	—	—	(58)	—	—	—	—	—	—	—	(58)
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	3	—	—	—	—	—	3
Changes in scope of equity method	—	—	—	0	—	—	—	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	—	3,228	(26)	1,193	50	1,027	5,473
Balance as of April 1, 2018	50,273	¥ 20,096	¥ 18,077	¥ 96,455	¥ (1,508)	¥ 19,593	¥ (58)	¥ 1,548	¥ 203	¥ 11,491	¥ 165,901
Net income attributable to owners of parent for the year	—	—	—	19,221	—	—	—	—	—	—	19,221
Cash dividends	—	—	—	(2,708)	—	—	—	—	—	—	(2,708)
Purchase of treasury stock	—	—	—	—	(13)	—	—	—	—	—	(13)
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Purchase of shares of consolidated subsidiaries	—	—	(1,397)	—	—	—	—	—	—	—	(1,397)
Decrease by merger	—	—	—	—	—	—	—	—	—	—	—
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	0	—	—	—	—	—	0
Changes in scope of equity method	—	—	—	—	—	—	—	—	—	—	—
Net changes in items other than shareholders' equity	—	—	—	—	—	(3,309)	719	(1,571)	59	(2,914)	(7,016)
Balance as of March 31, 2019	50,273	¥ 20,096	¥ 16,680	¥ 112,968	¥ (1,521)	¥ 16,283	¥ 661	¥ (22)	¥ 263	¥ 8,577	¥ 173,986

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 4)									
		Shareholders' equity				Accumulated other comprehensive income					Total
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Noncontrolling interests	
Balance as of April 1, 2018	50,273	\$ 181,061	\$ 162,870	\$ 869,042	\$ (13,586)	\$ 176,529	\$ (522)	\$ 13,947	\$ 1,828	\$ 103,531	\$ 1,494,738
Net income attributable to owners of parent for the year	—	—	—	173,177	—	—	—	—	—	—	173,177
Cash dividends	—	—	—	(24,398)	—	—	—	—	—	—	(24,398)
Purchase of treasury stock	—	—	—	—	(117)	—	—	—	—	—	(117)
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Purchase of shares of consolidated subsidiaries	—	—	(12,586)	—	—	—	—	—	—	—	(12,586)
Decrease by merger	—	—	—	—	—	—	—	—	—	—	—
Change in treasury shares arising from change in equity in entities accounted for using equity method	—	—	—	—	0	—	—	—	—	—	0
Changes in scope of equity method	—	—	—	—	—	—	—	—	—	—	—
Net changes in items other than shareholders' equity	—	—	—	—	—	(29,813)	6,478	(14,154)	531	(26,254)	(63,212)
Balance as of March 31, 2019	50,273	\$ 181,061	\$ 150,283	\$ 1,017,821	\$ (13,703)	\$ 146,706	\$ 5,955	\$ (198)	\$ 2,369	\$ 77,277	\$ 1,567,582

See the accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Iwatani Corporation and its Consolidated Subsidiaries
Years ended March 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2019	2019
Cash flows from operating activities:			
Income before income taxes	¥ 29,040	¥ 29,438	\$ 265,231
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	19,865	20,772	187,151
Insurance claim income	—	(115)	(1,036)
Impairment loss on fixed assets	45	135	1,216
Subsidy income	(840)	(84)	(756)
Loss on reduction of noncurrent assets	795	194	1,747
Increase (decrease) in allowance for doubtful accounts	(172)	(63)	(567)
Increase (decrease) in allowance for employees' bonuses	146	113	1,018
Increase (decrease) in net defined benefit liability	211	(73)	(657)
Decrease (increase) in net defined benefit asset	343	(158)	(1,423)
Decrease (increase) in provision for loss on litigation	—	157	1,414
Increase (decrease) in allowance for retirement benefits to directors and statutory auditors	146	100	900
Interest and dividend income	(1,205)	(1,473)	(13,271)
Interest expense	1,076	962	8,667
Foreign exchange (gains) losses	221	33	297
Equity in earnings of nonconsolidated subsidiaries and affiliates	(241)	(590)	(5,315)
Loss (gain) on sales and disposals of fixed assets	315	347	3,126
Loss (gain) on sales of investments in securities	0	(152)	(1,369)
Loss on valuation of investments in securities	1	31	279
Loss (gain) on liquidation of subsidiaries and affiliates	36	—	—
Loss (gain) on valuation of investments in capital	—	0	0
Changes in assets and liabilities			
Decrease (increase) in notes and accounts receivable—trade	(8,441)	(1,042)	(9,388)
Decrease (increase) in inventories	(1,431)	(2,040)	(18,380)
Increase (decrease) in notes and accounts payable—trade	830	3,853	34,714
Increase (decrease) in advances received	(4,600)	204	1,838
Other, net	2,253	(1,776)	(16,001)
Subtotal	¥ 38,397	¥ 48,772	\$ 439,426
Interest and dividend received	1,134	1,388	12,505
Dividends received from equity method subsidiaries and affiliates	145	147	1,324
Interest paid	(1,010)	(853)	(7,685)
Income taxes paid	(10,156)	(10,337)	(93,134)
Net cash provided by (used in) operating activities	¥ 28,510	¥ 39,117	\$ 352,437
Cash flows from investing activities:			
Payments for purchase of investments in securities	(2,742)	(548)	(4,937)
Proceeds from sales and redemption of investments in securities	201	182	1,639
Proceeds from sales of investments in capital	8	1	9
Payments for purchases of fixed assets	(24,742)	(24,420)	(220,019)
Proceeds from sales of fixed assets	996	1,131	10,190
Investments in loans receivable	(2,700)	(3,092)	(27,858)
Collection of loans receivable	2,836	3,187	28,714
Other, net	(285)	(134)	(1,207)
Net cash provided by (used in) investing activities	¥ (26,427)	¥ (23,693)	\$ (213,469)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	3,203	(3,416)	(30,777)
Proceeds from long-term debt	17,943	17,128	154,320
Repayment of long-term debt	(23,777)	(18,246)	(164,393)
Cash dividends paid	(1,972)	(2,703)	(24,353)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(98)	(4,817)	(43,400)
Other, net	(1,630)	(1,559)	(14,046)
Net cash provided by (used in) financing activities	¥ (6,332)	¥ (13,614)	\$ (122,659)
Effect of exchange rate changes on cash and cash equivalents	358	(502)	(4,522)
Net increase (decrease) in cash and cash equivalents	(3,890)	1,306	11,766
Cash and cash equivalents at beginning of year	21,200	17,769	160,095
Increase (decrease) in cash and cash equivalents due to changes in scope of consolidation	271	297	2,675
Increase (decrease) in cash and cash equivalents resulting from merger with nonconsolidated subsidiaries	187	138	1,243
Cash and cash equivalents at end of period	¥ 17,769	¥ 19,510	\$ 175,781

See the accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Iwatani Corporation and its Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Iwatani Corporation (“the Company”) and its consolidated subsidiaries (together, “the Companies”) 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 conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

As permitted, amounts of less than one million yen are omitted in the presentation for 2018 and 2019. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

2. Summary of Major Accounting Policies

(1) Scope of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 107 of its subsidiaries for the year ended March 31, 2019. Certain subsidiaries have fiscal years ending on December 31. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the fiscal year-end of those subsidiaries and the fiscal year-end of the Company.

