

Creating Corporate Value Report 2018

Financial Section

Year ended March 31, 2018



Management's Discussion and Analysis

Group Outline

The S.T. CORPORATION Group is composed of S.T. CORPORATION, six consolidated subsidiaries, three equity method affiliated companies and other affiliated companies.

Sales Overview

In the fiscal year ended March 31, 2018 (hereinafter called "the current year"), the Japanese economy, backed by a favorable world economy, showed a modest recovery trend due to recovery of corporate earnings, improvement in the employment situation, and signs of a rise in consumer spending. On the other hand, a sense of uncertainty about the future remains because expansion of protectionist trade policies in the U.S. is raising worries over trade friction and geopolitical risks are increasing.

In these circumstances, the S.T. Group concentrated on "market expansion," "share increase," and "profit-oriented management" for realizing sustainable growth and took measures for establishing a business division system with the basic policy of "brand value management," while continuing narrowing down and concentrating on targets, development of unprecedented products, and swift business administration.

The current year's sales reached ¥48,627 million, up 5.8% year on year, due to the favorable sales performance of the current existing business's high-priced and high added-value products and the contribution of new products in the mainstay categories of Air Care and Cloth Care. As for the sales of each category, Air Care saw a 4.3% year-on-year growth, Cloth Care 4.3%, Thermal Care 12.3%, Hand Care 5.3%, and Home Care 13.9%, while Humidity Care saw a

0.4% year-on-year drop.

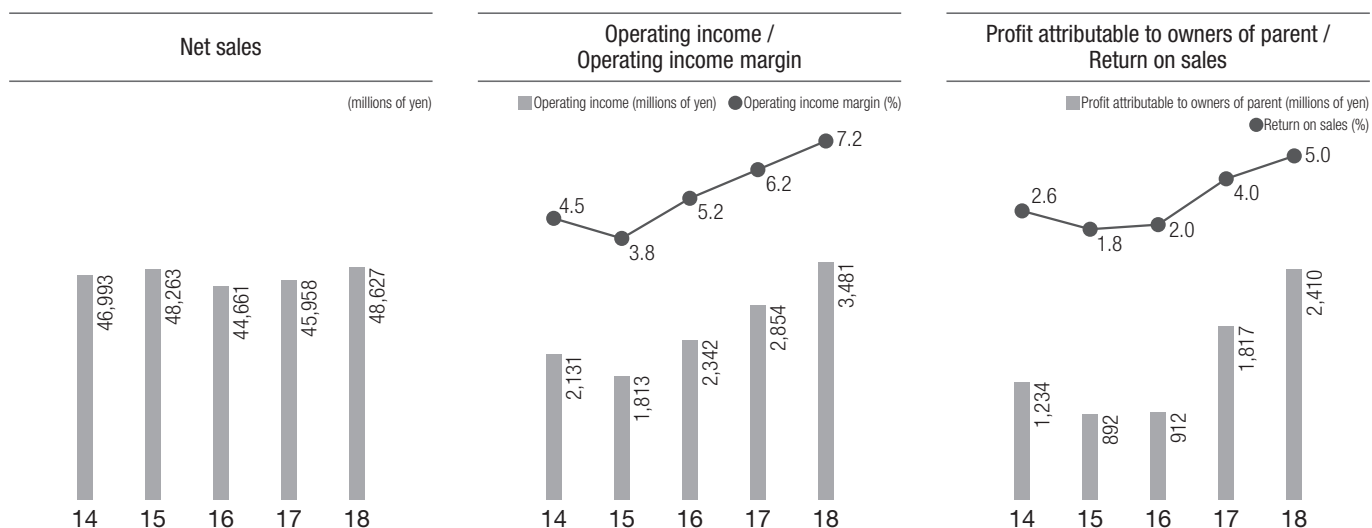
Cost of Sales, SG&A Expenses, and Operating Income

Thanks to improvements to profit composition by strengthening sales of high added-value products, reduction of returned goods, and production cost reduction throughout the company, the cost of sales augmented 3.9% year on year to ¥28,552 million. Also, because of increase of shipping costs and storage fees due to a larger sales volume, launching the new brand "Senjou-Riki," and aggressive allocations of strategic marketing funds aimed at expanding new products in Thailand, selling, general and administrative expenses increased 6.2% year on year to ¥16,594 million. As a result, operating income increased 21.9% year on year to ¥3,481 million.

Other Income (Expenses), Profit Before Income Taxes and Profit Attributable to Owners of Parent

As for other income and expenses, profit before income taxes was ¥3,478 million, up 26.4% year on year, and profit attributable to owners of parent was ¥2,410 million, up 32.6% year on year, due to absence of the impairment loss under extraordinary loss recognized in the previous year.

Accordingly, earnings per share was ¥109.58, up from the previous year's figure: ¥83.57. The ratio of profit attributable to owners of parent to sales increased from 4.0% to 5.0%, and ROE rose from 7.6% to 9.0%.



Note: As a result of new accounting standards being applied effective from the fiscal year ended March 31, 2017, the figures for fiscal years 2016, 2017 and 2018 reflect those changes. The figures for fiscal years 2014 and 2015 are as originally presented without retroactive application.

Financial Position

Total assets as of March 31, 2018 stood at ¥42,450 million, up ¥3,992 million from the end of the previous year. Among them, current assets grew ¥1,652 million to ¥24,119 million, mainly because merchandise and finished goods increased. On the other hand, non-current assets rose ¥2,340 million to ¥18,331 million, mainly due to the increase in investment securities.

Total liabilities were ¥13,428 million, up ¥782 million from the end of the previous year, mainly because of the augmentation of electronically recorded obligations. On the other hand, net assets were ¥29,022 million, up ¥3,210 million from the end of the previous year, mainly because of the growth of retained earnings.

Consequently, net assets per share increased from ¥1,148.41 at the end of the previous year to ¥1,285.01. In addition, equity ratio increased from 65.3% at the end of the previous year to 66.8%, indicating sound financial standing.

Capital Expenditures and Depreciation and Amortization

Capital expenditures increased from ¥608 million in the previous year to ¥1,822 million in the current year. Depreciation and amortization decreased from ¥997 million in the previous year to ¥970 million in the current year.

Cash Flows

Net cash provided by operating activities for the current year was ¥2,660 million, down ¥2,490 million from the previous year. This decrease is mainly due to the growth of inventories. On the other hand, net cash used in investment activities was ¥1,826 million (in the

same period of the previous fiscal year, net cash used in investment activities was ¥622 million). This is mainly due to the augmentation of purchase of property, plant and equipment. In addition, net cash used in financing activities was ¥428 million, as expenditure decreased ¥212 million year on year. This is mainly because of the increase in short-term loans payable.

As a result, the balance of cash and cash equivalents at the end of the current year was ¥11,866 million, up ¥470 million from the end of the previous year.

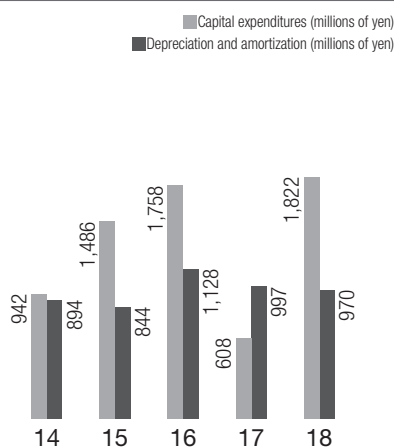
Dividends and Return to Shareholders

Taking into consideration such factors as profit attributable to owners of parent and the need to realize shareholder returns, we decided to distribute a term-end dividend of ¥18.0 (¥31.0 for the full year, including the interim dividend, with a consolidated payout ratio being 28.3%). The company will continue to place importance on returns to shareholders.

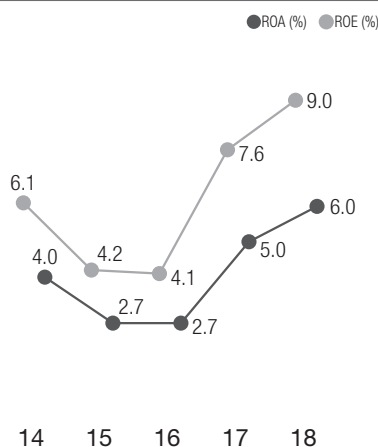
Business and Operational Risks

Factors that could possibly impact the Group's operating results, financial position or stock prices include the following: (1) an escalation in raw materials prices; (2) the impact on manufacturing operations from natural disasters and changes in international political or other conditions; (3) sales fluctuations due to unseasonal weather; (4) and the failure of initiatives to raise new businesses. Forward-looking statements in this annual report are based on certain assumptions made by the Group as of the end of this fiscal year.

