



Harvest the Power of Nature.

TSE code:2229

Financial Book 2019

Fiscal year ended March 31, 2019

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Nine-Year Summary

Year ended March 31

									Millions of yen, round down	Thousands of U.S.dollars (Note1)
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2019 US\$
For the Year:										
Net sales	248,655	251,575	252,420	246,129	222,150	199,941	179,411	163,268	155,529	2,240,339
Operating profit	26,964	26,828	28,841	28,125	24,183	19,717	15,790	12,247	10,717	242,943
Operating margin(%)	10.8	10.7	11.4	11.4	10.9	9.9	8.8	7.5	6.9	—
Net income attributable to owners of parent	19,429	17,330	18,605	16,799	14,114	12,086	9,440	7,096	4,253	175,057
Net income margin(%)	7.8	6.9	7.4	6.8	6.4	6.0	5.3	4.3	2.7	—
ROE(%)	13.2	13.0	14.9	14.6	13.7	13.1	11.4	9.6	6.5	—
Research and development costs	2,660	2,469	2,168	2,195	2,052	2,161	2,288	1,811	2,213	23,971
Capital expenditures	9,945	11,009	9,763	21,229	15,290	6,392	7,298	5,422	4,049	89,602
Depreciation and amortization	8,023	7,845	7,297	7,570	6,232	5,960	6,318	6,676	7,243	72,294
Per Share(¥/\$): (Note2)										
Net income attributable to owners of parent	145.39	129.72	139.24	125.88	105.82	91.46	72.18	55.07	36.62	1.30
Net assets	1,151.71	1,043.37	958.60	905.20	821.97	729.93	664.55	596.66	550.14	10.37
Cash dividends	48.00	42.00	42.00	35.00	28.00	22.00	15.50	10.50	7.00	0.43
Dividend payout ratio(%)	33.0	32.4	30.2	27.8	26.5	24.1	21.5	19.1	19.1	—
At Year-End:										
Total assets (Note3)	202,750	192,034	181,945	174,837	161,917	140,909	124,705	108,229	99,173	1,826,742
Net assets	160,490	146,667	135,056	131,469	118,800	104,466	92,685	80,417	72,924	1,445,986
Working capital (Note3,4)	77,815	68,950	58,214	54,832	52,672	47,458	33,607	23,133	14,222	701,099
Interest-bearing debt (Note5)	1,274	1,511	1,596	555	563	186	302	358	698	11,483
Equity ratio(%) (Note6)	75.9	72.6	70.4	69.2	67.7	69.1	70.2	71.8	70.8	—
Debt to equity ratio	0	0	0	0	0	0	0	0	0	0
Number of consolidated subsidiaries	26	27	27	24	22	22	21	18	18	—
Number of employees	3,763	3,798	3,860	3,728	3,477	3,341	3,352	3,053	2,911	—
Cash Flows:										
Cash flows from operating activities	27,620	9,358	25,958	22,541	22,266	23,478	17,328	7,049	16,664	248,859
Cash flows from investing activities	(28,347)	(6,258)	(13,404)	(14,270)	(9,422)	(17,041)	(12,999)	(5,347)	(620)	(255,404)
Cash flows from financing activities	(6,227)	(5,450)	(14,711)	(2,859)	(2,878)	(383)	607	(411)	(2,124)	(56,108)
Cash and cash equivalents at end of year	35,425	42,195	44,627	47,323	42,572	31,592	25,331	19,448	18,238	319,180

Note 1. U.S. dollar amounts are presented, for convenience only, at a conversion rate of ¥110.99 = US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2019.
2. A 50-for-1 share split was conducted on January 14, 2011, and a 4-for-1 share split was implemented on October 1, 2013. Per share figures were retroactively adjusted to reflect these stock splits.
3. Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the fiscal year ended March 2019, the figures for the consolidated financial position are those after the said standards, are applied retroactively.
4. Working capital comprises current assets less current liabilities.
5. Interest-bearing debt includes long-and short-term debt, leasing obligations and other interest bearing debt.
6. Shareholders' equity as presented above consists of total net assets exclusive of subscription rights and non-controlling interests.

