KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

Consolidated Financial Statements
for the Years Ended March 31, 2017 and 2016,
and Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KYODO PRINTING CO., Ltd.

We have audited the accompanying consolidated financial statements of KYODO PRINTING CO., Ltd. (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017, and the consolidated statements of income, comprehensive income, changes in equity and 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 audit. We conducted our audit 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Emphasis of Matter

As described in the section, "Changes in accounting policy that is not easily distinguished from a change in accounting estimate," prior to April 1, 2016, the Company and its domestic consolidated subsidiaries primarily used the declining-balance method for computing the depreciation of property, plant and equipment. Effective from April 1, 2016, the Company and its domestic consolidated subsidiaries changed their method for computing the depreciation to the straight-line method.
This matter does not have an impact on our opinion.

Convenience Translation

The United States dollar amounts shown in the consolidated financial statements referred to above have been translated solely for convenience. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note1.

Tokyo, Japan
June 29, 2017

Gyosei & Co.

GYOSEI & Co.
Certified Public Accountants

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2017 and 2016

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Notes 6 and 16)	¥ 17,414	¥ 14,234	$ 155,204
Receivables (Note 16):			
Trade notes	5,839	6,007	52,040
Trade accounts	19,305	20,118	172,058
Allowance for doubtful accounts	(60)	(62)	(534)
Short-term investments (Notes 8 and 16)	330	376	2,941
Inventories (Note 7)	6,157	6,470	54,875
Deferred tax assets (Note 14)	620	625	5,525
Prepaid expenses and other current assets	507	582	4,518
Total current assets	50,114	48,353	446,648
PROPERTY, PLANT AND EQUIPMENT			
Land	15,477	15,327	137,941
Buildings and structures	44,953	43,190	400,650
Machinery and vehicles	49,047	48,313	437,139
Furniture and fixtures	6,217	6,037	55,409
Lease assets (Notes 6 and 15)	2,238	2,393	19,946
Construction in progress	879	401	7,834
Total	118,814	115,665	1,058,948
Accumulated depreciation	(77,593)	(77,368)	(691,559)
Net property, plant and equipment	41,220	38,296	367,379
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 8 and 16)	20,212	15,975	180,142
Investments in associated companies	436	232	3,885
Goodwill	251	-	2,237
Intangible assets	1,214	1,324	10,819
Deferred tax assets (Note 14)	169	210	1,506
Other long-term assets	1,010	1,207	9,001
Allowance for doubtful accounts	(47)	(284)	(418)
Total investments and other assets	23,246	18,666	207,183
TOTAL	¥ 114,581	¥ 105,315	$ 1,021,221

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2017 and 2016

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term loans payable (Notes 9 and 16)	¥ 10	¥ -	$ 89
Current portion of long-term debt (Notes 9 and 16)	1,058	6,046	9,429
Payables (Note 16):			
Trade notes	8,076	8,577	71,978
Trade accounts	9,680	10,119	86,274
Income taxes payable	473	1,040	4,215
Accrued bonuses	1,225	1,199	10,918
Other current liabilities	7,721	5,253	68,814
Total current liabilities	28,245	32,238	251,737
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 16)	14,110	6,834	125,757
Liability for retirement benefits (Note 10)	5,564	5,853	49,590
Deferred tax liabilities (Note 14)	3,180	1,881	28,342
Other long-term liabilities	299	238	2,664
Total long-term liabilities	23,155	14,808	206,372
EQUITY (Notes 11 and 19):			
Common stock—authorized, 360,800,000 shares; issued, 90,200,000 shares as of March 31, 2017 and 2016	4,510	4,510	40,196
Capital surplus	1,742	1,742	15,525
Retained earnings	47,360	45,473	422,103
Treasury stock—at cost, 2,417,614 shares as of March 31, 2017 and 2,415,160 shares as of March 31, 2016	(548)	(547)	(4,884)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	9,991	7,091	89,046
Foreign currency translation adjustments	85	143	757
Remeasurement of defined benefit plans	(17)	(154)	(151)
Total	63,124	58,259	562,602
Non-controlling interests	55	9	490
Total equity	63,180	58,269	563,101
TOTAL	¥ 114,581	¥ 105,315	$ 1,021,221

See notes to consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES (Note 20)	¥ 94,553	¥ 95,097	$ 842,718
COST OF SALES (Note 2.l)	77,019	78,420	686,443
Gross profit	17,533	16,677	156,265
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 2.l, 10 and 20):			
Delivery expenses	4,273	4,271	38,083
Travel and communication expense	375	351	3,342
Provision of allowance for doubtful accounts	(135)	103	(1,203)
Salaries and allowances	5,314	5,194	47,361
Provision for employees' bonuses	388	380	3,458
Provision for directors' bonuses	60	66	534
Retirement benefit expenses	330	349	2,941
Employee benefits	1,250	1,234	11,140
Depreciation	277	286	2,468
Other	2,051	1,813	18,279
Total selling, general and administrative expenses	14,186	14,051	126,434
Operating income (Note 20)	3,347	2,625	29,830
OTHER INCOME (EXPENSES):			
Interest and dividend income	291	276	2,593
Interest expenses	(95)	(119)	(846)
Gain on sales of goods	265	294	2,361
Rent income (expenses) on facilities	126	120	1,122
Dividend income of insurance	196	141	1,746
Gain (loss) on sales and retirement of non-current assets (Note 12)	(245)	(35)	(2,183)
Impairment loss (Note 13)	(148)	-	(1,319)
Other—net	18	193	160
Other income—net	409	872	3,645
INCOME BEFORE INCOME TAXES	3,757	3,498	33,484
INCOME TAXES (Note 14):			
Current	996	1,364	8,877
Deferred	156	(81)	1,390
Total income taxes	1,153	1,283	10,276
NET INCOME	2,604	2,214	23,208
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	14	2	124
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	¥ 2,589	¥ 2,212	$ 23,074

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2017 and 2016

	Yen		U.S. Dollars
	2017	2016	2017
PER SHARE OF COMMON STOCK (Notes 2.p and 11):			
Basic net income	¥ 29.50	¥ 25.20	$ 0.26
Diluted net income	26.10	22.29	0.23
Cash dividends applicable to the year	8.00	8.00	0.07

See notes to consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2017 and 2016

	Millions of Yen				Thousands of U.S. Dollars (Note 1)	
	2017		2016		2017	
NET INCOME	¥	2,604	¥	2,214	$	23,208
OTHER COMPREHENSIVE INCOME (Note 18):						
Unrealized gain (loss) on available-for-sale securities		2,898		67		25,828
Foreign currency translation adjustments		(53)		(44)		(472)
Remeasurement of defined benefit plans		136		(280)		1,212
Share of other comprehensive income in associate accounted for using the equity method		(2)		2		(17)
Total other comprehensive income		2,978		(254)		26,541
COMPREHENSIVE INCOME	¥	5,582	¥	1,960	$	49,750
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of parent	¥	5,568	¥	1,957	$	49,625
Non-controlling interests		14		2		124

See notes to consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2017 and 2016