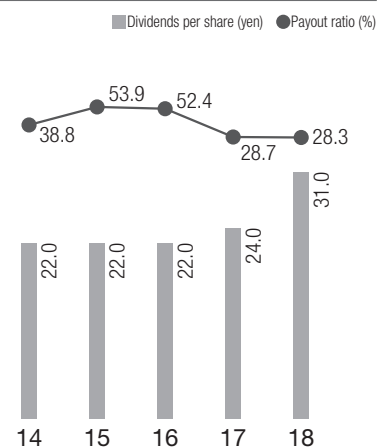
Capital expenditures /
Depreciation and amortization



ROA / ROE



Dividends per share /
Payout ratio



Consolidated Balance Sheets

S.T.CORPORATION and consolidated subsidiaries
March 31, 2018 and 2017

Assets	millions of yen		thousands of U.S. dollars (Note 2)
	2018	2017	2018
Current assets:			
Cash and time deposits (Notes 6, 10 and 16)	¥ 11,910	¥ 11,439	\$ 112,101
Trade notes and accounts receivable (Note 6)	5,430	5,220	51,114
Merchandise and finished goods	4,928	3,940	46,387
Work in process	251	266	2,361
Raw materials and supplies	832	867	7,831
Deferred tax assets (Note 11)	383	414	3,602
Other current assets	390	325	3,668
Less - allowance for doubtful accounts	(4)	(4)	(42)
Total current assets	24,119	22,467	227,022
Property, plant and equipment, at cost:			
Land (Note 9)	3,418	3,096	32,171
Buildings and structures	7,523	7,441	70,815
Machinery, equipment and vehicles	6,617	6,548	62,280
Tools, furniture and fixtures	4,044	3,908	38,065
Construction in progress	776	—	7,307
Leased assets (Note 17)	924	937	8,694
Less - accumulated depreciation	(14,371)	(13,929)	(135,271)
Property, plant and equipment, net	8,931	8,001	84,061
Intangible assets, net of accumulated amortization	262	334	2,463
Total intangible assets	262	334	2,463
Investments and other assets:			
Investments in non-consolidated subsidiaries and affiliates	457	423	4,299
Investment securities (Notes 6 and 8)	7,629	6,092	71,811
Long-term loans	12	15	113
Net defined benefit asset (Notes 1 and 12)	9	103	84
Deferred tax assets other than unrealized revaluation loss on land (Note 11)	11	11	107
Other assets	1,021	1,013	9,606
Total investments and other assets	9,139	7,657	86,020
Total assets	¥ 42,450	¥ 38,458	\$ 399,566

	millions of yen		thousands of U.S. dollars (Note 2)
Liabilities and net assets	2018	2017	2018
Current liabilities:			
Trade payables (Note 6)	¥ 2,197	¥ 2,159	\$ 20,675
Electronically recorded obligations-operating (Note 6)	3,624	2,937	34,113
Short-term loans payable	174	—	1,638
Lease obligations	201	163	1,896
Other payables (Note 6)	2,570	2,405	24,193
Accrued expenses	560	754	5,275
Electronically recorded obligations-non-operating	51	20	484
Income taxes payable	632	680	5,953
Consumption taxes payable	46	379	429
Allowance for sales returns	127	108	1,196
Other current liabilities	58	62	543
Total current liabilities	10,241	9,666	96,397
Long-term liabilities:			
Lease obligations	233	435	2,196
Provision for directors' retirement and severance benefits	124	127	1,167
Provision for executive officers' incentive plan (Note 4)	62	40	586
Net defined benefit liability (Notes 1 and 12)	1,257	1,201	11,832
Deferred tax liabilities (Note 11)	1,144	718	10,764
Deferred tax liabilities - unrealized revaluation gain on land (Note 9)	262	262	2,468
Other non-current liabilities	105	196	985
Total long-term liabilities	3,187	2,980	29,997
Net assets (Note 13):			
Shareholders' equity:			
Common stock:			
Authorized - 96,817,000 shares in 2018 and 2017			
Issued and outstanding - 23,000,000 shares in 2018 and 2017	7,066	7,066	66,505
Capital surplus	7,068	7,068	66,527
Retained earnings	12,830	11,016	120,767
Treasury stock, at cost	(1,230)	(1,487)	(11,577)
Total shareholders' equity	25,734	23,662	242,222
Accumulated other comprehensive income (loss):			
Unrealized holding gain on other securities, net of taxes	3,440	2,379	32,383
Unrealized revaluation loss on land, net of taxes (Note 9)	(537)	(537)	(5,056)
Translation adjustments	(264)	(354)	(2,481)
Remeasurements of defined benefit plans	(22)	(25)	(209)
Total accumulated other comprehensive income (loss)	2,617	1,462	24,637
Subscription rights	19	46	182
Non-controlling interests	652	642	6,132
Total net assets	29,022	25,812	273,172
Total liabilities and net assets	¥ 42,450	¥ 38,458	\$ 399,566

See notes to consolidated financial statements.

Consolidated Statements of Income

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	millions of yen		thousands of U.S. dollars (Note 2)
	2018	2017	2018
Net sales	¥ 48,627	¥ 45,958	\$ 457,705
Cost of sales (Notes 15 and 20)	28,533	27,490	268,570
Gross profit before reversal of allowance for sales returns	20,094	18,468	189,135
Allowance for sales returns	127	108	1,196
Reversal of allowance for sales returns	108	124	1,018
Gross profit	20,075	18,485	188,957
Selling, general and administrative expenses (Note 15)	16,594	15,630	156,195
Operating income	3,481	2,854	32,763
Non-operating income (expenses):			
Interest and dividends received	104	106	982
Interest expense	(0)	(0)	(4)
Purchase discounts	152	144	1,435
Sales discounts	(499)	(521)	(4,697)
Share of profit of entities accounted for using equity method	9	25	83
Other, net	223	295	2,100
Total non-operating income (expenses)	(11)	48	(101)
Ordinary income	3,470	2,903	32,662
Special gains (losses), net:			
Loss on disposition of property, plant and equipment, net	(15)	(10)	(137)
Impairment loss	—	(130)	—
Gain on reversal of subscription rights to shares	—	5	—
Loss on valuation of investment securities	(34)	—	(319)
Gain (loss) on sales of investment securities, net	57	4	535
Loss on abolishment of retirement benefit plan	—	(19)	—
Other	—	(0)	—
Total special gains (losses), net	8	(151)	80
Profit before income taxes	3,478	2,751	32,741
Income taxes (Note 11):			
Current	1,047	873	9,858
Deferred	(27)	(67)	(252)
Total income taxes	1,021	806	9,606
Profit	2,458	1,946	23,136
Profit attributable to non-controlling interests	48	129	453
Profit attributable to owners of parent	¥ 2,410	¥ 1,817	\$ 22,682

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	millions of yen		thousands of U.S. dollars (Note 2)
	2018	2017	2018
Profit	¥ 2,458	¥ 1,946	\$ 23,136
Other comprehensive income (Note 5)			
Unrealized holding gain on other securities, net of taxes	1,060	897	9,977
Translation adjustments	117	(76)	1,103
Remeasurements of defined benefit plans, net of tax	3	(5)	29
Share of other comprehensive income (loss) of entities accounted for using equity method	10	(18)	98
Total other comprehensive income	1,191	798	11,206
Comprehensive income	¥ 3,649	¥ 2,744	\$ 34,342
Total comprehensive income attributable to:			
Owners of parent	3,565	2,641	33,560
Non-controlling interests	83	103	782