Management's Discussion and Analysis

Operating results

During the fiscal year ended March 2019, the Japanese economy continued a mild recovery amid continued improvement in the employment and income environments backgrounded by strong domestic demand and moves toward a recovery in personal consumption, despite persistent future risks in the global economy such as US-China trade friction and a deceleration in the Chinese economy. However, factors such as increasingly serious labor shortages and the rising price of oil have negatively affected domestic business conditions. Additionally, looking at aspirations towards foods, which affects Calbee Group's (hereafter "Calbee") business, their needs are becoming increasingly diversified as their aspirations for health and convenience remain high due to factors including lengthening lifespans, an increasing proportion of women working, and reduction in the size of households.

In this environment, Calbee continued to advance its business activities with management based on the key policies of innovation (growth strategy) and cost reduction.

For the domestic business, although last year's potato shortage had a significant effect on the production and sale of potato-based snacks, this year we secured sufficient supplies of potatoes and conducted proactive sales promotional activities such as a *Potato Chips* increased volume campaign. In addition, we conducted advertising campaigns and expanded sales of individual portion new snack products such as *Tomorico* and *Edamarico* nation-wide, as initiatives to capture new customer segments. In cereal product *Fruga* we made an effort to cultivate new customers through measures such as expanding the size line-up of existing products. However, with the aim of focusing our business selection, we also transferred a portion of our shares in Garden Bakery, Inc. (engaged in manufacturing and sale of bread and confectioneries) in April 2018 and all shares in CalNeCo, Inc. (engaged in production and sale of sales promotional tools) in September 2018.

In overseas business, we focused on expanding our business in areas including North America, Greater China, Indonesia and the UK. In North America, we conducted sales promotional activities for existing snack products and developed new products while simultaneously reducing costs and controlling sales promotional costs in an effort to improve earnings. For expanding *Fruga* sales to China, we launched production lines in our Kyoto factory from August 2018 and aimed to expand sales channels. In Indonesia, in light of strong demand we strengthened our *Potato Chips* production capacity. In the UK, in October 2018 we acquired confectionary company Seabrook Crisps Limited, which owns a potato chips brand, to further expand our business and strengthen our brand. Elsewhere, as the result of having scrutinized the profitability of our overseas businesses, we decided to liquidate our Philippine joint venture business engaged in manufacturing and selling snacks, transferring all shares of Calbee-URC, Inc. in September 2018, and changing to licensed production and sale under our brand.

(1) Net Sales

Consolidated net sales for the fiscal year ended March 2019 decreased 1.2% to ¥248,655 million.

Millions of yen, rounded down

	FY ended March 31, 2019		FY ended March 31, 2018		Growth in yen	Growth on local currency basis
	Amount	%	Amount	%		
Domestic sales	208,193	83.7	217,774	86.6	-4.4%	-4.4%
Overseas sales	40,461	16.3	33,801	13.4	+19.7%	+20.8%
Total	248,655	100.0	251,575	100.0	-1.2%	-1.0%

Results by business are as follows.

Millions of yen, rounded down

Sales	FY ended March 31, 2019		FY ended March 31, 2018
	Amount	Growth (%)	Amount
1) Production and sale of snack and other foods business	246,064	-0.6	247,577
Domestic production and sale of snack and other foods business	205,602	-3.8	213,775
Domestic snack foods	180,499	+2.8	175,575
Domestic cereals	23,817	-0.1	23,836
Other domestic foods	1,285	-91.0	14,363
Overseas production and sale of snack and other foods business	40,461	+19.7	33,801
Overseas snack foods	35,178	+12.5	31,266
Overseas cereals	5,283	+108.5	2,534
2) Other businesses	2,590	-35.2	3,998
Total	248,655	-1.2	251,575

1) Production and sale of snacks and other foods business

1. Domestic production and sale of snack and other foods business

• Domestic snack foods:

Sales of domestic snack foods rose year on year, with higher demand for *Potato Chips* driving sales growth and increased sales of new products using new ingredients contributing. However, sales of *Jagabee*, flour-based snacks and corn-based snacks, and bean-based snacks decreased due to a weak recovery from the negative effect of increased demand for *Potato Chips*.