(2) Equity method of accounting for investments in nonconsolidated subsidiaries and affiliates

As of March 31, 2019, the Company had 52 nonconsolidated subsidiaries and 80 affiliates (Companies over which the Company exercises significant influence over operating and financial policies). The equity method has been applied to the investments in 52 of the subsidiaries and 39 of the affiliates. Since the investments in the remaining affiliates do not have a material effect on consolidated net income and retained earnings, the investments in these affiliates are carried at cost and are not accounted for by the equity method.

(3) Translation of foreign currencies

Foreign currency transactions are translated at the applicable rate of exchange prevailing at the transaction date. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the applicable rate of exchange prevailing at the balance sheet date. Exchange differences are charged or credited to income. Assets and liabilities of foreign consolidated subsidiaries and affiliates accounted for by the equity method are translated into

Japanese yen at applicable year-end rates of exchange, and all income and expense accounts are translated at the average rate of exchange prevailing during the year. The resulting translation adjustments are accumulated and included in “Foreign currency translation adjustments” classified as part of net assets.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally, with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value because of a change in interest rates.

(5) Securities

Securities are classified into four categories: trading securities, held-to-maturity debt securities, equity securities of nonconsolidated subsidiaries and affiliates and other securities.

As of March 31, 2018 and 2019, the Companies did not hold any trading securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities of nonconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to materiality, using the equity method of accounting. Other securities whose fair market values are readily determinable are carried at fair value with unrealized gains and losses included as a component of net assets, net of related taxes. Other securities for which it is not practicable to estimate fair value are stated at cost. In cases in which a significant decline in the value of net assets is assessed to be other than temporary, the cost of other securities is written-down by the impaired amount and charged to income. Realized gains and losses are determined by the moving average cost method and are reflected in the consolidated statement of income.

(6) Allowance for doubtful accounts

An allowance for doubtful accounts is provided in an amount based on past experience with bad debts generally and an evaluation of the collectibility of specific receivables with the possibility of default.

(7) Inventories

Inventories are stated mainly at the lower of first-in, first-out cost or net realizable value.

(8) Property, plant and equipment and depreciation

Fixed assets, including significant renewals and additions, are carried at cost. When these assets are retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts, and the net difference less any amount realized on disposal is reflected in earnings.

Principal estimated useful lives are as follows:

Buildings and structures3 to 50 years
Machinery, vehicles, equipment and tools2 to 20 years

Depreciation is calculated by the declining balance method over the useful life of the asset, except that the straight-line method is applied to the Sakai LPG Plant, hydrogen stations, certain fixed assets for lease, certain gas generators, buildings purchased since April 1, 1998 and facilities attached to buildings and structures purchased since April 1, 2016.

Lease assets are depreciated using the straight-line method over the lease term as the useful life, with zero residual value. However, finance lease transactions that do not transfer ownership of the lease assets and have total lease payments of not more than ¥3 million (\$27 thousand) under a single lease contract are accounted for as operating leases. Maintenance and repairs, including minor renewals and improvements are charged to income as incurred.

(9) Intangible assets

Computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years. Other intangible assets are amortized by the straight-line method over the estimated useful life of the respective asset.

(10) Income taxes

The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income taxes are measured by applying currently enacted tax laws. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(11) Accrued bonuses

Accrued bonuses are calculated and provided for based on the estimated amounts of future payments attributable to the services that have been rendered by employees as of the date of the balance sheet.

(12) Retirement benefits

(i) Employees' severance and retirement benefits

To provide for retirement benefit payments to employees, net defined benefit asset and liability are recorded at the amounts deemed to be incurred at the fiscal year-end based on the amount of projected benefit obligations and the fair value of plan assets at the fiscal year-end. The retirement benefit obligations are attributed to periods on a benefit formula basis.

Prior service cost is amortized by the straight-line method over a period of 12 to 14 years, which is within the average remaining years of service of employees. Actuarial differences are amortized by the straight-line method over a period of 12 to 14 years, which is within the average remaining years of service of employees, commencing with the following period.

Unrecognized actuarial differences and unrecognized prior service cost are accrued as remeasurements of defined benefit plans, net of tax, in accumulated other comprehensive income in net assets.

Certain consolidated subsidiaries apply the simplified method to estimate the amount required for voluntary resignations at the end of the fiscal year as the retirement benefit liability in order to calculate net defined benefit liability and retirement benefit expenses.

(ii) Retirement benefits for directors and statutory auditors

To provide for the payment of lump-sum retirement benefits to directors and statutory auditors, certain consolidated subsidiaries provide an allowance for retirement benefits to directors and statutory auditors at an amount that would be required by their internal regulations if all directors and statutory auditors retired on the balance sheet date.

(13) Goodwill and negative goodwill

Goodwill is amortized on a straight-line basis over a period not to exceed 10 years.

(14) Derivative financial instruments

Derivative financial instruments are used by the Companies principally to reduce interest rate and foreign exchange rate risks.

Derivative financial instruments are measured at fair value. Hedging transactions which meet the criteria for hedge accounting are accounted for using deferral hedge accounting, which requires the unrealized gain or loss on a hedging instrument to be deferred as a liability or asset until the loss or gain on the related hedged item is recognized. In addition, certain forward exchange contracts and certain interest rate swap transactions are accounted for using the allocation method and the special method. The allocation method requires that recognized foreign currency receivables and payables covered by forward exchange contracts be translated at contract rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to the underlying borrowings and bonds.

(15) Expenses for research and development

Expenses for research and development are charged to income when incurred.

(16) Reclassifications

Certain reclassifications of the financial statements for the year ended March 31, 2018 have been made to conform to the presentation for the year ended March 31, 2019.

(17) Provision for loss on litigation

In order to cover the probable losses on lawsuit, an allowance for loss is provided for the estimated amount acceptable as needed.

3. Accounting Changes

(Changes in presentation method)

Changes due to adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

Upon application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018 (hereinafter, “Statement No. 28”)) from the beginning of the current fiscal period, the Company and its domestic subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of ‘investments and other assets’ and ‘noncurrent liabilities,’ respectively.

As a result, ¥1,464 million and ¥1,917 million of deferred tax assets classified as “current assets” have been included in deferred tax assets (¥3,589 million) in “investments and other assets” and deferred tax liabilities (¥6,918 million) classified as “noncurrent liabilities,” respectively, in the balance sheet as of the end of the previous fiscal year.

(Standards and guidance not yet adopted)

The following standard and guidance were issued but not yet adopted.

—“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)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contracts with customers.

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 entity satisfies a performance obligation.