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	millions of yen					
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2017	23,000	¥ 7,066	¥ 7,068	¥ 11,016	¥ (1,487)	¥ 23,662
Cash dividends paid by distribution of retained earnings				(554)		(554)
Profit attributable to owners of parent				2,410		2,410
Purchases of treasury stock					(2)	(2)
Disposal of treasury stock				(41)	259	218
Net changes in items other than those in shareholders' equity						
Balance at March 31, 2018	23,000	¥ 7,066	¥ 7,068	¥ 12,830	¥ (1,230)	¥ 25,734

	millions of yen							
	Unrealized holding gain on other securities, net of taxes	Unrealized revaluation loss on land, net of taxes (Note 9)	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2017	¥ 2,379	¥ (537)	¥ (354)	¥ (25)	¥ 1,462	¥ 46	¥ 642	¥ 25,812
Cash dividends paid by distribution of retained earnings								(554)
Profit attributable to owners of parent								2,410
Purchases of treasury stock								(2)
Disposal of treasury stock								218
Net changes in items other than those in shareholders' equity	1,062		91	3	1,156	(27)	9	1,138
Balance at March 31, 2018	¥ 3,440	¥ (537)	¥ (264)	¥ (22)	¥ 2,617	¥ 19	¥ 652	¥ 29,022

	millions of yen					
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2016	23,000	¥ 7,066	¥ 7,068	¥ 9,739	¥ (1,734)	¥ 22,138
Cash dividends paid by distribution of retained earnings				(504)		(504)
Profit attributable to owners of parent				1,817		1,817
Purchases of treasury stock					(1)	(1)
Disposal of treasury stock				(36)	248	212
Increase by merger				0		0
Net changes in items other than those in shareholders' equity						
Balance at March 31, 2017	23,000	¥ 7,066	¥ 7,068	¥ 11,016	¥ (1,487)	¥ 23,662

	millions of yen							
	Unrealized holding gain on other securities, net of taxes	Unrealized revaluation loss on land, net of taxes (Note 9)	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥ 1,482	¥ (537)	¥ (287)	¥ (20)	¥ 638	¥ 75	¥ 646	¥ 23,496
Cash dividends paid by distribution of retained earnings								(504)
Profit attributable to owners of parent								1,817
Purchases of treasury stock								(1)
Disposal of treasury stock								212
Increase by merger								0
Net changes in items other than those in shareholders' equity	896		(67)	(5)	824	(29)	(3)	792
Balance at March 31, 2017	¥ 2,379	¥ (537)	¥ (354)	¥ (25)	¥ 1,462	¥ 46	¥ 642	¥ 25,812

	thousands of U.S. dollars (Note 2)					
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2017	23,000	\$ 66,505	\$ 66,527	\$ 103,688	\$ (13,998)	\$ 222,723
Cash dividends paid by distribution of retained earnings				(5,215)		(5,215)
Profit attributable to owners of parent				22,682		22,682
Purchases of treasury stock					(16)	(16)
Disposal of treasury stock				(389)	2,437	2,048
Net changes in items other than those in shareholders' equity						
Balance at March 31, 2018	23,000	\$ 66,505	\$ 66,527	\$ 120,767	\$ (11,577)	\$ 242,222

	thousands of U.S. dollars (Note 2)							
	Unrealized holding gain on other securities, net of taxes	Unrealized revaluation loss on land, net of taxes (Note 9)	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights	Non-controlling interests	Total net assets
Balance at April 1, 2017	\$ 22,388	\$ (5,056)	\$ (3,336)	\$ (237)	\$ 13,759	\$ 435	\$ 6,046	\$ 242,962
Cash dividends paid by distribution of retained earnings								(5,215)
Profit attributable to owners of parent								22,682
Purchases of treasury stock								(16)
Disposal of treasury stock								2,048
Net changes in items other than those in shareholders' equity	9,995		854	29	10,878	(253)	86	10,711
Balance at March 31, 2018	\$ 32,383	\$ (5,056)	\$ (2,481)	\$ (209)	\$ 24,637	\$ 182	\$ 6,132	\$ 273,172

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

S.T.CORPORATION and consolidated subsidiaries
For the years ended March 31, 2018 and 2017

	millions of yen		thousands of U.S. dollars (Note 2)
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 3,478	¥ 2,751	\$ 32,741
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	970	997	9,130
Impairment loss	—	130	—
Gain on reversal of subscription rights to shares	—	(5)	—
Loss on sales of property, plant and equipment	15	10	137
Loss (gain) on sales and valuation of investment securities	(23)	(4)	(216)
Loss on abolishment of retirement benefit plan	—	19	—
Increase (decrease) in allowance for doubtful receivables	0	(0)	5
Increase (decrease) in net defined benefit asset and liability	120	(239)	1,130
Increase (decrease) in provision for directors' retirement and severance benefits	(3)	—	(32)
Increase (decrease) in provision for executive officers' incentive plan	22	23	208
Increase (decrease) in allowance for sales returns	19	(16)	178
Interest and dividends received	(104)	(106)	(982)
Interest expenses	0	0	4
Foreign exchange losses (gains)	(78)	(170)	(738)
Share of (profit) loss of entities accounted for using equity method	(9)	(25)	(83)
Changes in operating assets and liabilities:			
Receivables	(172)	144	(1,623)
Inventories	(897)	838	(8,444)
Payables and accrued expenses	674	(32)	6,346
Accrued consumption taxes	(333)	363	(3,139)
Other, net	(59)	957	(559)
Subtotal	3,619	5,637	34,061
Interest and dividends received	108	109	1,017
Interest paid	(0)	(0)	(2)
Income taxes paid	(1,066)	(595)	(10,034)
Net cash provided by operating activities	2,660	5,150	25,042
Cash flows from investing activities:			
Payments into deposits (more than three months)	(1)	(33)	(6)
Purchases of property, plant and equipment	(1,821)	(449)	(17,144)
Proceeds from sales of property, plant and equipment	5	8	49
Purchases of investment securities	(63)	(9)	(594)
Proceeds from sales of investment securities	77	13	724
Other investments, net	(23)	(152)	(216)
Net cash used in investing activities	(1,826)	(622)	(17,186)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	174	(45)	1,638
Purchases of treasury stock	(2)	(1)	(16)
Proceeds from disposal of treasury stock	191	185	1,795
Payments of dividends	(554)	(504)	(5,215)
Payments of dividends to non-controlling interests	(74)	(106)	(696)
Other finance, net	(163)	(169)	(1,530)
Net cash used in financing activities	(428)	(640)	(4,024)
Effect of exchange rate changes on cash and cash equivalents	62	(50)	588
Net increase (decrease) in cash and cash equivalents	470	3,839	4,420
Cash and cash equivalents at beginning of year	11,396	7,552	107,269
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	5	—
Cash and cash equivalents at end of year (Note 16)	¥ 11,866	¥ 11,396	\$ 111,689

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

S.T.CORPORATION and Consolidated Subsidiaries
March 31, 2018

1 Summary of Significant Accounting Policies

(a) Basis of presentation

S.T. CORPORATION (the "Company") and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006).

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically for readers outside Japan. The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Furthermore, certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by Financial Instruments and Exchange Act, amounts are rounded to the nearest million yen. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

(b) Scope of consolidation

(1) Number of consolidated subsidiaries:
6 companies

(2) Names of consolidated subsidiaries:
S.T. TRADING CO., LTD., S.T. BUSINESS SUPPORT CO., LTD., S.T. (THAILAND) CO., LTD., FAMILY GLOVE CO., LTD. (TAIWAN), S.T. KOREA CORPORATION (SOUTH KOREA), and SHALDAN (THAILAND) CO., LTD.

(3) Name of major non-consolidated subsidiary:
JAPAN AROMA LABORATORY CO., LTD.

(Reasons for exclusion from scope of consolidation)

The non-consolidated subsidiary has been excluded from the scope of consolidation because the total amounts of its assets, net sales, profit or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other amounts are limited, and the effect on the consolidated financial statements as a whole is not significant.

(c) Scope of application of equity-method accounting

(1) Number of affiliated companies accounted for by the equity method:
3 companies

(2) Names of major companies:
SHALDAN (PHILIPPINES), INC., AEKYUNG S.T. CO., LTD., and NS FAFA JAPAN CO., LTD.

(3) Name of non-consolidated subsidiary for which equity method is not applied
The non-consolidated subsidiary to which the equity method does not apply (JAPAN AROMA LABORATORY CO., LTD.) is accounted for using the cost method rather than the equity method because the total amounts of its profit or loss (amount equivalent to equity interests), retained earnings (amount equivalent to equity interests) and other amounts are limited, and the effect on the consolidated financial statements as a whole is not significant.

(d) Accounting period

The accounting period of the Company begins on April 1 and ends on March 31 of the following year. The four overseas subsidiaries have fiscal years ending on December 31. The necessary adjustments for significant transactions, if any, during the intervening period are made on consolidation.

(e) Translation of foreign currency transactions and financial statements

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign exchange gains and losses are credited or charged to income and translation adjustments are included in net assets.