Sales of domestic snack foods by product are as follows.

Millions of yen, rounded down

Sales	FY ended March 31, 2019		FY ended March 31, 2018
	Amount	Growth	Amount
Potato-based snacks	133,068	+5.4%	126,305
<i>Potato Chips</i>	84,129	+9.2%	77,007
<i>Jagarico</i>	37,402	+4.8%	35,695
<i>Jagabee/ Jaga Pokkuru</i>	11,537	-15.2%	13,602
Flour-based snacks	20,775	-7.3%	22,405
<i>Kappa Ebisen</i>	9,705	-9.4%	10,707
<i>Sapporo Potato, etc.</i>	11,069	-5.4%	11,697
Corn- and bean-based snacks	15,882	-5.4%	16,785
Other snacks	10,773	+6.9%	10,078
Domestic snack foods total	180,499	+2.8%	175,575

- Sales of potato-based snacks increased year on year. Sales of *Potato Chips* increased on the effect of having made adjustments to sales items in the first quarter of the previous fiscal year due to a potato shortage, and the implementation of an increased volume promotional campaign in the first quarter, which succeeded in expanding sales of products including regular items led by *Usu-Shio-Aji* and strong sales of *Kata-Age Potato*. Sales also increased for *Jagarico*, due to sales of *Tomorico* and *Edamarico*, individual portion snacks, which were launched nationwide with a TV commercial. *Jagabee/ Jaga Pokkuru* sales decreased, due to a slump in sales of *Jagabee* regular items, although sales of *Jaga Pokkuru* were firm.
- Sales of flour-based snacks decreased year on year due to demand not reaching the high level of the previous year, despite investment in *Kappa Ebisen* limited time products.
- Sales of corn- and bean-based snacks decreased year on year as products such as *Cheetos* made a weak recovery from the negative effect of increased demand for *Potato Chips*, despite contributions to sales of *Dragon Potato*, launched this fiscal year as a Japan Frito-Lay product.
- Sales of other snacks increased year on year due to expanded sales of new individual portion snacks *miino* and *Kiwajaga*, despite decreased sales of *Potato Chips Crisp*, a product range experiencing slow sales despite the launch of new flavors.

• Domestic cereals:

Sales of domestic cereals were flat year on year. Although demand from Chinese retail stores increased steadily, domestic demand did not increase despite enhancement of the *Frugra* product line-up, including S size and individual portion size—whose purpose is to generate new domestic customers—the renewal of *Frugra Less Carbohydrates*, and continuous investment in limited time products.

• Other domestic foods:

Sales of other domestic foods decreased significantly year on year due to the transfer of the bakery business in April 2018.

2. Overseas production and sale of snack and other foods business

• Overseas snack foods:

Sales of overseas snack foods increased year on year. In Europe, sales increased significantly on the acquisition of UK confectionery company Seabrook Crisps Limited in October 2018. In Australia, sales of bean-based snack *Harvest Snaps* have continued to grow firmly since market launch. In Indonesia, sales increased driven by the contributions of *Potabee* potato chips and *Krisbee Krunchy*, a corn-based snack launched in March 2018. Sales in North America were sluggish despite the launch of *Harvest Snaps* made using organic beans due to delays in its introduction by a large customer. However, in South Korea sales declined due to continued weak sales.

• Overseas cereals:

Sales of overseas cereals increased significantly year on year. *Frugra* sales to China expanded via cross-border e-commerce following its launch in the previous fiscal year, as well as Chinese domestic e-commerce launched this year with the expansion of production facilities in Japan.