	Number of Shares of		Millions of Yen				
	Common Stock Issued	Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
BALANCE, APRIL 1, 2015	90,200,000	2,414,256	¥ 4,510	¥ 1,742	¥ 43,963	¥ (547)	¥ 49,669
Net income attributable to owners of parent					2,212		2,212
Cash dividends, ¥8.00 per share					(702)		(702)
Purchase of treasury stock (Note 11)		904				(0)	(0)
Net change in the item other than those in shareholder's equity							
BALANCE, MARCH 31, 2016	90,200,000	2,415,160	¥ 4,510	¥ 1,742	¥ 45,473	¥ (547)	¥ 51,178
Net income attributable to owners of parent					2,589		2,589
Cash dividends, ¥8.00 per share					(702)		(702)
Purchase of treasury stock (Note 11)		2,454				(0)	(0)
Net change in the item other than those in shareholder's equity							
BALANCE, MARCH 31, 2017	90,200,000	2,417,614	¥ 4,510	¥ 1,742	¥ 47,360	¥ (548)	¥ 53,064

	Millions of Yen					
	Accumulated Other Comprehensive Income					
	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurement of Defined Benefit Plans	Total	Non-Controlling Interests	Total Equity
BALANCE, APRIL 1, 2015	¥ 7,021	¥ 188	¥ 126	¥ 7,335	¥ 7	¥ 57,012
Net income attributable to owners of parent						2,212
Cash dividends, ¥8.00 per share						(702)
Purchase of treasury stock (Note 11)						(0)
Net change in the item other than those in shareholder's equity	70	(44)	(280)	(254)	2	(251)
BALANCE, MARCH 31, 2016	¥ 7,091	¥ 143	¥ (154)	¥ 7,080	¥ 9	¥ 58,269
Net income attributable to owners of parent						2,589
Cash dividends, ¥8.00 per share						(702)
Purchase of treasury stock (Note 11)						(0)
Net change in the item other than those in shareholder's equity	2,899	(57)	136	2,978	46	3,024
BALANCE, MARCH 31, 2017	¥ 9,991	¥ 85	¥ (17)	¥ 10,059	¥ 55	¥ 63,180

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2017 and 2016

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
BALANCE, APRIL 1, 2016	$ 40,196	$ 15,525	$405,285	$ (4,875)	$ 456,131
Net income attributable to owners of parent			23,074		23,074
Cash dividends, $0.07 per share			(6,256)		(6,256)
Purchase of treasury stock (Note 11)				(0)	(0)
Net change in the item other than those in shareholder's equity					
BALANCE, MARCH 31, 2017	$ 40,196	$ 15,525	$ 422,103	$ (4,884)	$ 472,941

	Thousands of U.S. Dollars (Note 1)					
	Accumulated Other Comprehensive Income					
	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Remeasurement of Defined Benefit Plans	Total	Non-Controlling Interests	Total Equity
BALANCE, APRIL 1, 2016	$ 63,199	$ 1,274	$ (1,372)	$ 63,101	$ 80	$ 519,331
Net income attributable to owners of parent						23,074
Cash dividends, $0.07 per share						(6,256)
Purchase of treasury stock (Note 11)						(0)
Net change in items other than those in shareholders' equity	25,837	(508)	1,212	26,541	409	26,951
BALANCE, MARCH 31, 2017	$ 89,046	$ 757	$ (151)	$ 89,652	$ 490	$ 563,101

See notes to consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,757	¥ 3,498	$ 33,484
Adjustments for:			
Income taxes—paid	(1,628)	(860)	(14,509)
Depreciation and amortization	3,716	4,820	33,119
(Gain) Loss on sales and retirement of property, plant and equipment	243	35	2,165
(Gain) Loss on sales of investment securities	(25)	(47)	(222)
Impairment loss	148	-	1,319
Amortization of goodwill	13	-	115
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	1,194	(515)	10,641
Increase (Decrease) in allowance for doubtful accounts	(240)	68	(2,139)
(Increase) Decrease in inventories	318	(507)	2,834
Increase (Decrease) in trade payables	(963)	271	(8,582)
Increase (Decrease) in liability for retirement benefits	(92)	159	(819)
Increase (Decrease) in accrued consumption tax	50	(548)	445
(Increase) Decrease in claims provable in bankruptcy, claims provable in rehabilitation	274	(107)	2,442
Other—net	109	431	971
Total adjustments	3,118	3,200	27,789
Net cash provided by operating activities	6,875	6,698	61,274
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3,784)	(5,185)	(33,725)
Purchases of intangible assets	(324)	(378)	(2,887)
Proceeds from sales of property, plant and equipment	20	555	178
Purchases of investment securities	(523)	(72)	(4,661)
Proceeds from sales of investment securities	126	65	1,122
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(191)	-	(1,702)
Other—net	(136)	(12)	(1,212)
Net cash used in investing activities	(4,813)	(5,027)	(42,896)
FORWARD	¥ 2,062	¥ 1,670	$ 18,377

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
FORWARD	¥ 2,062	¥ 1,670	$ 18,377
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	(70)	-	(623)
Repayments of long-term debt	(1,080)	(2,090)	(9,625)
Dividends paid	(702)	(702)	(6,256)
Proceeds from issuance of bonds	7,971	-	71,042
Redemption of bonds	(5,000)	-	(44,563)
Other—net	30	(0)	267
Net cash provided by (used in) financing activities	1,148	(2,793)	10,231
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(30)	(11)	(267)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,180	(1,134)	28,342
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,234	15,368	126,862
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)	¥ 17,414	¥ 14,234	$ 155,204

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Years Ended March 31, 2017 and 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of KYODO PRINTING CO., LTD. (the “Company”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.20 to $1, the approximate rate of exchange as of March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million yen except for per share data. U.S. dollar figures are translated from millions of yen and rounded down to the nearest thousand dollar except for per share data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a. Consolidation*—**The consolidated financial statements as of March 31, 2017, include the accounts of the Company and all its 13 (12 in 2016) subsidiaries.

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

Kyodo Offset Co., Ltd. has been excluded from the scope of consolidation as it was merged into Kyodo Printing and Bookbinding Co., Ltd., a consolidated subsidiary, in the year ended March 31, 2017. F-TEC Corporation (currently KYODO-FTEC Inc.) has been newly included in the scope of consolidation from the year ended March 31, 2017 since the Company acquired all the outstanding shares of said company. Kyodo NPI Package, a joint venture with Nippon Paper Industries Co., Ltd., was established and has been newly included in the scope of consolidation in the year ended March 31, 2017.

Investment in three (one in 2016) associated companies are accounted for by the equity method for the year ended March 31, 2017.

PT Arisu Graphic Prima and BIONET LABORATORY Co., Ltd. have been newly included in the scope of the equity method from the year ended March 31, 2017 as the Company acquired their shares.

Investment in the other associated company, which is not accounted for by the equity method, is stated at cost because its impact on the consolidated financial statements has been immaterial in terms of the aggregated amount of net income and retained earnings.

The fiscal year-end of two consolidated foreign subsidiaries is at the end of December. The financial statements of the subsidiaries as of and for the years ended December 31, 2016 and 2015 were used in preparing the accompanying consolidated financial statements, with adjustments made as necessary to account for significant transactions occurring during the period from their fiscal year-end to the consolidated balance sheet date.

When the fiscal year-ends of the associated companies are different from that of the Company, the financial statements prepared using the respective fiscal year-ends of the associated companies are used in applying the equity method.