(f) Marketable securities and investment securities

Other securities with determinable market value are carried at market value with any changes in unrealized holding gain or loss, net of the related deferred income tax assets or liabilities, included in net assets. Other securities without determinable market value are stated at cost determined by the moving-average method and the cost of other securities sold is computed based on the moving-average method. During the years ended March 31, 2018 and 2017, the Company and its consolidated subsidiaries did not have any trading securities.

(g) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined by the average method.

(h) Property, plant and equipment, except for leased assets, and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries, except for buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998, and facilities attached to the buildings and structures acquired on or after April 1, 2016, is computed by the declining-balance method in conformity with the Corporation Tax Law of Japan. Depreciation of property and equipment of overseas subsidiaries and buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 and facilities attached to the buildings and structures acquired on or after April 1, 2016 of the Company and domestic subsidiaries is computed by the straight-line method.

The estimated useful lives of the major depreciable assets are as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 17 years
Tools, furniture and fixtures	2 to 20 years

(i) Intangible assets

Intangible assets, except for leased assets, are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over a period of mainly 5 years, the useful life applicable to commercially available software.

(j) Leases

Non-cancelable lease transactions that transfer substantially all the risks and rewards associated with the ownership of the leased assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

Depreciation is computed by the straight-line method over the respective lease terms assuming a nil residual value.

(k) Allowance for doubtful receivables

The allowance for doubtful receivables is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

Notes to Consolidated Financial Statements

(l) Allowance for sales returns

The allowance for sales returns is provided for losses on sales returns subsequent to the balance sheet date at an amount equivalent to that calculated based on the actual percentage of returns in prior years.

(m) Employees' retirement and severance benefits

- (1) Method of attributing expected benefit payments to the period
In calculating the retirement benefit obligation, the method of attributing expected benefit payments to periods is based on the benefit formula.
- (2) Amortization method of actuarial gains/losses
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of a certain number of years (5 years) which is shorter than the average remaining years of service of the employees.
- (3) Adoption of a simplified method in some consolidated subsidiaries
Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the end of fiscal year for the calculation of net defined benefit liability and retirement benefit expenses.

(n) Provision for directors' retirement and severance benefits

The Company has accrued provision for directors' retirement and severance benefits at the amount which would be required to be paid if all directors resigned from their positions and left the Company as of the balance sheet date in accordance with its internal regulations.

(o) Provision for executive officers' incentive plan

The Company has established an executive officers' incentive plan trust and a provision is made at the amount required for stock awards based on the Company's internal regulations for awarding stock.

(p) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(q) Cash and cash equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows consist of cash on hand, demand deposits and liquid short-term investments with a maturity of three months or less from their respective dates of acquisition.

2 Basis of Translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥106.24 = U.S.\$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2018. This

translation should not be construed as a representation that all amounts shown could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3 Accounting Standards not yet Applied, etc.

- Accounting Standard for Revenue Recognition (Statement No.29, March 30, 2018 issued by the Accounting Standards Board of Japan (ASBJ))
- Implementation Guidance on Accounting Standard for Revenue Recognition (Implementation Guidance No.30, March 30, 2018 issued by the ASBJ)

(1) Summary

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and issued "Revenue from Contracts with Customers" in May 2014 (IASB: IFRS 15; FASB: Topic 606). Considering IFRS 15 will be applied from fiscal years beginning on or after January 1, 2018 and Topic 606 from fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and issued it together with implementation guidance.

The fundamental policy for developing Accounting Standard for Revenue Recognition by the ASBJ was that the accounting standard would incorporate the fundamental principles of IFRS 15 as the starting point from the perspective of comparability of financial statements, which is the one of the benefits of achieving consistency with IFRS. If there are any matters to be taken into consideration with regard to actual practices in Japan, etc., additional alternative accounting treatments will be provided that do not impair financial statement comparability.

(2) Scheduled date of application

The accounting standard and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application

The Company is currently assessing the impact of applying the accounting standard and guidance on its consolidated financial statements.

4 Additional Information

(Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

(a) Board Benefit Trust (BBT)

The Company introduced a "Board Benefit Trust" with the goal of increasing awareness of the importance of contributing to further enhancing the Company's corporate value and performance over the medium-to-long-term.

(1) Summary

The Company awards the Company's stock to the executive officers who satisfy certain requirements based on predetermined regulations for awarding stocks. Executive officers are granted a certain number of points depending on the financial results, and upon their retirement, the officers will receive stock depending on the number of points they have accumulated.

The Company has established the Trust by contributing funds to be used for the acquisition of the Company's stock on behalf of executive officers. The Trust will acquire the Company's stock to be awarded to the executive officers in the future, and the shares are managed as trust assets.

(2) The Company's stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value of the shares in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2018 were ¥102 million (U.S.\$960 thousand) and 97,400 shares, respectively.

(b) Employee Stock Ownership Plan (ESOP) Trust

The Company introduced an Employee Stock Ownership Plan (ESOP) Trust as an employee incentive plan with the aim of raising awareness of the Company's share price and strengthening financial performance.

(1) Summary

The Company awards the Company's stock to the employees who satisfy certain requirements based on predetermined regulations for awarding stocks.

If the Company's profit is higher than a pre-determined standard, the Company awards a certain number points to employees. Upon their retirement, employees will receive the Company's stock depending on the number of points they have accumulated.

The Company has established the Trust by contributing funds to be used for the acquisition of the Company's stock on behalf of participating employees. The Trust will acquire the Company's stock to be awarded to employees in the future, and the shares are managed as trust assets.

(2) The Company's stock in the Trust

The Company's own stock in the Trust is recorded in treasury shares under net assets based on the book value of the shares in the Trust (excluding ancillary expenses). The book value and the number of these treasury shares in the Trust as of March 31, 2018 were ¥126 million (U.S.\$1,183 thousand) and 120,000 shares, respectively.

5 Consolidated Statements of Comprehensive Income

The amount of recycling and amount of income tax effect associated with other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Unrealized holding gain (loss) on other securities, net of taxes			
Amount recognized in the year	¥ 1,565	¥ 1,286	\$ 14,728
Reclassification adjustments included in the statement of income	(23)	(4)	(216)
Before income tax effect adjustment	1,542	1,282	14,512
Amount of income tax effect	(482)	(385)	(4,535)
Unrealized holding gain (loss) on other securities, net of taxes	1,060	897	9,977
Translation adjustments			
Amount recognized in the year	117	(76)	1,103
Remeasurements of defined benefit plans, net of tax			
Amount recognized in the year	(25)	(25)	(237)
Reclassification adjustments included in the statement of income	30	18	278
Before income tax effect adjustment	4	(7)	41
Amount of income tax effect	(1)	2	(13)
Remeasurements of defined benefit plans, net of tax	3	(5)	29
Share of other comprehensive income (loss) of entities accounted for using equity method			
Amount recognized in the year	10	(15)	98
Reclassification adjustments included in the statement of income	—	(2)	—
Share of other comprehensive income (loss) of entities accounted for using equity method	10	(18)	98
Total other comprehensive income	¥ 1,191	¥ 798	\$ 11,206

6 Financial Instruments

(1) Current status of financial instruments

- (a) Policy in relation to financial instruments
The Company and its consolidated subsidiaries (collectively, the "Group") raise necessary funds following capital investment plans for undertaking the manufacturing-and-selling businesses. Surplus funds of the Group are only invested in highly secure financial assets.
- (b) Details of financial instruments and related risk
Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. In addition, receivables denominated in foreign currencies are exposed to foreign currency exchange risk.
Investment securities, most of which are stocks of other companies with which the Group has business relationships, are exposed to market price fluctuation risk.
Substantially all trade payables—notes and accounts payable—trade, electronically recorded obligations—operating and other payables—have payment due dates within one year. In addition, payables denominated in foreign currencies are exposed to foreign currency exchange risk.
- (c) Risk management system for financial instruments
(Credit risk management—the risk that customers or counterparties may default)
The Company has established a management policy whereby the Company evaluates the financial conditions of its customers and monitors

due dates and outstanding balances regularly to identify and mitigate risks of bad debts from customers who are having financial difficulties.
The consolidated subsidiaries perform equivalent management procedures as the Company.

(Market risk management—the risk arising from fluctuations in exchange rates and interest rates)
The Company uses forward exchange contract transactions with the aim of avoiding risk related to fluctuation in future foreign exchange.
For investment securities, the Company periodically confirms the market value of such financial instruments and reports to the director in charge. The Company reviews the status of these investments on a continuing basis.