Regional breakdown of sales performance by overseas businesses engaged in production and sale of snack and other foods.

Millions of yen, rounded down

Sales		FY ended March 31, 2019		FY ended March 31, 2018
		Amount	Growth	Amount
North America		9,941	+1.0%	9,843
Asia	Greater China*	11,339	+30.1%	8,718
	South Korea	4,636	-12.2%	5,283
	Other Asian regions and Australia**	10,350	+21.0%	8,551
Europe		4,193	+198.6%	1,404
Overseas production and sale of snack and other foods business total		40,461	+19.7%	33,801

*Greater China: China, Taiwan and Hong Kong.

**Other Asian regions and Australia: Thailand, Philippines, Singapore, Indonesia and Australia.

2) Other businesses

Other businesses include logistics and promotional tool sales.

Sales of other businesses decreased significantly year on year due to the transfer of all shares of consolidated subsidiary CalNeCo, which is engaged in the sale and production of sales promotional tools, in September 2018.

(2) Gross Profit

Gross profit increased 2.0% year on year, to ¥111,120 million.

This was due to improvements to costs such as reducing losses from disposal and labor cost reductions in overseas, despite higher costs for raw materials and utilities in domestic.

(3) Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 2.5% year on year, to ¥84,156 million. The ratio of SG&A expenses to net sales increased 1.2 percentage point, to 33.8%.

This was mainly due to increase domestic selling expenses and distribution costs.

(4) Operating Profit

As a result of the aforementioned, operating profit increased 0.5% year on year, to ¥26,964 million. The operating margin increased 0.1 percentage point to 10.8%.

(5) Non-Operating Income / Expenses

Foreign exchange gains of ¥406 million included ¥468 million in net non-operating income.

(6) Extraordinary Income / Losses

The profit which had transferred all shares of consolidated subsidiary CalNeCo, Inc. was recording a ¥2,378 million gain on sales of shares of subsidiaries and associates under extraordinary income.

(7) Net Profit

As the result of the above, net profit increased 12.1% year on year, to 19,429 million. Net profit per share was ¥145.39. After the dilution of common shares, net profit per share was ¥145.34. ROE improved 0.2 percentage point, to 13.2%.

Financial Position

The partial amendment to the “Accounting Standard on Tax Effect Accounting” (Accounting Standards Board of Japan Statement No. 28, February 16, 2018) has been applied from the first day of the first quarter of the consolidated accounting period, and figures for the previous year have been restated accordingly to enable year-on-year comparison.

Total assets as of March 31, 2019 were ¥202,750 million, an increase of ¥10,715 million. The primary factor contributing to this outcome was the acquisition of securities for investment purposes.

Liabilities decreased ¥3,106 million to ¥42,260 million, primarily due to a decrease in net defined benefit liabilities.

Net assets increased ¥13,822 million to ¥160,490 million due to an increase in retained earnings.

The shareholders' equity ratio increased 3.3 percentage points from the end of the previous fiscal year to 75.9%.

Cash Flows

Cash and cash equivalents as of March 31, 2019 were ¥35,425 million, ¥6,769 million lower than at the end of the previous fiscal year.

(1) Cash Flows from Operating Activities

Operating activities during the period ended March 2019 resulted in a net cash inflow of ¥27,620 million, an increase in cash inflow of ¥18,262 million compared with the previous fiscal year, primarily due to a decrease in notes and accounts receivable - trade.

(2) Cash Flows from Investing Activities

Investing activities during the period ended March 2019 resulted in a net cash outflow of ¥28,347 million, an increase in cash outflow of ¥22,089 million compared with the previous fiscal year, due to factors including an increase in outflows from the purchase of securities, a decrease in inflows from proceeds from redemption of securities, and an increase in outflows from the purchase of shares of subsidiaries resulting in change in scope of consolidation.

(3) Cash Flows from Financing Activities

Financing activities during the period ended March 2019 resulted in a net cash outflow of ¥6,227 million, an increase in cash outflow of ¥776 million compared with the previous fiscal year, primarily due to the absence of capital increases from non-controlling interests that were included in the previous fiscal year.