(2) Effective dates

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

4. U.S. Dollar Amounts

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2019, which was ¥110.99 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

5. Accounting Standards for Presentation of Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	2018	2019	2019
Unrealized gains (losses) on securities			
Increase (decrease) during the year	¥ 4,584	¥ (4,782)	\$ (43,084)
Reclassification adjustments	0	31	279
Subtotal, before tax	4,585	(4,751)	(42,805)
Tax (expense) or benefit	(1,405)	1,445	13,019
Subtotal, net of tax	3,179	(3,306)	(29,786)
Deferred gains (losses) on hedges			
Increase (decrease) during the year	(63)	1,052	9,478
Subtotal, before tax	(63)	1,052	9,478
Tax (expense) or benefit	37	(335)	(3,018)
Subtotal, net of tax	(26)	717	6,460
Foreign currency translation adjustments			
Increase (decrease) during the year	1,167	(1,586)	(14,289)
Reclassification adjustments	36	—	—
Subtotal, before tax	1,204	(1,586)	(14,289)
Subtotal, net of tax	1,204	(1,586)	(14,289)
Remeasurements of defined benefit plans, net of tax			
Increase (decrease) during the year	21	66	594
Reclassification adjustments	50	30	270
Subtotal, before tax	71	96	864
Tax (expense) or benefit	(21)	(29)	(261)
Subtotal, net of tax	49	67	603
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	124	(106)	(955)
Reclassification adjustments	—	—	—
Subtotal, net of tax	124	(106)	(955)
Total other comprehensive income	¥ 4,531	¥ (4,214)	\$ (37,967)

6. Supplemental Information on the Consolidated Statements of Cash Flows

There were no significant noncash transactions to report for the years ended March 31, 2018 and 2019.

7. Financial Instruments

Information on Financial instruments as of March 31, 2018 and 2019 was as follows:

1. Status of financial instruments

(1) Policies for financial instruments

The Group primarily obtains funds through borrowing from banks and the issuance of corporate bonds for funding of its capital expenditures plan. After adequate liquidity has been ensured, the Companies invest temporary excess funds in deposits with low risk. Additionally, the Companies obtain short-term funds through bank borrowings, etc. The Companies

utilize derivative transactions only for hedging purposes and not for speculative or dealing purposes.

(2) Description and risks of financial instruments

Notes and accounts receivable are exposed to customer credit risk. Additionally, some notes and accounts receivable are denominated in foreign currencies and are exposed to exchange rate fluctuation risk. If necessary, the Companies utilize foreign exchange forward contracts to reduce foreign currency risk.

Investments in securities are composed primarily of held-to-maturity debt securities and stocks in companies with which the Companies have business alliances and are exposed to credit risk in relation to issuers and market price fluctuation risk.

Notes, accounts payable such as accounts payable–trade and electronically recorded obligations–operating are generally payable within six months. Some notes and accounts payable are denominated in foreign currencies. If necessary, the

Tables show ¥ in millions and US\$ in thousands.

Companies utilize foreign exchange forward contracts to reduce foreign currency risk.

Borrowings and bonds are used mainly to procure funds for capital expenditures. The longest redemption period is twelve years after the fiscal year closing date. Because some of these instruments have a variable interest rate, they are exposed to interest rate fluctuation risk.

Derivative transactions consist of the use of foreign exchange forward contracts for the purpose of hedging exchange rate fluctuation risk related to notes and accounts receivable and notes and accounts payable. Hedging instruments and hedged items, hedging policy, assessment of hedge effectiveness and hedge accounting are discussed in Note 2 (14), "Summary of Major Accounting Policies—Derivative financial instruments."

(3) Risk management of financial instruments

(i) Management of credit risk (risk of default by customers and counterparties)

In accordance with the internal policies of the Companies for managing credit risk arising from receivables and long-term loan receivables, each related sales management section monitors the credit worthiness of their main customers and counterparties on a regular basis and monitors due dates and outstanding balances by individual customer. In addition, the Companies are making efforts to quickly identify and mitigate risks of bad debts of customers who are having financial difficulties. In investments in securities, the Companies monitor the financial condition, etc., of the issuing companies on a regular basis. The Companies believe that the credit risk of the derivatives themselves is insignificant as they enter into derivatives only with financial institutions which have a high credit rating.

(ii) Management of market risk (risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Companies utilize foreign exchange forward contracts within the requirements of their business activities in respect to a portion of their trade receivables and trade liabilities denominated in foreign currencies to mitigate exchange rate fluctuation risk. In investments in securities, the Companies review the fair value of these securities and the financial

condition of the issuing companies on a quarterly basis. For investments in securities, except held-to-maturity debt securities, the Companies monitor the market price and financial condition of the issuers and regularly evaluate the investment in each company, taking into account the relationship with the counterparty.

The accounting department enters into and manages derivative transactions within the requirements of the Companies' business activities and regulations established by the internal policies of the Companies. Based on policies approved by the Board of Directors, the issuance of bonds and the borrowing of large amounts, etc., are decided only by the Board of Directors. Therefore, foreign exchange forward contracts and interest rate swap contracts in respect to the aforementioned transactions are decided by the Board of Directors at the same time.

(iii) Management of liquidity risk (risk that the Companies may not be able to meet their obligations on scheduled due dates)

The Companies prepare cash flow projections and monitor funding requirements in the accounting department based on reports from each section and maintain fund liquidity.

(4) Supplementary explanation of fair value of financial instruments

The fair value of financial instruments is based on market price, but in cases in which the market price is not available, the fair value is reasonably estimated. As variable factors are incorporated in the estimation of values, values may vary depending on the assumptions used. The contract amount related to derivative transactions under "Note 16, Derivative Transactions," does not express the market risk related to the derivative transactions themselves.

2. Fair values of financial instruments

For financial instruments, amounts recorded on the consolidated balance sheet, the fair values as of March 31, 2018 and 2019 and the difference between the two are set forth in the following table. It should be noted that financial instruments for which it was considered extremely difficult to assess the fair value were not included in the table.

	2018		
	Amounts on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	¥ 18,233	¥ 18,233	¥ —
(2) Notes and accounts receivable–trade	121,698	121,698	—
(3) Investments in securities			
Other securities	48,107	48,107	—
Subsidiaries and affiliates	4,755	3,733	(1,022)
Total assets	192,794	191,772	(1,022)
(1) Notes and accounts payable–trade	71,782	71,782	—
(2) Electronically recorded obligations–operating	23,076	23,076	—
(3) Short-term borrowings	26,667	26,667	—
(4) Bonds	38,076	41,499	3,422
(5) Long-term borrowings	62,481	62,513	31
Total liabilities	222,084	225,538	3,454
Derivative transactions*			
Hedge accounting not applied	(17)	(17)	—
Hedge accounting applied	(104)	(104)	—
Total derivative transactions	¥ (121)	¥ (121)	¥ —

	2019		
	Amounts on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	¥ 19,947	¥ 19,947	¥ —
(2) Notes and accounts receivable–trade	122,179	122,179	—
(3) Investments in securities			
Other securities	43,438	43,438	—
Subsidiaries and affiliates	4,866	4,516	(350)
Total assets	190,432	190,082	(350)
(1) Notes and accounts payable–trade	72,512	72,512	—
(2) Electronically recorded obligations–operating	25,873	25,873	—
(3) Short-term borrowings	23,064	23,064	—
(4) Bonds	35,046	35,462	415
(5) Long-term borrowings	64,293	64,700	407
Total liabilities	220,790	221,613	822
Derivative transactions*			
Hedge accounting not applied	6	6	—
Hedge accounting applied	932	932	—
Total derivative transactions	¥ 938	¥ 938	¥ —

	2019		
	Amounts on consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	\$ 179,718	\$ 179,718	\$ —
(2) Notes and accounts receivable–trade	1,100,810	1,100,810	—
(3) Investments in securities			
Other securities	391,368	391,368	—
Subsidiaries and affiliates	43,841	40,688	(3,153)
Total assets	1,715,758	1,712,604	(3,153)
(1) Notes and accounts payable–trade	653,320	653,320	—
(2) Electronically recorded obligations–operating	233,111	233,111	—
(3) Short-term borrowings	207,802	207,802	—
(4) Bonds	315,758	319,506	3,739
(5) Long-term borrowings	579,268	582,935	3,666
Total liabilities	1,989,278	1,996,693	7,406
Derivative transactions*			
Hedge accounting not applied	54	54	—
Hedge accounting applied	8,397	8,397	—
Total derivative transactions	\$ 8,451	\$ 8,451	\$ —

*The amounts for derivative transactions shown above are net of assets and liabilities. When the net amount results in a liability, it is shown in parentheses.