(Liquidity risk management—the risk that the Group may not be able to meet its payment obligations on the schedule dates)
The Company manages liquidity risk by means of preparing monthly financial plans.

- (d) Supplementary explanation of items relating to the fair value of financial instruments
The fair value of financial instruments is based on their quoted market prices if available. If there are no market prices available, fair value is reasonably estimated. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the value.

(2) Estimated fair value of financial instruments

The carrying value of financial instruments recognized on the consolidated balance sheets as of March 31, 2018 and 2017, the estimated fair value of such items and the differences between them are shown below. Financial instruments for which fair value is extremely difficult to estimate are not included in the following table.

Year ended March 31, 2018	millions of yen		
	Carrying value	Fair value	Difference
a Cash and time deposits	¥ 11,910	¥ 11,910	—
b Trade notes and accounts receivable	5,430	5,430	—
c Investment securities	7,574	7,574	—
Assets	¥ 24,914	¥ 24,914	—
a Trade payables	¥ 2,197	¥ 2,197	—
b Electronically recorded obligations-operating	3,624	3,624	—
c Other payables	2,570	2,570	—
Liabilities	¥ 8,391	¥ 8,391	—

Year ended March 31, 2017	millions of yen		
	Carrying value	Fair value	Difference
a Cash and time deposits	¥ 11,439	¥ 11,439	—
b Trade notes and accounts receivable	5,220	5,220	—
c Investment securities	6,077	6,077	—
Assets	¥ 22,736	¥ 22,736	—
a Trade payables	¥ 2,159	¥ 2,159	—
b Electronically recorded obligations-operating	2,937	2,937	—
c Other payables	2,405	2,405	—
Liabilities	¥ 7,501	¥ 7,501	—

Year ended March 31, 2018	thousands of U.S. dollars		
	Carrying value	Fair value	Difference
a Cash and time deposits	\$ 112,101	\$ 112,101	—
b Trade notes and accounts receivable	51,114	51,114	—
c Investment securities	71,292	71,292	—
Assets	\$ 234,507	\$ 234,507	—
a Trade payables	\$ 20,675	\$ 20,675	—
b Electronically recorded obligations-operating	34,113	34,113	—
c Other payables	24,193	24,193	—
Liabilities	\$ 78,982	\$ 78,982	—

Notes: 1. Method of estimating the fair value of financial instruments and other matters relating to investment securities

Assets

a. Cash and time deposits and b. Trade notes and accounts receivable

Because these items are settled over the short term, the fair value and carrying value are nearly equivalent. Therefore, the relevant carrying value is used.

c. Investment securities

Stocks are valued at the exchange trading price. Bonds are valued at the exchange trading price or at the price provided by the financial institutions offering these securities. For information on securities classified by purpose of holding, please refer to the "Investment Securities" section of the notes to the financial statements.

Liabilities

a. Trade payables, b. Electronically recorded obligations-operating and c. Other payables

Because these items are settled over the short term, the fair value and carrying value are nearly equivalent. Therefore, the relevant carrying value is used.

2. Financial instruments for which fair value is extremely difficult to determine

	Carrying value		thousands of U.S. dollars
	millions of yen		
	2018	2017	2018
Unlisted equity securities	¥ 55	¥ 15	\$ 519

Because the fair value of these financial instruments is extremely difficult to determine, given that no quoted market price is available, they are not included in the above table.

Notes to Consolidated Financial Statements

3. Redemption schedule for receivables and other securities with maturity dates at March 31, 2018 and 2017 are summarized as follows:

Year ended March 31, 2018	millions of yen			
	One year or less	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Time deposits	¥ 11,908	—	—	—
Trade notes and accounts receivable	5,430	—	—	—
Investment securities				
Other	100	—	—	—
Total	¥ 17,439	—	—	—

Year ended March 31, 2017	millions of yen			
	One year or less	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Time deposits	¥ 11,438	¥ —	—	—
Trade notes and accounts receivable	5,220	—	—	—
Investment securities				
Other	—	100	—	—
Total	¥ 16,659	¥ 100	—	—

Year ended March 31, 2018	thousands of U.S. dollars			
	One year or less	More than 1 year and within 5 years	More than 5 years and within 10 years	More than 10 years
Time deposits	\$ 112,090	—	—	—
Trade notes and accounts receivable	51,114	—	—	—
Investment securities				
Other	941	—	—	—
Total	\$ 164,145	—	—	—

7 Derivatives

The Company and its consolidated subsidiaries had no derivative instruments outstanding at March 31, 2018 and 2017.

8 Investment Securities

(1) Other securities

The acquisition cost and related carrying value of other securities with a determinable market value at March 31, 2018 and 2017 are summarized as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Acquisition cost	¥ 2,618	¥ 2,662	\$ 24,639
Carrying value	7,574	6,077	71,292
Total unrealized gain	4,963	3,446	46,718
Total unrealized loss	7	31	66

At March 31, 2018 and 2017, unlisted stocks (whose carrying value was ¥55 million (U.S.\$519 thousand) and ¥15 million, respectively) are not included in the above table because their fair value is extremely difficult to determine, given that no quoted market price is available.

(2) Sales of other securities
(Year ended March 31, 2018)

	millions of yen		
	Proceeds from sales	Gain on sales	Loss on sales
(1) Stocks	¥ 77	¥ 57	—
(2) Bonds			
1. Government bonds	—	—	—
2. Corporate bonds	—	—	—
3. Others	—	—	—
(3) Other securities	—	—	—
Total	¥ 77	¥ 57	—

(Year ended March 31, 2017)

	millions of yen		
	Proceeds from sales	Gain on sales	Loss on sales
(1) Stocks	¥ 13	¥ 4	—
(2) Bonds			
1. Government bonds	—	—	—
2. Corporate bonds	—	—	—
3. Others	—	—	—
(3) Other securities	—	—	—
Total	¥ 13	¥ 4	—

(Year ended March 31, 2018)

	thousands of U.S. dollars		
	Proceeds from sales	Gain on sales	Loss on sales
(1) Stocks	\$ 724	\$ 535	—
(2) Bonds			
1. Government bonds	—	—	—
2. Corporate bonds	—	—	—
3. Others	—	—	—
(3) Other securities	—	—	—
Total	\$ 724	\$ 535	—

(3) Impairment of investment securities

The Company recognized impairment loss on investment securities of ¥34 million (U.S.\$319 thousand) for the year ended March 31, 2018. There were no significant impairment losses on investment securities to be recorded for the year ended March 31, 2017.

9 Land Revaluation

In accordance with the Land Revaluation Law (Proclamation No. 34 dated March 31, 1998), land used for business activities was revalued at March 31, 2002. The revaluation difference, net of taxes, is stated as "Unrealized revaluation loss on land, net of taxes" in net assets. Deferred tax liabilities arising from this revaluation difference are presented separately from

deferred tax liabilities for other temporary differences in the accompanying consolidated balance sheets. The market value of the land as of March 31, 2018 and 2017 decreased by ¥463 million (U.S.\$4,356 thousand) and ¥509 million, respectively, after the revaluation.

10 Pledged Assets

Pledged assets at March 31, 2018 and 2017 are summarized as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Time deposits	¥ 5	¥ 4	\$ 43

Time deposits were pledged as collateral mainly for leased office space at March 31, 2018 and 2017.

Notes to Consolidated Financial Statements

11 Income Taxes

At March 31, 2018 and 2017, the tax effect of the temporary differences which gave rise to a significant portion of the deferred tax assets (excluding deferred taxes on unrealized revaluation loss on land) was as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued employees' bonuses	¥ 119	¥ 158	\$ 1,119
Allowance for sales returns	39	34	371
Accrued business taxes	55	56	520
Loss on valuation of inventories	21	37	193
Net defined benefit liability	377	355	3,547
Accrued payable due to transfer to defined contribution pension plan	46	79	437
Provision for directors' retirement and severance benefits	38	39	362
Provision for executive officers' incentive plan	19	12	182
Write-downs of securities	65	54	610
Impairment loss	46	46	436
Other	145	142	1,367
Gross deferred tax assets	971	1,014	9,144
Valuation allowance	(119)	(154)	(1,121)
Total deferred tax assets	852	860	8,023
Deferred tax liabilities:			
Deferred gain on sales of property	(12)	(12)	(110)
Net defined benefit asset	(10)	(32)	(92)
Undistributed earnings of controlled foreign companies	(61)	(73)	(579)
Unrealized holding gain on other securities, net of taxes	(1,519)	(1,037)	(14,297)
Total deferred tax liabilities	(1,602)	(1,154)	(15,078)
Net deferred tax liabilities	¥ (749)	¥ (294)	\$ (7,054)

At March 31, 2018 and 2017, net deferred tax liabilities were included in the following items in the consolidated balance sheets.