Capital Expenditures

In fiscal 2019, capital expenditures totaled ¥9,945 million, down ¥1,064 million, compared with the previous fiscal year. Of this total, ¥7,757 million went to domestic operations and ¥2,188 million went to overseas operations. The main components of domestic capital expenditures were used to expand *Fruga* production facilities.

Research and Development Costs

In fiscal 2019, the total amount of R&D expenditures was ¥2,660 million, up 191 million, compared with the previous fiscal year.

In the field of basic research, we are developing new varieties of potato and researching the effective ingredients of raw materials and generating of acrylamide. In the field of product development, we focused on expanding our lineup of individual portion snacks and developing products that meet health-conscious needs, as well as products that highlight new features. We also supported the development of new products overseas. In the area of technological development, we started to implement the facilities for improvement of yield at almost all of the domestic potato chips factories. We also continued to develop manufacturing methods that applied and developed existing processing techniques.

Business Risks

The major risks to which Calbee is exposed in its operations are described below. In the interests of full disclosure, information has also been provided on risks that are not anticipated to necessarily have a major impact on the business but have been deemed important to facilitate a better understanding of Calbee's business activities.

Recognizing the possibility that such risks may materialize, Calbee's policy is to avoid these risks where possible and to mitigate any impact in the event that they materialize. The risks and forward-looking statements described below are based on judgments made by Calbee as of the date of publication of this report.

1. Product Development

Calbee conducts research and development activities to provide customers with unique, value-added products that maximize the nutritional content and flavor of natural ingredients. Meanwhile, there is considerable change underway in Calbee's operating environment owing to diversifying customer tastes, growing health awareness, and Japan's low birthrate and aging society. The ability to rapidly respond to these changes and develop high-value-added products is becoming an increasingly important factor in Calbee's business expansion. As such, Calbee conducts research and development activities in accordance with annual plans in the areas of new product development, existing product improvement, cost reduction, and analysis of ingredients and nutrients. However, there is no guarantee that investment in these development activities will result in the successful launch of new products, and any divergence between research and development themes and market needs could have an impact on Calbee's operating results and financial position.

2. Ingredient Procurement

In principle, imports of raw potatoes, the main ingredient of potato snacks such as Potato Chips, Jagarico, and Jagabee, are not permitted into Japan under the Plant Protection Act. In order to secure sufficient supplies of domestically produced high-quality potatoes at a stable price, Calbee has sought to build a procurement system based on ongoing grower contracts concluded since launching its first potato snacks. Although these grower contracts enable stable supplies, harvest conditions could prevent Calbee from securing sufficient supplies of raw potatoes, resulting in sales opportunity losses and increased costs due to emergency procurement that could have an impact on Calbee's operating results and financial position. Moreover, changes in demand trends and fluctuations in the price of crude oil and in foreign exchange markets could affect procurement costs for a wide range of raw materials such as edible oils, other ingredients, and product packaging, which could also have an impact on Calbee's operating results and financial position.

3. Product Safety

Consumer demand for greater food safety has increased in recent years. In assuming responsibility for responding to this demand, Calbee strictly monitors the quality of ingredients and manufacturing processes and takes all possible precautions to ensure product quality and prevent contamination. However, unforeseen problems related to ingredients and manufacturing processes could have an impact on Calbee's operating results and financial position. Furthermore, in April 2002, the Swedish government released the results of research showing that grilling or frying foods with high carbohydrate content can generate acrylamide, a carcinogen. Japan's Ministry of Health, Labour and Welfare has said it does not foresee any health impact from this substance for people who consume average amounts of this type of food, and, at this point, there has been no impact on Calbee's operating results. Nevertheless, this issue could develop in the future to the point where it has an impact on the entire snack food industry.