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

b. ***Cash and Cash Equivalents—***Cash and cash equivalents include cash on hand, readily available deposits and short-term investments which are easily convertible into cash, are exposed to insignificant risk of changes in value and mature within three months of the date of acquisition.

c. ***Inventories***—Merchandise and work in process inventories of the Company are stated at the lower of cost, determined by the specific identification method, or net selling value, while those of the consolidated subsidiaries are stated at the lower of cost, principally determined by retail method, or net selling value.

Raw materials and supplies are stated at the lower of cost, principally determined by the first-in, first-out method, or net selling value except for those of two consolidated subsidiaries which are stated at the lower of cost, determined by the specific identification method, or net selling value.

d. ***Marketable and Investment Securities***—The Group classifies all investment securities as available-for-sale securities, and reports marketable securities at fair value, with unrealized gains and losses (net of applicable taxes) as a separate component of equity. The cost of securities sold is determined by the moving-average method.

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

e. ***Allowance for Doubtful Accounts***—Allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience for normal receivables and an evaluation of potential losses in the receivables outstanding.

f. ***Property, Plant and Equipment (Except for Lease Assets)—***Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is primarily computed by the straight-line method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings (excluding structures) acquired after April 1, 1998. The ranges of useful lives are principally 31 to 50 years for buildings and structures, and 4 to 10 years for machinery and vehicles.

g. ***Intangible Assets (Except for Lease Assets)—***Intangible assets are amortized by the straight-line method over their estimated useful lives. Software for internal use is amortized by the straight-line method over five years.

h. ***Long-Lived Assets—***The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

i. ***Leases***—The lease assets are depreciated over the lease term on a straight-line basis assuming the residual value is equal to zero (guaranteed residual value, if there is such agreement.).

j. ***Retirement and Pension Plans***—The Group has defined benefit plans and defined contribution plans for employees' benefits.

In calculation of the projected benefit obligations, expected benefit is attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over eight years within the average remaining service period from the fiscal year following the respective fiscal year in which the gains or losses are recognized. Past service costs are amortized on a straight-line basis over eight years within the average remaining service period. Certain subsidiaries adopt a simplified method and regard payable amount assuming voluntary retirement of all employees at the end of fiscal year and the most recent actuarial obligation of pension plan finance calculation as projected benefit obligations.

k. ***Accrued Bonuses*****—**Bonuses to employees and directors are accrued at the year-end to which such bonuses are attributable.

l. ***Research and Development Costs***—Research and development costs are charged to income as incurred. Research and development costs for the years ended March 31, 2017 and 2016 were ¥1,392 million ($12,406thousand) and ¥1,365 million, respectively.

m. ***Bond Issuance Costs*****—**Bond issuance costs are charged to expense in its entirety as incurred.

n. ***Income Taxes*****—**Provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

o. ***Derivatives and Hedging Activities***—The Group uses foreign currency forward contracts to manage its exposures to fluctuations in foreign currency exchange rates in accordance with its internal policies. These contracts are used for monetary receivables and payables denominated in foreign currencies. The Group does not enter into derivatives for trading or speculative purposes.

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

Foreign currency forward contracts are used to hedge changes in foreign currency exchange rates of transactions denominated in foreign currencies. Hedged items are identified on an individual basis. Monetary receivables and payables denominated in foreign currencies hedged by foreign currency forward contracts are accounted for using the allocation method. In principle, the value and maturity of the hedged items are matched with the contracted amount denominated in foreign currencies and the corresponding maturity pursuant to the Group's internal policies, etc. Accordingly, an assessment of hedge effectiveness at the end of the year is omitted since there is a complete correlation with subsequent fluctuations in foreign currency exchange rates.

Foreign currency forward contracts used for intercompany transactions as hedged items are measured at fair value and differences between carrying amount and fair value are charged to income.

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

The net income attributable to common shareholders of parent and weighted-average number of common stock used in the computation were ¥2,589 million ($23,074 thousand) and 87,783 thousand shares for the year ended March 31, 2017 and ¥2,212 million and 87,785 thousand shares for the year ended March 31, 2016, respectively.

Diluted net income per share is computed assuming that all the subscription rights to shares are exercised at the beginning of the year (or at the time of issuance). In computing the diluted net income per share for the years ended March 31, 2017 and 2016, adjustment to net income attributable to owners of parent is null and number of common stock increased is 11,441 thousand shares and 11,441 thousand shares, respectively. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

3. CHANGES IN ACCOUNTING POLICIES

Change in Accounting Policy That is Not Easily Distinguished from a Change in Accounting Estimate

Change in depreciation method of property, plant and equipment

Prior to April 1, 2016, the Company and its domestic consolidated subsidiaries primarily used the declining-balance method for computing the depreciation of property, plant and equipment. Effective from April 1, 2016, the Company and its domestic consolidated subsidiaries changed their method for computing the depreciation to the straight-line method.

The Company took the opportunity of consideration of reconstructing the production system, including reorganization of its domestic consolidated subsidiaries, to confirm the operating status of the production facilities, etc. It was found from the result that they have operated stably and contributed to earnings. This situation is expected to continue, therefore, the depreciation method using the straight-line method enables matching expenses with revenues more appropriately. In addition, it enables reasonable comparison of profitability by unifying the accounting method with its foreign consolidated subsidiaries using the straight-line method. Accordingly, the Company decided to change the depreciation method to the straight-line method.

As a result of this change, depreciation expense decreased by ¥1,175 million ($10,472 thousand), resulting in increases in operating income and income before income taxes of ¥1,085 million ($9,670 thousand) and ¥1,086 million ($9,679 thousand), respectively, for the year ended March 31, 2017 compared with the previous method.

4. CHANGES IN METHOD OF PRESENTATION

Consolidated Statements of Cash Flows

Increase (decrease) in allowance for doubtful accounts, which was included in other – net under operating activities for the year ended March 31, 2016, has been separately presented from the year ended March 31, 2017 due to its increased materiality. The consolidated financial statements for the year ended March 31, 2016 have been reclassified to reflect the change in presentation.

As a result, other – net of ¥500 million presented under operating activities in the consolidated statements of cash flows for the year ended March 31, 2016 has been reclassified to increase (decrease) in allowance for doubtful accounts of ¥431 million and other – net of ¥68 million.

5. ADDITIONAL INFORMATION

Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the year ended March 31, 2017, the Group applied “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (the “ASBJ”) Guidance No. 26, March 28, 2016).