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Current assets - deferred tax assets	¥ 383	¥ 414	\$ 3,602
Non-current assets - deferred tax assets	11	11	107
Non-current liabilities - deferred tax liabilities	(1,144)	(718)	(10,764)

A reconciliation of the statutory tax rates to the Company's effective tax rates for the years ended March 31, 2018 and 2017 is summarized as follows:

	2018	2017
Japanese statutory tax rate	31.00%	31.00%
Permanent differences, such as entertainment expenses, etc.	0.54	0.72
Permanent differences, such as dividend income	(0.24)	(0.30)
Tax credit	(2.87)	(2.61)
Undistributed earnings of controlled foreign companies	(0.33)	(0.86)
Equity in loss of affiliates	(0.08)	(0.28)
Other	1.32	1.62
Effective tax rate	29.34%	29.29%

12 Employees' Retirement and Severance Benefits

The Company and its consolidated subsidiaries have defined benefit plans for payments of employees' retirement (either funded or unfunded), the Company and some consolidated subsidiaries have a defined contribution pension plan.

The Group pays a pension or lump sum based on length of service and salary in the defined benefit corporate pension plan.

In unfunded retirement benefit plans, the Company pays a lump sum based on length of service and salary as a retirement benefit.

Some consolidated subsidiaries adopt the simplified method which

assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year end for the calculation of net defined benefit liability and retirement benefit expenses.

Incidentally, effective from April 1, 2017, the Company transferred the defined benefit portion of its pension plans for current employees to a defined contribution pension plan. In addition, some consolidated subsidiary has introduced a defined contribution pension plan.

(1) Defined benefit plans

Adjustments of beginning and ending balance of retirement benefit obligations

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥ 1,318	¥ 3,903	\$ 12,409
Service cost	68	237	641
Interest cost	10	31	92
Actuarial gain or loss	10	(9)	96
Payment of retirement benefits	(50)	(220)	(473)
Decrease due to transfer of retirement benefit obligation to defined contribution pension plan	—	(2,623)	—
Other	6	(1)	57
Balance at the end of the year	¥ 1,362	¥ 1,318	\$ 12,823

Adjustments of beginning and ending balance of plan assets

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥ 220	¥ 2,606	\$ 2,073
Expected return on plan assets	2	52	18
Actuarial loss	(15)	(34)	(141)
Employer's contributions	—	154	—
Payment of retirement benefits	(22)	(156)	(206)
Decrease due to transfer of retirement benefit obligation to defined contribution pension plan	(71)	(2,402)	(669)
Balance at the end of the year	¥ 114	¥ 220	\$ 1,075

Adjustments of ending balance of retirement benefit obligations and plan assets, and net defined benefit asset and liability on consolidated balance sheet

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 105	¥ 117	\$ 991
Plan assets	(114)	(220)	(1,075)
	(9)	(103)	(84)
Unfunded retirement benefit obligations	1,257	1,201	11,832
Net defined benefit asset and liability on consolidated balance sheet	1,248	1,098	11,748
Net defined benefit liability	1,257	1,201	11,832
Net defined benefit asset	(9)	(103)	(84)
Net defined benefit asset and liability on consolidated balance sheet	¥ 1,248	¥ 1,098	\$ 11,748

Notes to Consolidated Financial Statements

The following table summarizes the components of net retirement benefit expenses:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 68	¥ 237	\$ 641
Interest cost on benefit obligation	10	31	92
Expected return on plan assets	(2)	(52)	(18)
Amortization of actuarial loss	30	34	278
Extraordinary additional retirement payments	35	8	326
Net retirement benefit expenses	140	258	1,320
Profit or loss due to transfer of retirement benefit obligation to defined contribution pension plan (*)	¥ —	¥ (19)	\$ —

(*) It is recorded as special loss.

Remeasurements of defined benefit plans, before tax, in the consolidated statements of comprehensive income

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Actuarial gain (loss)	¥ 4	¥ 9	\$ 41
Adjustment due to transfer of retirement benefit obligation to defined contribution pension plan	—	(16)	—
Total	¥ 4	¥ (7)	\$ 41

Remeasurements of defined benefit plans, before tax, in the consolidated balance sheets

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Unrecognized actuarial gain (loss)	¥ 32	¥ 37	\$ 303

Plan assets

(1) Plan assets

The fair value of plan assets, by major category, as a percentage of total plan assets is as follows:

	2018	2017
General accounts	100.0%	100.0%
Total	100.0%	100.0%

(2) Calculation method of expected long-term rate of return on plan assets

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in the actuarial calculation

The main assumptions used in the actuarial calculation (presented as a weighted average) are as follows:

	2018	2017
Discount rate	0.8%	0.8%
Expected rate of return on plan assets	1.3%	2.0%

(2) Other retirement benefits

Contributions to the defined contribution pension plans of the Company and its consolidated subsidiaries amounted to ¥128 million (U.S.\$1,203 thousand) for the year ended March 31, 2018.

13 Net Assets

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Capital surplus and the legal reserve are not available for the distribution of dividends but may be used to reduce or eliminate a deficit or may be transferred to stated capital. At March 31, 2018, the legal reserve of the Company included in retained earnings amounted to ¥550 million (U.S.\$5,175 thousand).

The maximum amount which the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Corporation Law of Japan.

14 Amounts per Share

Net assets per share as of March 31, 2018 and 2017 were ¥1,285.01 (U.S.\$12.10) and ¥1,148.41, respectively. Basic earnings per share for the years ended March 31, 2018 and 2017 was ¥109.58 (U.S.\$1.03) and

¥83.57, respectively.

Diluted earnings per share for the years ended March 31, 2018 and 2017 was ¥108.85 (U.S.\$1.02) and ¥83.17, respectively.

The basis for the calculation of basic earnings per share and diluted earnings per share for the years ended March 31, 2018 and 2017 was as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Basic earnings per share:			
Profit attributable to owners of parent	¥ 2,410	¥ 1,817	\$ 22,682
Amount not attributable to shareholders of common stock	—	—	—
Amount attributable to shareholders of common stock	2,410	1,817	22,682
Weighted-average number of shares outstanding (millions of shares)	22	22	—
Diluted earnings per share:			
Adjustments to profit attributable to owners of parent	—	—	—
Increase in number of shares outstanding (millions of shares)	0	0	—
(Subscription rights to shares)	(0)	(0)	—
Shares having an anti-dilutive effect (millions of shares)	—	—	—

The basis for calculation of total net assets per share as of March 31, 2018 and 2017 was as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Total net assets per share:			
Total net assets	¥ 29,022	¥ 25,812	\$ 273,172
Deductions:	671	689	6,314
Subscription rights	19	46	182
Non-controlling interests	652	642	6,132
Amounts attributable to shareholders of common stock	28,351	25,124	266,858
Number of shares outstanding at year end (millions of shares)	22	22	—

15 Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Sales promotion expenses	¥ 3,494	¥ 3,096	\$ 32,892
Advertising costs	2,896	2,618	27,255
Salaries	2,241	2,145	21,092
Shipment and storage expenses	1,507	1,350	14,185
Provision for employees' retirement and severance benefits	218	210	2,051
Provision for executive officers' incentive plan	25	23	234
Provision of allowance for doubtful accounts	0	—	5

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2018 and 2017 amounted to ¥596 million (U.S.\$5,612 thousand) and ¥611 million, respectively.

16 Cash and Time Deposits

A reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows to cash and time deposits in the accompanying consolidated balance sheets at March 31, 2018 and 2017 is as follows:

	millions of yen		thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥ 11,910	¥ 11,439	\$ 112,101
Time deposits with a maturity in excess of three months	(56)	(52)	(530)
Other current assets (*)	12	9	117
Cash and cash equivalents	¥ 11,866	¥ 11,396	\$ 111,689

(*) These represent the Company's contributions of funds to a bank in order to establish the "Board Benefit Trust (BBT)" and "Employee Stock Ownership Plan (ESOP) Trust."

17 Leases

(Finance leases)

Leased assets included in property, plant and equipment are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures in the daily necessities segment. Leased assets included in intangible assets are software.