4. Competitive Risk

Calbee has a large and stable share of the domestic snack food and cereal markets. However, intensifying competition from rival domestic companies, a significant influx of foreign-owned companies into the market, or sector realignment due to M&A deals could have an impact on Calbee's operating results and financial position. In addition, choosing to lower prices in response to price reductions implemented by competitors could result in lower profit margins and other outcomes, which in turn could have an impact on Calbee's operating results and financial position.

5. Global Expansion

Calbee is using subsidiaries overseas to expand its operations outside the Japanese market. Calbee believes it is necessary to strengthen and expand overseas business to deliver growth over the longer term. Going forward, Calbee intends to expand its operations more rapidly and boost its competitiveness. However, if efforts to develop its presence in global markets do not proceed as anticipated, it may be necessary for Calbee to review its growth strategies. In addition, as Calbee expands its operations, changes in the political and economic conditions of a variety of countries and regions, as well as fluctuations in foreign exchange markets, could have an impact on Calbee's operating results and financial position.

6. Relationship with Major Shareholder

As of March 31, 2019, Frito-Lay Global Investments B.V. (FLGI), a wholly owned subsidiary of PepsiCo, Inc. (PepsiCo), owned 20.01% of Calbee, Inc. shares (after full dilution), making Calbee (the Company) an equity-method affiliate of PepsiCo. FLGI, which directly owns the shares of the Company, is a wholly owned PepsiCo subsidiary, so PepsiCo effectively makes all decisions regarding the exercise of common share voting rights. PepsiCo is one of the world's largest food and beverage makers and is listed on the New York Stock Exchange. Also, PepsiCo operates globally in the same snack food field as the Company via group companies, primarily its subsidiary Frito-Lay North America, Inc. On June 24, 2009, the Company and PepsiCo concluded a strategic alliance agreement, based on the understanding that combining management capabilities to generate synergies was necessary to deliver sustained growth for both companies. In order to reinforce the partnership with PepsiCo, the Company allocated new shares to PepsiCo's wholly owned subsidiary FLGI via a private placement and, at the same time, acquired all the shares of PepsiCo's subsidiary Japan Frito-Lay Ltd. Under the strategic partnership, PepsiCo has agreed not to operate a snack food business in the Japanese market and therefore does not compete with the Company in Japan. Also, because no restrictions have been placed on overseas business development, the Company believes there are no limits on its management decisions or business development under the agreement. The Company intends to maintain this strategic partnership and work toward boosting corporate value. However, in the future it may no longer be possible to generate synergies from the partnership in the event that PepsiCo makes changes to its management policy and business strategy. In addition, the PepsiCo Group could become a competitor in the Japanese market in the event that the partnership is dissolved for any reason. Any of these developments could have an impact on Calbee's operating results and financial position.

a. Personnel Relationship

As of March 31, 2019, no significant personnel relationship existed between Calbee and PepsiCo Group.

b. Business Relationship

The Company's subsidiary Japan Frito-Lay Ltd. Receives imports of snack foods from Frito-Lay, Inc., a PepsiCo Group company. In addition, the Company's subsidiary Calbee North America, LLC sells snack foods to PepsiCo Group's Frito-Lay North America, Inc.

c. Capital Relationship

Under the strategic partnership with PepsiCo, the Company and PepsiCo have agreed that from the perspective of maintaining the strategic partnership, PepsiCo shall not own more than 20% of the Company's shares. In future, PepsiCo's ownership ratio in the Company may be subject to change, owing to changes in the management policies or business strategies of PepsiCo or the Company, or as a result of other factors such as changes in the Company's business environment.

7. Legal Regulations

In the course of its business activities, Calbee is subject to a range of legal regulations, including the Food Sanitation Act, Act against Unjustifiable Premiums and Misleading Representations, Measurement Act, Unfair Competition Prevention Act, Plant Protection Act, and Consumer Product Safety Act. Calbee may incur additional costs to respond to revisions to these regulations or their abolishment and the implementation of new regulations, and this could have an impact on Calbee's operating results and financial position. Calbee has also received a variety of permits and licenses necessary to conduct its business activities. However, Calbee's business activities may be restricted if these permits and licenses are withdrawn due to legal infringements or other reasons, which could have an impact on Calbee's operating results and financial position.