Tables show ¥ in millions and US\$ in thousands.

(Note 1) The calculation method used to determine fair value of financial instruments and matters related to securities and derivative transactions

Assets

(1) Cash and deposits

(2) Notes and accounts receivable–trade

The book value is used as the fair value for these items as fair value approximates book value due to the short maturity of these instruments.

(3) Investments in securities

The fair value of equity securities is based on the market price on securities exchanges. Refer to Note 8, “Investments in Securities,” for notes on securities categorized by holding purposes.

Liabilities

(1) Notes and accounts payable–trade

(2) Electronically recorded obligations–operating

(3) Short-term borrowings

The book value is used as the fair value for these items as the fair value approximates book value due to the short maturity of these instruments.

(4) Bonds

The fair values of bonds that have market prices are based on the market prices. The fair values of bonds that do not have market prices are based on present values calculated by discounting the sum of the future principal and interest payments at rates that would be applied to similar new borrowings at the present time.

(5) Long-term borrowings

The fair value of long-term borrowings is based on present value calculated by discounting the sum of future principal and interest payments at rates that would be applied to similar new borrowings at the present time.

(Note 2) Financial instruments with no fair value as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
Held-to-maturity debt securities	¥ 180	¥ 180	\$ 1,621
Unlisted securities	1,899	1,913	17,235
Investments in subsidiaries and affiliates	13,127	11,721	105,604
Investments in capital of subsidiaries and affiliates	1,671	1,424	12,829

(Note 3) The maturity profile of the anticipated future contractual cash flows in relation to the Companies’ financial assets as of March 31, 2018 and 2019 was as follows:

	2018			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	¥ 18,233	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	121,698	—	—	—
Investment in securities	—	—	—	—
Held-to-maturity debt securities (Bonds)	—	—	—	180
Total	¥ 139,932	¥ —	¥ —	¥ 180

	2019			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	¥ 19,947	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	122,179	—	—	—
Investment in securities	—	—	—	—
Held-to-maturity debt securities (Bonds)	—	—	—	180
Total	¥ 142,127	¥ —	¥ —	¥ 180

	2019			
	Due within 1 year	Due over 1 year but within 5 years	Due over 5 years but within 10 years	Due over 10 years
Cash and deposits	\$ 179,718	\$ —	\$ —	\$ —
Notes and accounts receivable–trade	1,100,810	—	—	—
Investment in securities	—	—	—	—
Held-to-maturity debt securities (Bonds)	—	—	—	1,621
Total	\$ 1,280,538	\$ —	\$ —	\$ 1,621

Tables show ¥ in millions and US\$ in thousands.

(Note 4) The aggregate annual maturities of bonds and long-term borrowings as of March 31, 2018 and 2019 were as follows:

2018						
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	¥ 26,667	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	3,000	—	35,000	—	—	—
Long-term borrowings	13,719	11,107	2,665	7,413	5,772	21,801
Total	¥ 43,387	¥ 11,107	¥ 37,665	¥ 7,413	¥ 5,772	¥ 21,801

2019						
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	¥ 23,064	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	35,000	—	—	—	—
Long-term borrowings	11,661	3,195	8,675	8,339	7,986	24,435
Total	¥ 34,725	¥ 38,195	¥ 8,675	¥ 8,339	¥ 7,986	¥ 24,435

2019						
	Due within 1 year	Due over 1 year but within 2 years	Due over 2 years but within 3 years	Due over 3 years but within 4 years	Due over 4 years but within 5 years	Due over 5 years
Short-term borrowings	\$ 207,802	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds	—	315,343	—	—	—	—
Long-term borrowings	105,063	28,786	78,160	75,132	71,952	220,154
Total	\$ 312,866	\$ 344,130	\$ 78,160	\$ 75,132	\$ 71,952	\$ 220,154

8. Investments in Securities

Investments in other securities with fair value as of March 31, 2018 and 2019 consisted of the following:

2018				2019		
	Book value	Acquisition cost	Unrealized gains (losses)	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book value exceeding acquisition cost						
Securities	¥ 47,859	¥ 19,417	¥ 28,442	\$ 386,287	\$ 172,168	\$ 214,118
Securities with book value not exceeding acquisition cost						
Securities	247	295	(47)	5,081	6,180	(1,099)
Total	¥ 48,107	¥ 19,712	¥ 28,394	\$ 391,368	\$ 178,349	\$ 213,019

Total sale of other securities as of March 31, 2018 and 2019 consisted of the following:

	2018	2019	2019
Amount sold	¥ 5	¥ 0	\$ 0
Total gain on sales	0	0	0
Total loss on sales	¥ —	¥ —	\$ —

Impairment loss on investments in securities was ¥1 million and ¥31 million (\$279 thousand) for the years ended March 31, 2018 and 2019, respectively.

Tables show ¥ in millions and US\$ in thousands.

9. Inventories

Inventories as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
Merchandise and finished goods	¥ 32,167	¥ 33,222	\$ 299,324
Work-in-process	3,176	3,376	30,417
Raw materials and supplies	4,023	4,421	39,832
Total	¥ 39,367	¥ 41,019	\$ 369,573

10. Short-term Borrowings and Long-term Debt

The weighted average interest rate of short-term bank borrowings outstanding as of March 31, 2018 and 2019 was 1.0% and 0.8%, respectively.

Short-term borrowings as of March 31, 2018 and 2019 consisted of the following:

	2018	2019	2019
Secured	¥ 140	¥ 140	\$ 1,261
Unsecured	26,527	22,924	206,541
Total	¥ 26,667	¥ 23,064	\$ 207,802

Long-term debt as of March 31, 2018 and 2019 consisted of the following:

	2018	2019	2019
Loans, principally from banks and maturing serially through 2031 with interest ranging from 0.2% to 20.6%			
Secured	¥ 1,894	¥ 518	\$ 4,667
Unsecured	60,586	63,774	574,592
Unsecured bonds			
0.590% bonds, due September 2018	3,000	—	—
0.690% bonds, due September 2021	5,000	5,000	45,049
Zero Coupon Convertible Bonds due 2020	30,076	30,046	270,709
Subtotal	100,558	99,340	895,035
Current portion of long-term debt	(16,719)	(11,661)	(105,063)
Total	¥ 83,838	¥ 87,679	\$ 789,972

As of March 31, 2018 and 2019, the following assets were pledged as security.