(Operating leases)

The Company and its consolidated subsidiaries had no significant operating leases at March 31, 2018 and 2017.

18 Segment Information

(1) Summary of Reporting Segments

Segment information for the years ended March 31, 2018 and 2017 is omitted as the Group operates as a single segment.

(2) Calculation method of sales, profits or losses, and other items by reportable segment

Information on the calculation method is omitted as the Group operates as a single segment.

(3) Information on the amounts of sales, income, and other items by reportable segments

Information on the amounts of sales and other items for the years ended March 31, 2018 and 2017 is omitted as the Group operates as a single segment.

(4) Related Information

(a) Information by products and services

Year ended March 31, 2018	millions of yen					
	Air Care	Cloth Care	Thermal Care	Hand Care	Others	Total
Sales to third parties	¥ 20,479	¥ 9,323	¥ 6,435	¥ 5,569	¥ 6,821	¥ 48,627

Year ended March 31, 2017	millions of yen					
	Air Care	Cloth Care	Thermal Care	Hand Care	Others	Total
Sales to third parties	¥ 19,640	¥ 8,938	¥ 5,728	¥ 5,290	¥ 6,361	¥ 45,958

Year ended March 31, 2018	thousands of U.S. dollars					
	Air Care	Cloth Care	Thermal Care	Hand Care	Others	Total
Sales to third parties	\$ 192,757	\$ 87,757	\$ 60,569	\$ 52,421	\$ 64,201	\$ 457,705

(b) Information by geographical segment (Sales)

Geographical segment information is not presented as overseas sales were less than 10% of consolidated net sales for the years ended March 31, 2018 and 2017.

(Property, plant and equipment)

Geographical segment information is not presented as the amount of property, plant and equipment in Japan exceeded 90% of the total of property, plant and equipment at March 31, 2018 and 2017.

(c) Information by major customers

Customers	Sales			Related segment
	millions of Yen		thousands of U.S. dollars	
	2018	2017	2018	
PALTAC CORPORATION	¥ 17,741	¥ 16,292	\$ 166,989	Daily necessities
ARATA CORPORATION	¥ 10,074	¥ 9,628	\$ 94,823	Daily necessities

19 Related Party Transactions

(Years ended March 31, 2018 and 2017)
Not applicable

20 Inventory Valuation Loss Included in Cost of Sales

Inventory valuation loss write-downs below cost to net selling value are included in cost of sales and amounted to ¥151 million (U.S.\$1,424 thousand) and ¥301 million for the years ended March 31, 2018 and 2017, respectively.

21 Note to Consolidated Statements of Changes in Net Assets

Shares in issue and outstanding and treasury stock at March 31, 2018 and 2017 were as follows:

(Year ended March 31, 2018)

Number of shares in issue and outstanding:	
Common stock	23,000 thousand
Number of shares held in treasury:	
Common stock	937 thousand

Note: Details of the change in the number of shares of treasury stock are as follows:

Increase due to purchase of shares less than standard unit:	0 thousand
Decrease due to the exercise of stock options:	184 thousand
Decrease due to issuance of treasury shares by the stock benefit trust (BBT):	2 thousand

The common stock owned by the Trust (217 thousand shares) is included in the number of shares held in treasury stock.

Subscription rights at March 31, 2018 were as follows:

Subscription rights for stock options	¥19 million (U.S.\$182 thousand)
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Dividends paid from retained earnings for the year ended March 31, 2018 were as follows:

Resolution	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Board of directors' meeting held on May 22, 2017	¥ 265	¥ 12	March 31, 2017	May 31, 2017
Board of directors' meeting held on October 30, 2017	289	13	September 30, 2017	December 8, 2017

Dividends for which the record date was in the year ended March 31, 2018 and the effective date is in the year ending March 31, 2019 were as follows:

Resolution	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Board of directors' meeting held on May 21, 2018	¥ 401	Retained earnings	¥ 18	March 31, 2018	June 5, 2018

(Year ended March 31, 2017)

Number of shares in issue and outstanding:	
Common stock	23,000 thousand
Number of shares held in treasury:	
Common stock	1,123 thousand

Note: Details of the change in the number of shares of treasury stock are as follows:

Increase due to purchase of shares less than standard unit:	0 thousand
Decrease due to the exercise of stock options:	178 thousand

The common stock owned by the Trust (220 thousand shares) is included in the number of shares held in treasury stock.

Subscription rights at March 31, 2017 were as follows:

Subscription rights for stock options	¥46 million
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Dividends paid from retained earnings for the year ended March 31, 2017 were as follows:

Resolution	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Board of directors' meeting held on May 16, 2016	¥ 241	¥ 11	March 31, 2016	May 31, 2016
Board of directors' meeting held on October 27, 2016	263	12	September 30, 2016	December 2, 2016

Dividends for which the record date was in the year ended March 31, 2017 and the effective date was in the year ended March 31, 2018 were as follows:

Resolution	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Board of directors' meeting held on May 22, 2017	¥ 265	Retained earnings	¥ 12	March 31, 2017	May 31, 2017

22 Stock Option Plans

At March 31, 2018, the Company had stock option plans, which were approved at the annual general meetings of the shareholders and by the Board of Directors. Details of these stock option plans are summarized as follows:

Date of approval	Number of shares granted	Eligible participants	Exercisable period
June 18, 2010	155,000	4 officers and 17 employees	Aug 3, 2012 – Aug 2, 2017
June 17, 2011	35,000	7 employees	Aug 2, 2013 – Aug 1, 2018
June 15, 2012	130,000	3 officers and 8 employees	Aug 2, 2014 – Aug 1, 2019
June 14, 2013	130,000	2 officers and 10 employees	Aug 2, 2015 – Aug 1, 2020
June 17, 2014	175,000	6 officers and 11 employees	Aug 2, 2016 – Aug 1, 2021

The option price per share was determined on the date the options were granted based on an established formula for determining option prices. The options are exercisable during the above periods provided that the recipients are still directors, officers or employees of the Company or its subsidiaries.

Description of stock options

	2011	2012	2013	2014	2015
Grantees	4 officers and 17 employees	7 employees	3 officers and 8 employees	2 officers and 10 employees	6 officers and 11 employees
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of stock options granted (*)	155,000	35,000	130,000	130,000	175,000
Grant date	August 2, 2010	August 1, 2011	August 1, 2012	August 1, 2013	August 1, 2014
Condition for exercise	Working from August 2, 2010 to August 2, 2012	Working from August 1, 2011 to August 1, 2013	Working from August 1, 2012 to August 1, 2014	Working from August 1, 2013 to August 1, 2015	Working from August 1, 2014 to August 1, 2016
Working period	August 2, 2010 to August 2, 2012	August 1, 2011 to August 1, 2013	August 1, 2012 to August 1, 2014	August 1, 2013 to August 1, 2015	August 1, 2014 to August 1, 2016
Exercisable period	Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options)	Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options)	Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options)	Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options)	Within 5 years after the vesting date (those retiring after the vesting date cannot exercise their stock options)

(*) Number of stock options in the column "Number of stock options granted" has been converted into the equivalent numbers of shares.

Notes to Consolidated Financial Statements

Stock option activity during the year ended March 31, 2018 was as follows:

Number of shares

	2011	2012	2013	2014	2015
Non-vested Outstanding at beginning of year	—	—	—	—	—
Granted during the year	—	—	—	—	—
Forfeited during the year	—	—	—	—	—
Vested during the year	—	—	—	—	—
Outstanding at end of year	—	—	—	—	—
Vested Outstanding at beginning of year	44,000	27,000	48,000	110,000	133,000
Vested during the year	—	—	—	—	—
Exercised during the year	44,000	24,000	42,000	40,000	34,000
Forfeited during the year	—	—	—	—	—
Outstanding at end of year	—	3,000	6,000	70,000	99,000

Price of stock options

	yen				
	2011	2012	2013	2014	2015
Exercise price	¥ 1,049	¥ 976	¥ 946	¥ 1,066	¥ 1,059
Weighted-average market price	2,492	2,396	2,484	2,456	2,674
Fair value per option on grant date	¥ 178	¥ 194	¥ 153	¥ 117	¥ 97

The fair value of each stock option grant was estimated at the grant date using the Black-Scholes option pricing model.

Method of estimating exercised stock options

The Company estimated the number of exercised stock options based on the actual number of forfeitures because it is difficult to estimate the number of stock options which will be forfeited in the future.