6. SUPPLEMENTARY CASH FLOW INFORMATION

Components of Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash and time deposits	¥ 16,744	¥ 14,611	$ 149,233
Time deposits exceeding three months to maturity	(330)	(376)	(2,941)
Short-term investments with a maturity date within three months from the date of acquisition	1,000	-	8,912
Cash and cash equivalents	¥ 17,414	¥ 14,234	$ 155,204

Assets and Liabilities of a Newly Consolidated Subsidiary Due to Acquisition of its Shares

The Company newly consolidated KYODO-FTEC Inc. in the year ended March 31, 2017 due to acquisition of its shares. The assets transferred and liabilities assumed of KYODO-FTEC Inc. at the time of the start of consolidation, reconciliation of the acquisition cost and the net payment amount for the acquisition were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 345	$ 3,074
Non-current assets	102	909
Goodwill	264	2,352
Current liabilities	(130)	(1,158)
Long-term liabilities	(281)	(2,504)
Acquisition cost of shares	300	2,673
Cash and cash equivalents	(108)	(962)
Payment for acquisition, net	¥ 191	$ 1,702

Significant Noncash Transactions

Assets and liabilities under finance leases newly recognized for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Lease assets	¥ 250	¥ 867	$ 2,228
Lease obligations	271	950	2,415

7. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise and finished products	¥ 2,846	¥ 2,726	$ 25,365
Work in process	2,450	2,612	21,836
Raw materials and supplies	861	1,131	7,673
Total	¥ 6,157	¥ 6,470	$ 54,875

8. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Short-term investments:			
Time deposits exceeding three months to maturity	¥ 330	¥ 376	$ 2,941
Total	¥ 330	¥ 376	$ 2,941
Investment securities:			
Marketable equity securities	¥ 19,774	¥ 15,749	$ 176,238
Unlisted equity securities	391	218	3,484
Unlisted debt securities	7	7	62
Other	40	-	356
Total	¥ 20,212	¥ 15,975	$ 180,142

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

	Millions of Yen			
March 31, 2017	Acquisition Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 5,469	¥ 14,393	¥ (89)	¥ 19,774
March 31, 2016				
Equity securities	¥ 5,536	¥ 10,346	¥ (132)	¥ 15,749

	Thousands of U.S. Dollars			
March 31, 2017	Acquisition Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 48,743	$ 128,279	$ (793)	$ 176,238

The information for available-for-sale securities which were sold during the years ended March 31, 2017 and 2016 is as follows:

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Equity securities	¥ 126	¥ 32	¥ (6)
March 31, 2016			
Equity securities	¥ 65	¥ 47	¥ -

	Thousands of U.S. Dollars		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Equity securities	$ 1,122	$ 285	$ (53)

Loss on valuation of investment securities were ¥7 million ($62 thousand) for available-for-sale securities for the year ended March 31, 2017 and ¥19 million for available-for-sale securities for the year ended March 31, 2016.

9. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

The Company had short-term loans payable of ¥10 million ($89 thousand) as of March 31, 2017. There was no balance of short-term loans payable as of March 31, 2016.

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unsecured 1.37% bonds, due 2016	¥ -	¥ 5,000	$ -
Unsecured 0.46% bonds, due 2021	5,000	-	44,563
Unsecured 0.73% bonds, due 2023	3,000	-	26,737
Unsecured bonds with subscription rights to shares, due 2019	5,000	5,000	44,563
Loans from banks, due through 2020 with a weighted-average rate of 1.02% in 2017 and 1.11% in 2016:			
Unsecured	692	1,200	6,167
Lease obligations	1,475	1,680	13,146
Total	¥ 15,168	¥ 12,880	$ 135,187
Less current portion	(1,058)	(6,046)	(9,429)
Long-term debt, less current portion	¥ 14,110	¥ 6,834	$ 125,757

Description of unsecured bonds with subscription rights to shares is as follows:

Name of bond	JPY 5,000,000,000 zero coupon JPY convertible notes (notes with subscription rights to shares, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) due December 12, 2019
Stock to be issued	Common stock
Issue price of subscription rights to shares	None
Issue price of stock	¥437 ($3.89)
Total issue amount	¥5,000 million ($44,563 thousand)
Total amount of new stock issued by exercising subscription rights to shares	-
Allotment ratio of subscription rights to shares	100%
Exercise period	From December 24, 2014 to November 28, 2019

Note: Contributions upon exercise of subscription rights to shares are to be in this bond and amount of such bond is equal to face value of the bond.

Annual maturities of long-term debt as of March 31, 2017, were as follows:

	Bonds		Loans		Lease Obligations	
Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
2018	¥ -	$ -	¥ 648	$ 5,775	¥ 410	$ 3,654
2019	-	-	28	249	367	3,270
2020	5,000	44,563	14	124	282	2,513
2021	-	-	1	8	168	1,497
2022	5,000	44,563	-	-	111	989
2023 and thereafter	3,000	26,737	-	-	137	1,221
Total	¥ 13,000	$ 115,864	¥ 692	$ 6,167	¥ 1,475	$ 13,146

Annual maturities of long-term debt as of March 31, 2016, were as follows:

	Millions of Yen		
Year Ending March 31	Bonds	Loans	Lease Obligations
2017	¥ 5,000	¥ 600	¥ 446
2018	-	600	359
2019	-	-	315
2020	5,000	-	230
2021	-	-	127
2022 and thereafter	-	-	203
Total	¥ 10,000	¥ 1,200	¥ 1,680

10. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have defined benefit pension plans and lump-sum retirement payment plans. Certain consolidated subsidiaries have defined contribution plans.

The multiemployer type contributory pension fund plans for employees, in which one consolidated subsidiary participated, was dissolved on April 1, 2016 with an approval for dissolution from the Minister of Health, Labor and Welfare. Such plans are accounted for same as defined contribution plans, since the amount of plan assets corresponding to each subsidiary cannot be reasonably calculated. In this case, a contribution to the plan is expensed as retirement benefit costs and liability for retirement benefits is not recognized.

Simplified method is applied by certain consolidated subsidiaries in calculating the projected benefit obligations.

Defined Benefit Plans

(1) The changes in projected benefit obligations for the years ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 11,492	¥ 11,011	$ 102,424
Service cost	661	645	5,891
Interest cost	91	88	811
Actuarial gains (losses)	134	248	1,194
Benefits paid	(661)	(501)	(5,891)
Balance at end of year	¥ 11,720	¥ 11,492	$ 104,456

Note: The plans accounted for using a simplified method are not included in the above table.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 5,988	¥ 6,097	$ 53,368
Expected return on plan assets	179	182	1,595
Actuarial gains (losses)	140	(408)	1,247
Contributions from the employer	436	430	3,885
Benefits paid	(249)	(314)	(2,219)
Balance at end of year	¥ 6,494	¥ 5,988	$ 57,878

Note: The plans accounted for using a simplified method are not included in the above table.

(3) The changes in liability for retirement benefits for defined benefit plans accounted for using a simplified method for the years ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 349	¥ 372	$ 3,110
Retirement benefit costs	44	36	392
Benefits paid	(46)	(44)	(409)
Contributions to plans	(8)	(14)	(71)
Other	0	0	0
Balance at end of year	¥ 338	¥ 349	$ 3,012

(4) Reconciliation between asset and liability for retirement benefits recorded in the consolidated balance sheets and the balances of projected benefit obligations and plan assets as of March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded projected benefit obligations	¥ 6,144	¥ 6,041	$ 54,759
Plan assets	(6,589)	(6,074)	(58,725)
	¥ (444)	¥ (33)	$ (3,957)
Unfunded projected benefit obligations	6,009	5,887	53,556
Net liability recorded in the consolidated balance sheets	¥ 5,564	¥ 5,853	$ 49,590
Liability for retirement benefits	¥ 5,564	¥ 5,853	$ 49,590
Net liability recorded in the consolidated balance sheets	¥ 5,564	¥ 5,853	$ 49,590