Net book value	2018	2019	2019
Land	¥ 3,582	¥ 2,740	\$ 24,686
Buildings and structures	2,206	1,268	11,424
Machinery, vehicles, equipment and tools	557	140	1,261
Investments in securities	1,045	1,031	9,289
Total	¥ 7,392	¥ 5,181	\$ 46,679

The aggregate annual maturities of long-term debt as of March 31, 2019 were as follows:

Year ended March 31,		
2021		\$ 344,130
2022	¥ 38,195	78,160
2023	8,675	75,132
2024	8,339	71,952
2025 and thereafter	7,986	220,154
Total	24,435	\$ 789,548

Tables show ¥ in millions and US\$ in thousands.

11. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in a statutory rate of approximately 30.8% for both years ended March 31, 2018 and 2019. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

Deferred tax assets and liabilities consisted of the following:

	2018	2019	2019
Deferred tax assets			
Tax loss carryforwards	¥ 1,292	¥ 1,106	\$ 9,964
Allowance for doubtful accounts	231	223	2,009
Accrued bonuses	1,495	1,539	13,866
Net defined benefit liability	1,587	1,555	14,010
Accrued enterprise taxes	397	356	3,207
Intercompany profits and write-downs (inventories, investments in securities and fixed assets)	1,631	1,662	14,974
Loss on valuation of securities	269	306	2,757
Loss on cancellation of real estate trust	328	328	2,955
Impairment loss	608	663	5,973
Other	2,441	2,542	22,902
Valuation allowance	(2,687)	(2,816)	(25,371)
Total deferred tax assets	¥ 7,595	¥ 7,468	\$ 67,285
Deferred tax liabilities			
Reserve for advanced depreciation of noncurrent assets	(201)	(191)	(1,720)
Unrealized gains on securities	(8,514)	(7,073)	(63,726)
Valuation of assets and liabilities of consolidated subsidiaries on acquisition	(956)	(1,176)	(10,595)
Unrealized gains on hedging	—	(319)	(2,874)
Other	(1,251)	(1,250)	(11,262)
Total deferred tax liabilities	(10,924)	(10,011)	(90,197)
Net deferred tax assets	¥ (3,328)	¥ (2,543)	\$ (22,911)

Reconciliation of the differences between the statutory tax rate and the effective tax rate was as follows:

	2018	2019
Statutory tax rate	30.8%	—
Permanently nondeductible expenses	3.5	—
Permanently nontaxable gain	(0.3)	—
Change in valuation allowance	1.9	—
Taxation on per capita basis	0.7	—
Equity in earnings of nonconsolidated subsidiaries and affiliates	(0.3)	—
Retained earnings of foreign consolidated subsidiaries	(0.7)	—
Other	0.5	—
Effective tax rate	36.1%	—

Note: Information for the year ended March 31, 2019 is not provided because the difference between the statutory tax rate and the effective tax rate was less than 5%.

Tables show ¥ in millions and US\$ in thousands.

12. Employees' Severance and Retirement Benefits

The Company and some domestic consolidated subsidiaries have contributory funded defined benefit pension plans and lump-sum benefit plans, and some domestic and overseas consolidated subsidiaries have defined contribution plans.

1. Defined benefit plans

(1) Movement in retirement benefit obligations

	2018	2019	2019
Balance as of April 1,	¥ 21,321	¥ 21,957	\$ 197,828
Service cost	1,593	1,605	14,460
Interest cost	171	174	1,567
Actuarial loss (gain)	65	(242)	(2,180)
Benefits paid	(1,196)	(1,565)	(14,100)
Other	1	(6)	(54)
Balance as of March 31,	¥ 21,957	¥ 21,922	\$ 197,513

(2) Movements in plan assets

	2018	2019	2019
Balance as of April 1,	¥ 17,298	¥ 17,379	\$ 156,581
Expected return on plan assets	292	305	2,747
Actuarial loss (gain)	87	(176)	(1,585)
Contributions paid by the employer	416	1,067	9,613
Benefits paid	(767)	(1,010)	(9,099)
Other	52	10	90
Balance as of March 31,	¥ 17,379	¥ 17,576	\$ 158,356

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	2018	2019	2019
Funded retirement benefit obligations	¥ 16,937	¥ 18,617	\$ 167,735
Plan assets	(17,379)	(17,576)	(158,356)
	(442)	1,040	9,370
Unfunded retirement benefit obligations	5,020	3,305	29,777
Total net defined benefit liability (asset) as of March 31,	¥ 4,578	¥ 4,346	\$ 39,156
Net defined benefit liability	¥ 5,843	¥ 5,770	\$ 51,986
Net defined benefit asset	(1,265)	(1,424)	(12,829)
Total net defined benefit liability (asset) as of March 31,	¥ 4,578	¥ 4,346	\$ 39,156

(4) Retirement benefit costs

	2018	2019	2019
Service cost	¥ 1,593	¥ 1,605	\$ 14,460
Interest cost	171	174	1,567
Expected return on plan assets	(292)	(305)	(2,747)
Amortization of actuarial differences	(58)	(78)	(702)
Amortization of prior service cost	108	108	973
Other	(34)	31	279
Total retirement benefit costs for the year ended March 31,	¥ 1,489	¥ 1,536	\$ 13,839

(5) Remeasurements of defined benefit plans

	2018	2019	2019
Prior service cost	¥ 108	¥ 108	\$ 973
Actuarial differences	(36)	(12)	(108)
Total balance as of March 31,	¥ 71	¥ 96	\$ 864

Tables show ¥ in millions and US\$ in thousands.

(6) Accumulated remeasurements of defined benefit plans

	2018	2019	2019
Unrecognized prior service cost	¥ 317	¥ 208	\$ 1,874
Unrecognized actuarial differences	(601)	(589)	(5,306)
Total balance as of March 31,	¥ (284)	¥ (380)	\$ (3,423)

(7) Plan assets

(i) Plan assets comprise

	2018	2019
Bonds	51.9%	51.9%
Equity securities	21.1%	20.6%
Cash and cash equivalents	2.6%	2.8%
General account	23.0%	23.3%
Other	1.4%	1.4%
Total	100.0%	100.0%

(ii) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions are set forth below:

	2018	2019
Discount rate	1.0%	1.0%
Expected return on plan assets	0.0–2.2%	0.0–2.2%
Expected rate of salary increase	4.6–7.9%	4.6–7.9%

2. Defined contribution plans

Some domestic consolidated subsidiaries expended ¥250 million and ¥278 million (\$2,504 thousand) on contributions for defined contribution plans for the years ended March 31, 2018 and 2019, respectively.

3. Multi-employer pension plans

The funded status of the multi-employer pension plans as of March 31, 2017 and 2018 (based on information available as of March 31, 2018 and 2019) to which contributions were recorded as net periodic retirement benefit costs was as follows:

	2018	2019	2019
Fair value of plan assets	¥ 101,454	¥ 62,621	\$ 564,203
Total of actuarial liabilities and minimum reserves in the calculation of pension financing	117,807	74,823	674,141
Difference	¥ (16,352)	¥ (12,201)	\$ (109,928)

The contribution ratio of the Companies to the multi-employer pension plans from April 1, 2016 to March 31, 2017 and from April 1, 2017 to March 31, 2018 was 14.9% and 15.0%, respectively. Some domestic consolidated subsidiaries expended ¥58 million and ¥44 million (\$396 thousand) on contributions for the multi-employer pension plans for the years ended March 31, 2018 and 2019, respectively.