Report of Independent Auditors



Ernst & Young ShinNihon LLC
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Tokyo 100-0011, Japan

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F a x : +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
S.T.CORPORATION

We have audited the accompanying consolidated financial statements of S.T.CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of S.T.CORPORATION and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 19, 2018
Tokyo, Japan

Ernst & Young ShinNihon LLC

Five-Year Financial Summary

S.T. CORPORATION and consolidated subsidiaries
Years ended March 31

	millions of yen (except per share data and ratios)					thousands of U.S. dollars (except per share data and ratios)
	2018	2017	2016	2015	2014	2018
For the Year:						
Net sales	¥ 48,627	¥ 45,958	¥ 44,661	¥ 48,263	¥ 46,993	\$ 457,705
Cost of sales	28,552	27,473	27,294	28,235	26,980	268,747
Selling, general and administrative expenses	16,594	15,630	15,025	18,216	17,881	156,195
Operating income	3,481	2,854	2,342	1,813	2,131	32,763
Profit before income taxes	3,478	2,751	1,703	1,536	1,637	32,741
Profit attributable to owners of parent	2,410	1,817	912	892	1,234	22,682
Capital expenditures	1,822	608	1,758	1,486	942	17,140
Depreciation and amortization	970	997	1,128	844	894	9,130
R&D expenses	596	611	536	513	564	5,610
Cash flows from operating activities	2,660	5,150	2,481	2,137	2,110	25,042
Cash flows from investing activities	(1,826)	(622)	(624)	(1,768)	514	(17,186)
Free cash flow	835	4,529	1,857	369	2,624	7,856
Cash flows from financing activities	(428)	(640)	(876)	(614)	(465)	(4,024)
At Year-End:						
Total current assets	¥ 24,119	¥ 22,467	¥ 19,708	¥ 20,221	¥ 18,956	\$ 227,022
Property, plant and equipment, net	8,931	8,001	8,659	8,110	7,555	84,061
Total assets	42,450	38,458	34,924	33,785	32,370	399,566
Total current liabilities	10,241	9,666	8,781	9,008	8,966	96,397
Total long-term liabilities	3,187	2,980	2,648	2,176	2,318	29,997
Total net assets	29,022	25,812	23,496	22,600	21,087	273,172
Cash and cash equivalents	11,866	11,396	7,552	6,585	6,728	111,689
Number of shares issued (thousand shares)	23,000	23,000	23,000	23,000	23,000	
Treasury stock (thousand shares)	937	1,123	1,301	1,149	1,147	
Number of employees	952	890	860	859	760	
Per Share (yen and U.S. dollars):						
Profit attributable to owners of parent	¥ 109.58	¥ 83.57	¥ 42.01	¥ 40.83	¥ 56.74	\$ 1.03
Dividends	31.00	24.00	22.00	22.00	22.00	0.29
Net assets	1,285.01	1,148.41	1,049.58	1,001.84	936.06	12.10
Common stock price	2,286	1,809	1,114	1,021	999	21.52
Ratios (%):						
Operating income margin	7.2	6.2	5.2	3.8	4.5	
Profit before income taxes/net sales	7.2	6.0	3.8	3.2	3.5	
Return on sales	5.0	4.0	2.0	1.8	2.6	
ROA	6.0	5.0	2.7	2.7	4.0	
ROE	9.0	7.6	4.1	4.2	6.1	
Equity ratio	66.8	65.3	65.2	64.8	63.2	

Notes: 1. U.S. dollar amounts are translated from yen for convenience only, at the rate of ¥106.24 = U.S.\$1.00, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2018.

2. As a result of new accounting standards being applied effective from the fiscal year ended March 31, 2017, the figures for fiscal years 2016, 2017 and 2018 reflect those changes. The figures for fiscal years 2014 and 2015 are as originally presented without retroactive application.

3. The common stock prices listed are as of the end of the fiscal year ended in March.

4. ROA = Profit attributable to owners of parent divided by average total assets for the fiscal year.

5. ROE = Profit attributable to owners of parent divided by average total equity (total net assets minus subscription rights less non-controlling interests in consolidated subsidiaries) for the fiscal year.

Investor Information

As of March 31, 2018

Corporate Data

Company name	S.T. CORPORATION
Headquarters	4-10, Shimo-ochiai 1-chome, Shinjuku-ku, Tokyo 161-8540, Japan
Establishment	August 31, 1948
Common stock	¥7,065,500,000
Fiscal year-end	March 31
Shares issued and outstanding	23,000,000
Listed stock exchange	Tokyo Stock Exchange, First Section
Shareholders	14,504
Registered transfer agent	Mizuho Trust & Banking Co., Ltd.
Accounting auditors	Ernst & Young ShinNihon LLC
Annual shareholders' meeting	Middle of June each year
Employees	952 (consolidated) 425 (non-consolidated)
Contact	Kouichi Yoshizawa, Public Relations Department
E-mail	ir@st-c.co.jp
Telephone	+81-3-3367-6115
Facsimile	+81-3-3367-6320

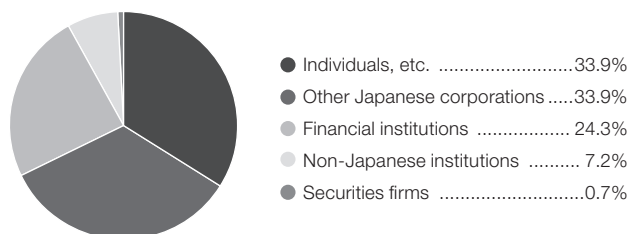
Group Companies

- S.T. TRADING CO., LTD.
- S.T. BUSINESS SUPPORT CO., LTD
- S.T. MYCOAL CO., LTD.
- S.T. (THAILAND) CO., LTD.
- FAMILY GLOVE CO., LTD. (TAIWAN)
- S.T. KOREA CORPORATION (SOUTH KOREA)
- JAPAN AROMA LABORATORY CO., LTD.
- SHALDAN (THAILAND) CO., LTD.

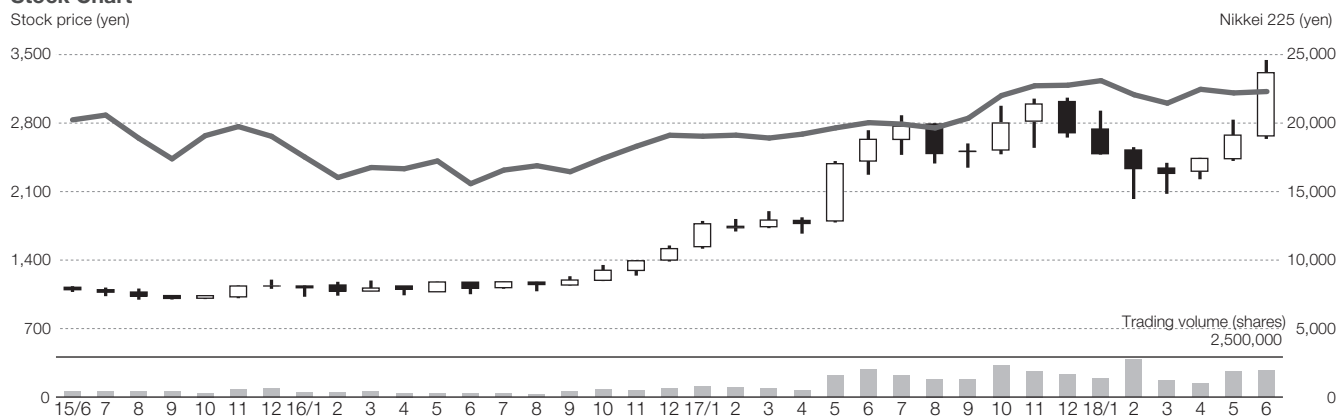
Major Shareholders

	Thousands of shares	% of total
Shaldan Co., Ltd.	5,587	25.1
Nippon Life Insurance Company	1,336	6.0
TCSB (Mizuho Bank)	884	4.0
Takashi Suzuki	673	3.0
Japan Trustee Services Bank, Ltd. (Trust Account)	644	2.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	604	2.7
FUMAKILLA LIMITED	541	2.4
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	524	2.4
Kanichi Suzuki	500	2.2
Takako Suzuki	477	2.1

Note: The Company holds treasury stock of 719 thousand shares as of March 31, 2018; however, it is excluded from the list of major shareholders shown above.



Stock Chart





4-10, Shimo-ochiai 1-chome, Shinjuku-ku, Tokyo 161-8540, Japan
<http://www.st-c.co.jp/english/company/index.html>