(5) The components of retirement benefit costs for the years ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 661	¥ 645	$ 5,891
Interest cost	91	88	811
Expected return on plan assets	(179)	(182)	(1,595)
Recognized actuarial (gains) losses	189	248	1,684
Amortization of past service costs	1	1	8
Retirement benefit costs calculated under a simplified method	44	36	392
Retirement benefit costs	¥ 809	¥ 835	$ 7,210

(6) Other comprehensive income on remeasurement of defined benefit plans, before income tax effect, for the years ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Past service costs	¥ 1	¥ 1	$ 8
Actuarial gains (losses)	195	(409)	1,737
Total	¥ 196	¥ (408)	$ 1,746

(7) Accumulated other comprehensive income on remeasurement of defined benefit plans, before income tax effect, as of March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized past service costs	¥ 1	¥ 2	$ 8
Unrecognized actuarial gains (losses)	24	219	213
Total	¥ 25	¥ 222	$ 222

(8) Plan assets as of March 31, 2017 and 2016

(a) Components of plan assets

Major items and component proportion ratio of plan assets were as follows:

	2017	2016
Equity investments	48.9%	48.2%
Debt investments	38.3	38.5
General accounts	10.0	10.4
Other	2.8	2.9
Total	100.0%	100.0%

(b) Method of determining the long-term expected rate of return on plan assets

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

(9) Principal actuarial assumptions used for the years ended March 31, 2017 and 2016

	2017	2016
Discount rate	0.8%	0.8%
Long-term expected rate of return on plan assets	3.0%	3.0%
Expected rate of pay raises	1.6%	1.6%

Defined Contribution Plans

The required contribution amount to the defined contribution plans, including the multiemployer plans which are accounted for as same as the defined contribution plans, was ¥5 million ($44 thousand) for the year ended March 31, 2017 and ¥8 million for the year ended March 31, 2016.

Multiemployer Plans

Certain consolidated subsidiaries participate in multiemployer type contributory employee pension fund plans which are accounted for as same as the defined contribution plans in accordance with paragraph 33. (2) of ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” which allows the consolidated subsidiaries to recognize contributions to the plans as retirement benefit costs. Information on such plans available as of March 31, 2017 and 2016 are as follows:

(1) Status of overall plan assets

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2016	March 31, 2015	March 31, 2016
Plan assets	¥ -	¥ 14,742	$ -
Total amount of actuarial obligation of pension plan finance calculation and minimum actuarial reserve	-	18,110	-
Net balance	¥ -	¥ (3,367)	$ -

(2) Contribution ratio of the Group as a proportion to the entire plan

	Period from April 1, 2015 to March 31, 2016	Period from April 1, 2014 to March 31, 2015
Contribution ratio	-	1.63%

(3) Supplemental information

For the years ended March 31, 2016, the net balance presented in (1) above is mainly composed of unamortized past service costs in the pension plan finance calculation of ¥2,510 million as well as pension shortfall of ¥1,004 million. Past service costs are amortized through amortization of principal and interest using the straight-line method over 20 years.

The contribution ratio of the Group as a proportion to the entire plan presented in (2) above is not consistent with the actual contribution ratio of the Group.

11. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

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

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

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

c. Treasury Stock and Treasury Subscription Rights to Shares

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, subscription rights to shares are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury subscription rights to shares and treasury stock. Such treasury subscription rights to shares are presented as a separate component of equity or deducted directly from subscription rights to shares.

d. Purchase of Treasury Stock

Increase in treasury stock for the years ended March 31, 2017 and 2016 resulted from purchase of 2,454 and 904 shares of less than standard unit, respectively.

12. GAIN (LOSS) ON SALES AND RETIREMENT OF NON-CURRENT ASSETS

Gain (loss) on sales and retirement of non-current assets for the years ended March 31, 2017 and 2016 consisted of the following:

Gain on sales of non-current assets

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥ -	¥ 331	$ -
Machinery and vehicles	3	16	26
Other facilities	2	24	17
Total	¥ 5	¥ 372	$ 44

Loss on sales of non-current assets

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Buildings and structures	¥ -	¥ (0)	$ -
Machinery and vehicles	(41)	(22)	(365)
Other facilities	-	(0)	-
Software	-	(0)	-
Total	¥ (41)	¥ (22)	$ (365)

Loss on retirement of non-current assets

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Buildings and structures	¥ (123)	¥ (102)	$ (1,096)
Machinery and vehicles	(62)	(235)	(552)
Other facilities	(22)	(47)	(196)
Software	(2)	(0)	(17)
Total	¥ (209)	¥ (385)	$ (1,862)

13. IMPAIRMENT LOSSES

The Group recorded impairment losses for the following asset groups for the year ended March 31, 2017.

Location	Purpose of Use	Type
Information communication Koshigaya factory (Koshigaya, Saitama)	Publication and commercial printing facilities	Buildings and structures, machinery and vehicles, and furniture and fixtures

The Group categorizes business assets based on management accounting classifications for which operational results are regularly monitored considering relevance of manufacturing process and others. Assets to be disposed of and idle assets are categorized on the basis of individual assets.

For the year ended March 31, 2017, the book value of the above asset group was written down to the recoverable value and the amount written down was recorded as an impairment loss of ¥148 million ($1,319 thousand) since such assets was expected to be disposed of in connection with the reconstruction of the factory. The components of impairment losses were ¥140 million ($1,247 thousand) for buildings and structures, ¥7 million ($62 thousand) for machinery and vehicles and ¥0 million ($0 thousand) for furniture and fixtures.

The recoverable value of the above asset group was measured at net realizable value which, in this case, is considered as the memorandum value since it is difficult to sell or use these assets for other purposes.

No impairment loss was recognized for the year ended March 31, 2016.

14. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets – current:			
Accrued bonuses	¥ 369	¥ 359	$ 3,288
Tax loss carryforwards	21	22	187
Other	237	245	2,112
Offset against deferred tax liabilities – current	(1)	(1)	(8)
Valuation allowance	(6)	-	(53)
Total deferred tax assets – current	¥ 620	¥ 625	$ 5,525
Deferred tax liabilities – current:			
Other	(1)	(1)	(8)
Offset against deferred tax assets – current	1	1	8
Total deferred tax liabilities – current	¥ -	¥ -	$ -
Deferred tax assets – non-current:			
Allowance for doubtful accounts	15	87	133
Liability for retirement benefits	1,760	1,846	15,686
Provision for directors' retirement benefits	15	18	133
Impairment loss	301	261	2,682
Tax loss carryforwards	441	364	3,930
Loss on valuation of investment securities	58	120	516
Other	736	777	6,559
Valuation allowance	(701)	(684)	(6,247)
Offset against deferred tax liabilities – non-current	(2,456)	(2,583)	(21,889)
Total deferred tax assets – non-current	¥ 169	¥ 210	$ 1,506
Deferred tax liabilities – non-current:			
Reserve for advanced depreciation of property, plant and equipment	(1,416)	(1,424)	(12,620)
Unrealized gain (loss) on available-for-sale securities	(4,218)	(3,029)	(37,593)
Other	(3)	(11)	(26)
Offset against deferred tax assets – non-current	2,456	2,583	21,889
Total deferred tax liabilities – non-current	¥ (3,180)	¥ (1,881)	$ (28,342)

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2016 is as follows. Such information for the year ended March 31, 2017 is not presented because the difference between the normal effective statutory tax rate and the actual effective tax rate was less than 5% of the normal effective statutory tax rate.