13. Contingent Liabilities

Contingent liabilities as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
Notes receivable endorsed	¥ 21	¥ 18	\$ 162

	2018	2019	2019
Guarantees of loans made by:			
Nonconsolidated subsidiaries and affiliates	¥ 55	¥ 65	\$ 585
Other	3	3	27
Total	¥ 59	¥ 69	\$ 621

14. Leases

As Lessee

As of March 31, 2017 and 2018, lease payments for finance lease transactions that did not transfer ownership of the lease assets and commenced prior to April 1, 2008 were as follows:

	2018	2019	2019
Lease payments	¥ 104	—	—

The amounts of outstanding future minimum lease payments due as of March 31, 2018 and 2019, including the portion of interest, were as follows:

	2018	2019	2019
Future minimum lease payments			
Due within one year	¥ 58	—	—
Due over one year	10	—	—
Total	¥ 69	—	—

Assumed acquisition cost, accumulated depreciation, net book value and depreciation of lease assets as of March 31, 2018 and 2019, including the portion of interest, were as follows:

	2018	2019	2019
Acquisition cost	¥ 1,248	—	—
Buildings and structures	60	—	—
Machinery, vehicles, equipment and tools	1,187	—	—
Accumulated depreciation	1,179	—	—
Buildings and structures	48	—	—
Machinery, vehicles, equipment and tools	1,131	—	—
Net book value	69	—	—
Buildings and structures	12	—	—
Machinery, vehicles, equipment and tools	56	—	—
Depreciation	¥ 104	—	—

Depreciation is computed by the straight-line method over the lease term as the useful life with the assumption of no residual value.

Tables show ¥ in millions and US\$ in thousands.

Future minimum lease payments under noncancelable operating leases as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
Future minimum lease payments			
Due within one year	¥ 2,547	¥ 2,387	\$ 21,506
Due over one year	5,390	4,541	40,913
Total	¥ 7,938	¥ 6,928	\$ 62,420

As Lessor

Lease investment assets as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
Amount of lease payments receivable	¥ 1,049	¥ 1,071	\$ 9,649
Estimated residual value	6	6	54
Amount equivalent to interest receivable	(94)	(106)	(955)
Lease investment assets	¥ 961	¥ 971	\$ 8,748

The collection schedule for lease payments from lease investment assets after March 31, 2019 was as follows:

Year ended March 31,	2019	2019
2020	¥ 327	\$ 2,946
2021	274	2,468
2022	209	1,883
2023	138	1,243
2024	78	702
2025 and thereafter	42	378
Total	¥ 1,071	\$ 9,649

Future minimum lease receipts from noncancelable operating lease transactions as of March 31, 2018 and 2019 were as follows:

	2018	2019	2019
Due within one year	¥ 143	¥ 156	\$ 1,405
Due over one year	251	230	2,072
Total	¥ 394	¥ 386	\$ 3,477

15. Impairment Loss on Fixed Assets

The Companies reduced the book value of a portion of their idle assets and fixed assets and recognized the reduced amount as impairment loss.

(Method of grouping)

The Companies grouped assets based on operating segments for which the Companies reviewed performance and profitability regularly. Idle assets not in operation were treated individually.

Impairment loss recognized for the years ended March 31, 2018 and 2019 was as follows:

Year ended March 31, 2018	2018
Land	¥ 45
Total	¥ 45

Year ended March 31, 2019	2019	2019
Land	¥ 30	\$ 270
Building and structures	81	729
Machinery, vehicles, equipment and tools	23	207
Total	¥ 135	\$ 1,216

Tables show ¥ in millions and US\$ in thousands.

16. Derivative Transactions

Derivative transactions to which hedge accounting is not applied

Currency related transactions

2018				
	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)
Foreign exchange forward contracts				
To sell	¥ 474	¥ —	¥ 0	¥ 0
To buy	393	—	(8)	(8)
Nondeliverable forwards				
To sell	399	—	(9)	(9)
	¥ 1,267	¥ —	¥ (17)	¥ (17)

2019								
	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)	Contract amount	Contract amount over 1 year	Fair value*	Valuation gain (loss)
Foreign exchange forward contracts								
To sell								
U.S. dollars	¥ 259	¥ —	¥ 2	¥ 2	\$ 2,333	\$ —	\$ 18	\$ 18
Other currencies	791	—	5	5	7,126	—	45	45
To buy								
U.S. dollars	122	—	(1)	(1)	1,099	—	(9)	(9)
Other currencies	283	—	(0)	(0)	2,549	—	(0)	(0)
Nondeliverable forwards								
To sell	—	—	—	—	—	—	—	—
	¥ 1,457	¥ —	¥ 6	¥ 6	\$ 13,127	\$ —	\$ 54	\$ 54

*Fair values are based on quotes obtained from financial institutions.

Derivative transactions to which hedge accounting is applied

(1) Currency related transactions

2018				
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value* ¹
Principle method / Allocation method	Foreign exchange forward transactions			
Foreign exchange forward contracts				
To sell				
U.S. dollars		¥ 2,533	¥ —	¥ 68
Other currencies		1,339	—	(6)
To buy				
U.S. dollars		8,662	1,858	(158)
Other currencies		687	106	(7)
Allocation method				
Foreign exchange forward contracts				
To sell				
U.S. dollars* ²	Accounts receivable	3,855	—	—
Other currencies* ²	Accounts receivable	189	—	—
To buy				
U.S. dollars* ²	Accounts payable	2,788	—	—
Other currencies* ²	Accounts payable	107	—	—
		¥ 20,165	¥ 1,965	¥ (104)

Tables show ¥ in millions and US\$ in thousands.

	2019				Principal items hedged	Contract amount	Contract amount over 1 year	Fair value*1
	Principal items hedged	Contract amount	Contract amount over 1 year	Fair value*1				
Principle method / Allocation method	Foreign exchange forward transactions				Foreign exchange forward transactions			
Foreign exchange forward contracts								
To sell								
U.S. dollars		¥ 1,797	¥ 42	¥ (11)		\$ 16,190	\$ 378	\$ (99)
Other currencies		3,606	581	(110)		32,489	5,234	(991)
To buy								
U.S. dollars		25,257	15,057	1,063		227,561	135,660	9,577
Other currencies		704	51	(9)		6,342	459	(81)
Allocation method								
Foreign exchange forward contracts								
To sell								
U.S. dollars*2	Accounts receivable	4,934	—	—	Accounts receivable	44,454	—	—
Other currencies*2	Accounts receivable	224	—	—	Accounts receivable	2,018	—	—
To buy								
U.S. dollars*2	Accounts payable	2,323	—	—	Accounts payable	20,929	—	—
Other currencies*2	Accounts payable	43	—	—	Accounts payable	387	—	—
		¥ 38,893	¥ 15,732	¥ 932		\$ 350,418	\$ 141,742	\$ 8,397

*1 Fair values are based on quotes obtained from financial institutions.

*2 The hedged foreign currency receivables and payables were recorded using the Japanese yen amounts at the contracted forward rate, and no gains or losses on the foreign exchange forward contracts were recorded. The fair values of foreign exchange forward contracts were included in accounts receivable and accounts payable.

(2) Interest related transactions

Interest rate swap contracts have not been presented as of March 2018 and 2019.

17. Earnings Per Share

The basis of calculating net income per share for the years ended March 31, 2018 and 2019 was as follows:

Year ended March 31,	2018	2019	2019
Net income	¥ 17,577	¥ 19,221	\$ 173,177
Net income attributable to common stockholders	17,577	19,221	173,177
Net income not attributable to common stockholders	—	—	—
Effect of dilutive bonds	(20)	(20)	(180)
Diluted net income	¥ 17,556	¥ 19,200	\$ 172,988

(Thousands)

Weighted average number of shares outstanding	49,209	49,208
Effect of dilutive securities	8,108	8,128
Diluted weighted average number of shares outstanding	57,317	57,337

The one for five share consolidation of common stocks were effective October 1, 2017.

Net income per share assuming that consolidation of shares had been carried out at the beginning of the fiscal year ended March 31, 2017.

18. Net Assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("The Law"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By the resolution of shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the two years ended March 31, 2019 represent dividends paid out during those periods. The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥65 (\$0.58) per share, aggregating to ¥3,201 million

Tables show ¥ in millions and US\$ in thousands.

(\$28,840 thousand), which was approved at the Company's shareholders' meeting on June 19, 2019 in respect to the year ended March 31, 2019.

20. Other Income (Expenses)

Other, net consisted of the following:

	2018	2019	2019
Gain (loss) on sales of investments in securities	¥ 0	¥ 152	\$ 1,369
Loss on valuation of investments in securities	(1)	(31)	(279)
Gain (loss) on sales and disposals of fixed assets	(315)	(347)	(3,126)
Loss on valuation of investments in capital	—	0	0
Gain (loss) on liquidation of subsidiaries and affiliates	(36)	—	—
Foreign exchange gains (losses)	275	409	3,685
Sales discounts	(475)	(501)	(4,513)
Retirement benefits for directors and statutory auditors	(15)	—	—
Subsidy income	840	84	756
Insurance claim income	—	115	1,036
Loss on reduction of noncurrent assets	(795)	(194)	(1,747)
Provision for loss on litigation	—	157	1,414
Other, net	2,043	2,487	22,407
Total	¥ 1,521	¥ 2,331	\$ 21,001

21. Business Combinations

Previous fiscal year (April 1, 2017 to March 31, 2018)

(Transactions under common control)

(1) Outline of the business combination

1) Name and main business of the companies in the business combination

Acquired company

Name : Iwatani International Corporation (Okinawa) (subsidiary of the Company, "Okinawa Iwatani")

Main business: Sales of general high pressure gas and mechanical solvent and water supply materials and building material and civil engineering materials.

2) Date of combination

October 1, 2017

3) Legal method used for combination

Merger between Marui Sangyo Corporation (subsidiary of the Company) as the surviving company and Okinawa Iwatani as the absorbed company.

4) Name of company after combination

Marui Sangyo Corporation

5) Purpose of transaction

The purpose of the merger was to enhance the business base in the Okinawa area by synergy effect.

19. Expenses for Research and Development

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2018 and 2019 were ¥1,912 million and ¥2,428 million (\$21,875 thousand), respectively.

(2) Outline of accounting policy applied

The Company accounted for the Merger as a transaction under common control based on the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(3) Changes in the portion held by the Company in connection with transactions with noncontrolling interests

- 1) Main reasons for changes in capital surplus Merger between subsidiaries of the Company
- 2) Decreases in capital surplus due to transactions with noncontrolling interests ¥58 million (\$545 thousand)

(Transactions under common control)

(1) Outline of the business combination

1) Name and main business of the companies in the business combination

Acquired company

Name : Onarimonkosan Corporation (subsidiary of the Company, "Onarimonkosan")

Main business: Sales and brokerage of property and rental management business

2) Date of combination

January 1, 2018

3) Legal method used for combination

Merger between Iwatani Creative Corporation (subsidiary of the Company) as the surviving company and Onarimonkosan as the absorbed company

Tables show ¥ in millions and US\$ in thousands.

- 4) Name of company after combination
Iwatani Creative Corporation
- 5) Purpose of transaction
The purpose of the merger was to integrate the management of property and implement the management and operation of property effectively.

(2) Outline of accounting policy applied

The Company accounted for the Merger as a transaction under common control based on the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

22. Segment Information

1. General information about reportable segments

The Company's reportable segments are regularly reviewed by the Board of Directors using the financial information available within each segment to determine the allocation of management resources and evaluate business results. The Company maintains commercial divisions classified by merchandise and products. Each commercial division develops comprehensive business strategies for Japan and the world. Therefore, the Company is organized by operating segments which are classified by merchandise, products and sales channels based on commercial divisions.

In order to reflect the Company's actual business condition more suitably, the Company reviewed overseas consolidated subsidiaries segmentation.

For reference, segment information for the fiscal year ended March 31, 2018 was prepared based on the current segmentation.

The main products of the four reportable segments were as follows:

- (1) Energy: LPG for household, commercial and industrial use, LPG supply equipment and facilities, LNG, petroleum products, household kitchen appliances, home energy components, ENE FARM, GHP, daily necessities, portable cooking stoves, gas canisters, mineral water, electricity, etc.
- (2) Industrial Gases & Machinery: air-separation gases, hydrogen, helium, other specialty gases, gas supply facilities, welding materials, welding and cutting equipment, industrial machinery and facilities, industrial robots, pumps and compressors, facilities for hydrogen stations, disaster prevention equipment, high-pressure gas containers, semiconductor manufacturing equipment, electronic component manufacturing equipment, factory automation systems, medicine and food packing machinery, environmental equipment, etc.
- (3) Materials: stainless steel, aluminum, nonferrous metals, plastic resins, plastic molding, functional film, electronic display materials, secondary battery materials, mineral sand, ceramics materials, biomass fuel, etc.
- (4) Agri-bio & Foods: frozen vegetables and fruits, fresh foods, health foods, livestock related products, agri-bio related goods, etc.

2. Basis of measurement for reported segment profit and loss, segment assets and other material items by reportable segment

Accounting methods for reportable segments are basically the same as the accounting methods described in "Summary of Major Accounting Policies." Income by reportable segment is equivalent to operating income. Intersegment sales and transfers are based on market values.

3. Information related to sales, operating income (loss), assets and other items by reportable segment

	Reportable Segments					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
2018									
Net sales									
Outside customers	¥ 320,939	¥ 174,603	¥ 139,172	¥ 31,062	¥ 665,777	¥ 5,014	¥ 670,792	¥ —	¥ 670,792
Intersegment	6,169	5,216	2,614	188	14,189	18,646	32,836	(32,836)	—
Total	327,108	179,820	141,787	31,251	679,967	23,661	703,628	(32,836)	670,792
Segment income	¥ 13,815	¥ 9,816	¥ 4,470	¥ 1,332	¥ 29,433	¥ 941	¥ 30,375	¥ (3,181)	¥ 27,193
Segment assets	¥ 155,997	¥ 128,704	¥ 59,747	¥ 11,257	¥ 355,706	¥ 49,179	¥ 404,886	¥ 4,8632	¥ 453,518
Other items:									
Depreciation and amortization	¥ 5,374	¥ 5,979	¥ 888	¥ 263	¥ 12,506	¥ 2,993	¥ 15,500	¥ 1,521	¥ 17,021
Impairment loss on fixed assets	14	—	—	—	14	—	14	30	45
Amortization of goodwill	2,133	655	50	4	2,843	—	2,843	—	2,843
Increase in fixed assets and intangible assets	8,420	8,745	1,387	360	18,913	5,292	24,205	844	25,050

Tables show ¥ in millions and US\$ in thousands.