	2016
Normal effective statutory tax rate	33.1%
Expenses not deductible for income tax purposes	1.2
Revenues not reportable for income tax purposes	(2.2)
Per capita inhabitants' tax	1.1
Accrued bonuses for directors	0.6
Effect of valuation allowance	0.4
Equity in earnings of affiliates accounted for by the equity method	0.3
Decrease in deferred tax assets and liabilities due to tax rate changes	3.5
Special deduction for research and development costs	(2.7)
Other—net	1.4
Actual effective tax rate	36.7%

15. LEASES

Finance Leases—Lessee

The Group leases certain printmaking equipment and software.

The depreciation method for lease assets is included in Note 2. i.

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group's policy is to invest its cash surpluses mainly in short-term deposits and raise funds through loans from banks and other financial institutions as well as through issuance of bonds. In principle, the Group utilizes derivative transactions to control risks from fluctuation in interest rates for loans and bonds and in foreign currency exchange rates for receivables and payables denominated in foreign currencies. Those transactions are conducted within actual demand and are not entered into for speculative trading purposes.

(2) *Nature and Extent of Risks Arising from Financial Instruments as well as Risk Management for Financial Instruments*

Trade receivables, such as trade notes and accounts receivable, are exposed to customer credit risk. The Group manages the risk on the basis of its sales management rules (setting standards for payment terms and credit limits), which include monthly controls on due dates and balances of each customer and monitoring of customers' credit condition on a regular basis.

Short-term investments and investment securities are primarily jointly-managed specified money trusts and equity securities. Jointly-managed specified money trusts are highly safe financial instruments held for short-term fund management whose credit risk are regarded as minimum. Equity securities are exposed to market price fluctuation risk. They are mainly composed of shares of companies with which the Group has a business relationship. The Group monitors the fair values and financial position of issuers on a regular basis and continuously evaluates whether the securities should be maintained in consideration of the relationship with the issuer.

Trade payables, such as trade notes and accounts payable, are mostly due within six months.

Short-term borrowings are mainly intended to finance operating transactions and bonds, bonds with subscription rights to shares, long-term bank loans (generally, due within five years) and obligations under finance leases are mainly intended to raise necessary funds for capital investments.

Receivables and payables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risk. Derivative transactions (foreign currency forward contracts) are utilized as hedging instruments within actual demand. Please see Note 2, o. for details on hedge accounting such as hedging instruments, hedged items, hedging policies and assessment method of hedge effectiveness.

The Group executes and controls derivative transactions in accordance with its internal rules which regulate the authorization of derivative transactions and they are reported to the board of directors on a quarterly basis. The Group enters into derivative transactions only with financial institutions which have a certain level of credit rating in order to mitigate the credit risk.

Trade payables and loans payable are exposed to liquidity risk. The Group manages its liquidity risk through cash management plans which each company prepares on a monthly basis.

(3) *Fair Value of Financial Instruments*

Fair value of financial instruments is based on the market price or the reasonably calculated values with certain assumptions in case no market prices exist. The calculated values may fluctuate in case different assumptions are applied.

The contract amounts of derivatives presented in Note 17 do not measure the exposure to market risks.

(*a*) *Fair value of financial instruments*

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 17,414	¥ 17,414	¥ 0
Trade notes and accounts receivable	25,144	25,144	-
Short-term investments and investment securities:			
– time deposits exceeding three months to maturity	330	330	-
– available-for-sale securities	19,774	19,774	-
Total	¥ 62,663	¥ 62,663	¥ 0
Trade notes and accounts payable	¥ 17,756	¥ 17,756	¥ -
Short-term loans payable	10	10	-
Bonds	8,000	7,972	(27)
Bonds with subscription rights to shares	5,000	5,137	137
Long-term bank loans	692	694	1
Total	¥ 31,459	¥ 31,571	¥ 111
Derivatives (*)	¥ 18	¥ 18	¥ -
March 31, 2016			
Cash and cash equivalents	¥ 14,234	¥ 14,234	¥ -
Trade notes and accounts receivable	26,126	26,126	-
Short-term investments and investment securities:			
– time deposits exceeding three months to maturity	376	376	-
– available-for-sale securities	15,749	15,749	-
Total	¥ 56,487	¥ 56,487	¥ -
Trade notes and accounts payable	¥ 18,697	¥ 18,697	¥ -
Bonds	5,000	5,020	20
Bonds with subscription rights to shares	5,000	5,175	175
Long-term bank loans	1,200	1,219	19
Total	¥ 29,897	¥ 30,111	¥ 214
Derivatives (*)	¥ 11	¥ 11	¥ -

March 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 155,204	$ 155,204	$ 0
Trade notes and accounts receivable	224,099	224,099	-
Short-term investments and investment securities:			
– time deposits exceeding three months to maturity	2,941	2,941	-
– available-for-sale securities	176,238	176,238	-
Total	$ 558,493	$ 558,493	$ 0
Trade notes and accounts payable	$ 158,253	$ 158,253	$ -
Short-term loans payable	89	89	-
Bonds	71,301	71,051	(240)
Bonds with subscription rights to shares	44,563	45,784	1,221
Long-term bank loans	6,167	6,185	8
Total	$ 280,383	$ 281,381	$ 989
Derivatives (*)	$ 160	$ 160	$ -

Note: (*) Net receivables and payables arising from derivative transactions are stated at net values.

Cash and Cash Equivalents, Trade Notes and Accounts Receivable

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

Short-term investments and Investment Securities

For time deposits exceeding three months to maturity, the carrying values approximate fair value because of their short maturities. The fair values of equity securities are measured at the quoted market price of the stock exchange. Fair value information on marketable and investment securities by classification is included in Note 8.

Trade Notes and Accounts Payable, and Short-term Loans Payable

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

Bonds (including Current Portion)

The fair values are measured at the amount calculated by discounting the sum of principal and interest by the rate which reflects the remaining period and credit risk.

Bonds with Subscription Rights to Shares

The fair values are measured by the price obtained from counterparty financial institutions.

Long-Term Bank Loans (including Current Portion)

The fair values are measured at the amount calculated by discounting the sum of principal and interest by the assumed rate which would be applied if a similar new loan were entered into.

Derivatives

Fair value information for derivatives is included in Note 17.

(*b*) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unlisted equity securities	¥ 827	¥ 450	$ 7,370
Unlisted debt securities	7	7	62
Others	40	-	356

These are not included in (3)(a) Short-term investments and investment securities as it is extremely difficult to determine their fair value since there is no market price.

(**4**) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

	Millions of Yen			
March 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 17,414	¥ -	¥ -	¥ -
Trade notes and accounts receivable	25,144	-	-	-
Short-term investments and investment securities:				
Time deposits	330	-	-	-
Available-for-sale securities with contractual maturities:				
Debt securities (bonds)	-	-	7	-
Total	¥ 42,888	¥ -	¥ 7	¥ -
March 31, 2016				
Cash and cash equivalents	¥ 14,234	¥ -	¥ -	¥ -
Trade notes and accounts receivable	26,126	-	-	-
Short-term investments and investment securities:				
Time deposits	376	-	-	-
Available-for-sale securities with contractual maturities:				
Debt securities (bonds)	-	-	7	-
Total	¥ 40,737	¥ -	¥ 7	¥ -

	Thousands of U.S. Dollars			
March 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 155,204	$ -	$ -	$ -
Trade notes and accounts receivable	224,099	-	-	-
Short-term investments and investment securities:				
Time deposits	2,941	-	-	-
Available-for-sale securities with contractual maturities:				
Debt securities (bonds)	-	-	62	-
Total	$ 382,245	$ -	$ 62	$ -

Please see Note 8 for annual maturities of long-term debt including lease obligations.

17. DERIVATIVES

Derivative Transactions to Which Hedge Accounting Is Not Applied

Currency-related transactions

	Millions of Yen			
March 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Over-the-counter transactions:				
Foreign currency forward contracts:				
Selling U.S.$	¥ 433	¥ 165	¥ 18	¥ 18
Total	¥ 433	¥ 165	¥ 18	¥ 18

	Millions of Yen			
March 31, 2016	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Over-the-counter transactions:				
Foreign currency forward contracts:				
Selling U.S.$	¥ 284	¥ -	¥ 11	¥ 11
Total	¥ 284	¥ -	¥ 11	¥ 11

	Thousands of U.S. Dollars			
March 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Over-the-counter transactions:				
Foreign currency forward contracts:				
Selling U.S.$	$ 3,859	$ 1,470	$ 160	$ 160
Total	$ 3,859	$ 1,470	$ 160	$ 160

Notes: 1. The fair value of derivative transactions is measured at the quoted price obtained from counterparty financial institutions, etc.

2. The above foreign currency forward contracts, which are used for intercompany transactions accompanied by loans to the Company’s subsidiary as hedged items, have applied hedge accounting in the non-consolidated financial statements. However, hedge accounting has not been applied to them in the consolidated financial statements because such intercompany transactions have been eliminated in consolidation.

Derivative Transactions to Which Hedge Accounting Is Applied

There were no items to be reported for the years ended March 31, 2017 and 2016.

18. COMPREHENSIVE INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥ 4,111	¥ (164)	$ 36,639
Reclassification adjustments to profit or loss	(25)	(13)	(222)
Amount before income tax effect	¥ 4,085	¥ (178)	$ 36,408
Income tax effect	(1,186)	246	(10,570)
Total	¥ 2,898	¥ 67	$ 25,828
Foreign currency translation adjustments:			
Gain (loss) arising during the year	(53)	(44)	(472)
Remeasurement of defined benefit plans:			
Gain (loss) arising during the year	5	(657)	44
Reclassification adjustments to profit and loss	191	249	1,702
Amount before income tax effect	¥ 196	¥ (408)	$ 1,746
Income tax effect	(60)	128	(534)
Total	¥ 136	¥ (280)	$ 1,212
Share of other comprehensive income in associate accounted for using the equity method:			
Gain (loss) arising during the year	(2)	2	(17)
Total other comprehensive income	¥ 2,978	¥ (254)	$ 26,541

19. SUBSEQUENT EVENT

a. Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2017, was approved at the Company's shareholders meeting held on June 29, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4.00 ($0.03) per share	¥ 351	$ 3,128

b. Change in the Number of Shares Constituting One Trading Unit and Consolidation of Shares

At the Board of Directors meeting held on May 11, 2017, the Company resolved to change the number of shares constituting one trading unit and partially amend its articles of incorporation, as well as resolved to submit a proposal concerning consolidation of shares at the 137th ordinary general shareholders meeting of the Company held on June 29, 2017. The proposal has been resolved as proposed at the said shareholders meeting. The details are as follows:

(1) Purpose for changing the number of shares constituting one trading unit and consolidating shares

In accordance with the "Action Plan for Consolidating Trading Units," all stock exchanges in Japan aim to consolidate the trading unit of shares of common stock of domestically listed companies to 100 shares by October 1, 2018.

With due respect to the above as a company listed on the Tokyo Stock Exchange, the Company decided to change the trading unit of its shares (number of shares constituting one trading unit) from 1,000 shares to 100 shares. At the same time, the Company decided to consolidate its shares at a ratio of ten shares to one share for the purpose of maintaining an appropriate level of investment unit, considering mid- to long-term changes in the Company's stock prices.

(2) Details of change in the number of shares constituting one trading unit

The Company will change the number of shares constituting one trading unit from 1,000 shares to 100 shares.

(3) Details of consolidation of shares

(a) Type of shares subject to consolidation

Common stock

(b) Method and ratio of consolidation

The consolidation of shares will be executed on October 1, 2017 at a ratio of one share for each ten shares owned by shareholders recorded on the latest shareholder register as of September 30, 2017.

(c) Total number of authorized shares as of the effective date

The total number of authorized shares will be changed as follows according to the ratio of the consolidation:

Total number of authorized shares before the consolidation	Total number of authorized shares after the consolidation (as of October 1, 2017)
360,800,000 shares	36,080,000 shares

(d) Shares to be decreased due to consolidation

Total number of issued shares before the consolidation (as of March 31, 2017)	90,200,000 shares
Number of shares to be decreased due to the consolidation	81,180,000 shares
Total number of issued shares after the consolidation	9,020,000 shares

Note: The "number of shares to be decreased due to the consolidation" and the "total number of issued shares after the consolidation" are theoretical figures calculated using the total number of issued shares before the consolidation multiplied by the ratio of the consolidation.

(e) Treatment of fractional shares

Fractional shares that arise as a result of the consolidation of shares will be aggregated and disposed of pursuant to Article 235 of the Companies Act, and the proceeds of such disposal will be distributed to the shareholders in proportion to their fractional shares held.

(4) Schedule of change in the number of shares constituting one trading unit and consolidation of shares

Date of resolution at the Board of Directors	May 11, 2017
Date of resolution at the shareholders meeting	June 29, 2017
Effective date of the change in the number of shares constituting one trading unit and consolidation of shares	October 1, 2017

(5) Effect on per share information

Per share information as of and for the years ended March 31, 2017 and 2016, assuming the consolidation of shares were implemented on April 1, 2015, are as follows:

	Yen		U.S. Dollars
	2017	2016	2017
Net assets per share	¥ 7,191.00	¥ 6,636.63	$ 64.09
Basic net income per share	294.99	251.98	2.62
Diluted net income per share	260.97	222.93	2.32

20. SEGMENT INFORMATION

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

a. Segment Information

(1) Description of reportable segments

The Group consists of various divisions classified by products and services. Each division designs its comprehensive strategy for the products and services and operates business. For those divisions, separate financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how to allocate resources and to assess performance.

As reportable segments, those divisions which cover similar products and services are integrated into three reportable segments; that is "Information communication," "Information security" and "Living and industrial materials." "Information communication" mainly covers periodicals, books, general commercial printing and related services. "Information security" mainly covers business forms, securities printing, cards and related services. "Living and industrial materials" mainly covers metal printing, tubes, paper containers, flexible packaging and construction materials.

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2 "Summary of Significant Accounting Policies," except for the valuation method for inventories.

Inventories are stated at cost.