	2019								
	Reportable Segments					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	¥ 335,962	¥ 186,027	¥ 159,102	¥ 28,741	¥ 709,834	¥ 5,251	¥ 715,085	¥ —	¥ 715,085
Intersegment	5,346	4,246	2,229	197	12,020	19,938	31,959	(31,959)	—
Total	341,308	190,274	161,332	28,939	721,854	25,190	747,044	(31,959)	715,085
Segment income	¥ 10,871	¥ 11,141	¥ 5,740	¥ 1,115	¥ 28,867	¥ 976	¥ 29,844	¥ (3,388)	¥ 26,456
Segment assets	¥ 157,816	¥ 128,886	¥ 65,121	¥ 10,989	¥ 362,814	¥ 54,349	¥ 417,164	¥ 40,439	¥ 457,603
Other items:									
Depreciation and amortization	¥ 5,835	¥ 5,897	¥ 941	¥ 266	¥ 12,940	¥ 3,352	¥ 16,293	¥ 1,624	¥ 17,917
Impairment loss on fixed assets	2	104	—	—	107	25	132	2	135
Amortization of goodwill	2,133	655	50	4	2,843	—	2,843	—	2,843
Increase in fixed assets and intangible assets	8,097	7,120	1,596	177	16,992	5,825	22,817	2,581	25,399

	2019								
	Reportable Segments					Others*1	Total	Adjustments*2	Consolidated statements of operations*3
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal				
Net sales									
Outside customers	\$ 3,026,957	\$ 1,676,069	\$ 1,433,480	\$ 258,951	\$ 6,395,477	\$ 47,310	\$ 6,442,787	\$ —	\$ 6,442,787
Intersegment	48,166	38,255	20,082	1,774	108,298	179,637	287,944	(287,944)	—
Total	3,075,123	1,714,334	1,453,572	260,735	6,503,775	226,957	6,730,732	(287,944)	6,442,787
Segment income	\$ 97,945	\$ 100,378	\$ 51,716	\$ 10,045	\$ 260,086	\$ 8,793	\$ 268,889	\$ (30,525)	\$ 238,363
Segment assets	\$ 1,421,893	\$ 1,161,239	\$ 586,728	\$ 99,008	\$ 3,268,889	\$ 489,674	\$ 3,758,572	\$ 364,348	\$ 4,122,920
Other items:									
Depreciation and amortization	\$ 52,572	\$ 53,130	\$ 8,478	\$ 2,396	\$ 116,587	\$ 30,200	\$ 146,797	\$ 14,631	\$ 161,428
Impairment loss on fixed assets	18	937	—	—	964	225	1,189	18	1,216
Amortization of goodwill	19,551	5,901	261	—	25,723	—	25,723	—	25,723
Increase in fixed assets and intangible assets	72,952	64,149	14,379	1,594	153,094	52,482	205,577	23,254	228,840

*1 "Others" is an operating segment not included in reportable segments. "Others" represents business in finance, insurance, transportation, information processing, etc.

*2 Adjustments are as follows:

(1) Adjustments for segment income include companywide expenses not allocated to each segment and the elimination of intersegment transactions.

(2) Adjustments for segment assets is mainly assets in cash, deposits and investments in securities of the Company along with general and administrative departments of the Company.

(3) Adjustments for depreciation and amortization are mainly depreciation and amortization for general and administrative departments of the Company.

(4) Adjustments for impairment loss on fixed assets are mainly impairment loss within the general and administrative departments of the Company.

(5) Adjustments for increases in fixed assets and intangible assets are increases in fixed assets and intangible assets for general and administrative departments of the Company.

(6) "Depreciation and amortization" and "Increase in fixed assets and intangible assets" include long-term prepaid expenses and their amortization.

*3 Segment income is adjusted with operating income of the consolidated statements of income.

(Related Information)

1. Information about products and services

Since the segments' products and services are the same as those for the reportable segments, information for products and services is omitted.

2. Information about geographic areas

(1) Net sales

2018				
Japan	East Asia	Southeast Asia	Others	Total
¥ 599,191	¥ 42,960	¥ 18,376	¥ 10,264	¥ 670,792

2019				
Japan	East Asia	Southeast Asia	Others	Total
¥ 633,332	¥ 50,985	¥ 19,502	¥ 11,265	¥ 715,085

2019				
Japan	East Asia	Southeast Asia	Others	Total
\$ 5,706,207	\$ 459,365	\$ 175,709	\$ 101,495	\$ 6,442,787

Notes: 1. Net sales are classified by country or region based on customer locations.

2. Main countries and regions outside Japan are grouped as follows:

(1) East Asia..... China, Taiwan, South Korea

(2) Southeast Asia..... Singapore, Thailand, Malaysia, Indonesia, Vietnam

(3) Others..... United States, Australia

(2) Tangible fixed assets

Since tangible fixed assets in Japan accounted for over 90% of tangible fixed assets on the consolidated balance sheets, information regarding tangible fixed assets is omitted.

Tables show ¥ in millions and US\$ in thousands.

3. Information about major customers

Since sales to no customer accounted for 10% or more of the net sales on the consolidated statements of income, information by major customer is omitted.

(Information on amortization of goodwill and unamortized balance by reportable segment)

	Reportable Segments					Others*	Corporate assets and elimination	Total
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
2018								
Goodwill								
Amortization	¥ 2,037	¥ 655	¥ 50	¥ 4	¥ 2,748	¥ 95	¥ —	¥ 2,843
Balance at end of year	11,447	2,240	99	—	13,787	526	—	14,313
Negative goodwill								
Amortization	¥ 4	¥ —	¥ 32	¥ —	¥ 36	¥ —	¥ —	¥ 36
Balance at end of year	—	—	—	—	—	—	—	—

	Reportable Segments					Others*	Corporate assets and elimination	Total
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
2019								
Goodwill								
Amortization	¥ 2,170	¥ 655	¥ 29	¥ —	¥ 2,855	¥ —	¥ —	¥ 2,855
Balance at end of year	12,480	1,585	69	—	14,135	—	—	14,135
Negative goodwill								
Amortization	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Balance at end of year	—	—	—	—	—	—	—	—

	Reportable Segments					Others*	Corporate assets and elimination	Total
	Energy	Industrial Gases & Machinery	Materials	Agri-bio & Foods	Subtotal			
2019								
Goodwill								
Amortization	\$ 19,551	\$ 5,901	\$ 261	\$ —	\$ 25,723	\$ —	\$ —	\$ 25,723
Balance at end of year	112,442	14,280	621	—	127,353	—	—	127,353
Negative goodwill								
Amortization	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Balance at end of year	—	—	—	—	—	—	—	—

*"Others" is an operating segment not included in reportable segments. "Others" represents business in finance, insurance, transportation, information processing, etc.

(Information on gain on negative goodwill by reportable segment)

There was no significant gain on negative goodwill to report.

Tables show ¥ in millions and US\$ in thousands.

Independent Auditors' Report



Independent Auditor's Report

To the Board of Directors of Iwatani Corporation:

We have audited the accompanying consolidated financial statements of Iwatani Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of Iwatani Corporation and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

KPMG AZSA LLC

July 29, 2019
Osaka, Japan

Iwatani Corporation

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