Segment profits correspond to operating income. Intersegment revenues and transfers are based on prices which are set taking into account market prices and manufacturing costs.

Effective from the year ended March 31, 2017, the Group changed the names of the reportable segments from "Publications and commercial printing" and "Business media" to "Information communication" and "Information security," respectively. This change had no impact on segment information since it was merely a renaming of the reportable segments.

As described in Note 3. "*Change in Accounting Policy That is Not Easily Distinguished from a Change in Accounting Estimate,*" effective from the year ended March 31, 2017, the depreciation method for property, plant and equipment was changed from the declining-balance method to the straight-line method. As a result of this change, segment profit of "Information communication," "Information security," "Living and industrial materials," "Other" and "Reconciliation" increased by ¥272 million ($2,424 thousand), ¥399 million ($3,556 thousand), ¥384 million ($3,422 thousand), ¥20 million ($178 thousand) and ¥7 million ($62 thousand), respectively, for the year ended March 31, 2017 compared with the previous method.

(3) Information about sales, profit (loss), assets, liabilities and other items

March 31, 2017	Millions of Yen — Reportable Segment: Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 41,340	¥ 30,217	¥ 21,048	¥ 92,606
Intersegment sales or transfers	1,816	1,236	405	3,459
Total	¥ 43,157	¥ 31,454	¥ 21,454	¥ 96,066
Segment profit (loss)	¥ (38)	¥ 1,935	¥ 630	¥ 2,526
Segment assets	25,637	21,938	19,683	67,259
Other (*4):				
Depreciation and amortization	942	1,127	975	3,046
Amortization of goodwill	-	13	-	13
Increase in property, plant and equipment and intangible assets	1,181	3,749	1,285	6,216

	Millions of Yen: Other (*1)	Total	Reconciliations (*2)	Consolidated (*3)
Sales:				
Sales to external customers	¥ 1,946	¥ 94,553	¥ -	¥ 94,553
Intersegment sales or transfers	8,284	11,743	(11,743)	-
Total	¥ 10,230	¥ 106,296	¥ (11,743)	¥ 94,553
Segment profit (loss)	¥ 499	¥ 3,025	¥ 321	¥ 3,347
Segment assets	3,207	70,466	44,114	114,581
Other (*4):				
Depreciation and amortization	142	3,188	528	3,716
Amortization of goodwill	-	13	-	13
Increase in property, plant and equipment and intangible assets	159	6,375	523	6,899

March 31, 2016	Millions of Yen Reportable Segment Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 43,216	¥ 29,947	¥ 19,987	¥ 93,151
Intersegment sales or transfers	1,856	1,294	172	3,323
Total	¥ 45,072	¥ 31,242	¥ 20,159	¥ 96,474
Segment profit (loss)	¥ (41)	¥ 2,433	¥ 246	¥ 2,637
Segment assets	27,220	19,290	19,743	66,254
Other (*4):				
Depreciation and amortization	1,199	1,619	1,279	4,098
Increase in property, plant and equipment and intangible assets	1,568	2,411	1,797	5,777

	Millions of Yen Other (*1)	Total	Reconciliations (*2)	Consolidated (*3)
Sales:				
Sales to external customers	¥ 1,946	¥ 95,097	¥ -	¥ 95,097
Intersegment sales or transfers	8,050	11,373	(11,373)	-
Total	¥ 9,996	¥ 106,471	¥ (11,373)	¥ 95,097
Segment profit (loss)	¥ 493	¥ 3,131	¥ (505)	¥ 2,625
Segment assets	3,165	69,420	35,895	105,315
Other (*4):				
Depreciation and amortization	151	4,249	570	4,820
Increase in property, plant and equipment and intangible assets	196	5,973	700	6,674

March 31, 2017	Thousands of U.S. Dollars Reportable Segment Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	$ 368,449	$ 269,313	$ 187,593	$ 825,365
Intersegment sales or transfers	16,185	11,016	3,609	30,828
Total	$ 384,643	$ 280,338	$ 191,212	$ 856,203
Segment profit (loss)	$ (338)	$ 17,245	$ 5,614	$ 22,513
Segment assets	228,493	195,525	175,427	599,456
Other (*4):				
Depreciation and amortization	8,395	10,044	8,689	27,147
Amortization of goodwill	-	115	-	115
Increase in property, plant and equipment and intangible assets	10,525	33,413	11,452	55,401

	Thousands of U.S. Dollars Other (*1)	Total	Reconciliations (*2)	Consolidated (*3)
Sales:				
Sales to external customers	$ 17,344	$ 842,718	$ -	$ 842,718
Intersegment sales or transfers	73,832	104,661	(104,661)	-
Total	$ 91,176	$ 947,379	$ (104,661)	$ 842,718
Segment profit (loss)	$ 4,447	$ 26,960	$ 2,860	$ 29,830
Segment assets	28,582	628,039	393,172	1,021,221
Other (*4):				
Depreciation and amortization	1,265	28,413	4,705	33,119
Amortization of goodwill	-	115	-	115
Increase in property, plant and equipment and intangible assets	1,417	56,818	4,661	61,488

Notes: (*1) “Other” refers to business segments not included in the reportable segment, which mainly includes logistics business, insurance business and real estate management business.

(*2) Reconciliations for segment profit (loss) refer to corporate expenses and primarily consist of general and administrative expenses and research and development costs that are not attributable to any reportable segments. Reconciliations for segment assets refer to corporate assets and primarily consist of financial assets (cash and cash equivalents and investment securities) and assets for control functions. Reconciliations for depreciation and amortization as well as increase in property, plant and equipment and intangible assets are those for corporate assets.

(*3) Segment profits are adjusted to the operating income stated in the consolidated statements of income.

(*4) “Increase in property, plant and equipment and intangible assets” includes long-term prepaid expenses and “Depreciation and amortization” includes amortization of long-term prepaid expenses.

b. Related Information

(1) Information by product and service

Information by product and service for the years ended March 31, 2017 and 2016 has been omitted because it is identical to segment classification.

(2) Information by geographical area

(a) Sales

Sales information by geographical area for the years ended March 31, 2017 and 2016 has been omitted because sales in Japan accounted for more than 90% of consolidated net sales of the Group.

(b) Property, plant and equipment

Information about property, plant and equipment by geographical area for the years ended March 31, 2017 and 2016 has been omitted because property, plant and equipment in Japan accounted for more than 90% of consolidated property, plant and equipment of the Group.

(3) Information by major customer

Information by major customer for the years ended March 31, 2017 and 2016 has been omitted because no single customer accounts for more than 10% of consolidated net sales of the Group.

c. Information about Impairment Loss by Reportable Segment

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2017	Information Communication	Total	Information Communication	Total
Impairment loss	¥ 148	¥ 148	$ 1,319	$ 1,319

No impairment loss was recognized for the year ended March 31, 2016.

d. Information about Amortization and Unamortized Balance of Goodwill by Reportable Segment

	Millions of Yen		Thousands of U.S. Dollars	
March 31, 2017	Information Security	Total	Information Security	Total
Amortization of goodwill	¥ 13	¥ 13	$ 115	$ 115
Unamortized balance of goodwill	251	251	2,237	2,237

No amortization of goodwill was recorded for the year ended March 31, 2016 and there was no unamortized balance of goodwill as of March 31, 2016.

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