8. Natural Disaster Risk

Calbee conducts necessary periodic inspections of its manufacturing lines to avoid the risk of shutdowns to these lines. It has also built a stable product supply framework by dispersing its manufacturing sites. However, there is no guarantee that manufacturing facilities will not be damaged as a result of a natural disaster or other event. Any such damage to facilities could lead to a drop in sales and an increase in costs, which could have an impact on Calbee's operating results and financial position.

Consolidated Balance Sheets

Calbee, Inc. and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2019	2018	2019
Assets			
Current assets:			
Cash and deposits (Notes 7 and 15)	¥ 12,992	¥23,559	\$117,059
Notes and accounts receivable (Note 7)	39,736	41,749	358,020
Marketable securities (Notes 7 and 8)	42,760	22,998	385,267
Inventories (Note 9)	11,309	10,748	101,896
Others	5,067	5,323	45,659
Allowance for doubtful accounts	(8)	(23)	(75)
Total current assets	111,858	104,356	1,007,827
Non-current assets:			
Property, plant and equipment:			
Land	11,391	11,556	102,638
Buildings and structures	67,497	67,961	608,141
Machinery, equipment and vehicles (Note 19)	102,261	99,524	921,358
Lease assets	538	581	4,852
Construction in progress	1,224	4,523	11,036
Others	4,463	4,444	40,211
	187,377	188,591	1,688,238
Accumulated depreciation	(114,825)	(115,495)	(1,034,555)
Property, plant and equipment, net	72,552	73,096	653,682
Investments and other assets:			
Investment securities (Notes 7 and 8)	2,002	2,306	18,044
Investments in affiliates (Note 7)	219	9	1,978
Long-term loans	240	61	2,168
Deferred tax assets (Note 11)	4,421	4,469	39,833
Net defined benefit asset (Note 13)	2,111	2,175	19,024
Goodwill (Note 19)	5,688	922	51,248
Others	3,714	4,763	33,467
Allowance for doubtful accounts	(59)	(126)	(532)
Total investments and other assets	18,339	14,581	165,232
Total non-current assets	90,891	87,678	818,915
Total assets	¥202,750	¥192,034	\$1,826,742

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2019	2018	2019
Liabilities			
Current liabilities:			
Notes and accounts payable (Note 7)	¥8,987	¥9,728	\$80,974
Short-term borrowings (Notes 7 and 10)	1,027	1,129	9,261
Lease obligations (Note 10)	104	119	940
Other payables (Note 7)	5,878	6,273	52,961
Income taxes payable	5,478	5,252	49,361
Provision for bonuses	4,004	3,863	36,077
Provision for directors' bonuses	67	117	604
Provision for stock payments	35	53	322
Others	8,459	8,867	76,222
Total current liabilities	34,043	35,405	306,728
Non-current liabilities:			
Lease obligations (Note 10)	111	214	1,003
Deferred tax liabilities (Note 11)	622	651	5,612
Provision for directors' retirement benefits	286	491	2,582
Provision for directors' stock payments	92	90	828
Net defined benefit liabilities (Note 13)	6,531	7,674	58,846
Asset retirement obligations	522	659	4,707
Others	49	178	446
Total non-current liabilities	8,216	9,961	74,027
Total liabilities	42,260	45,366	380,755
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized 2019 - 176,000,000 shares			
Authorized 2018 - 176,000,000 shares			
Issued 2019 - 133,921,800 shares			
Issued 2018 - 133,875,800 shares	12,044	12,033	108,517
Capital surplus	4,786	4,775	43,128
Retained earnings	137,453	123,647	1,238,435
Treasury stock - 267,747 shares in 2019			
292,997 shares in 2018	(981)	(1,073)	(8,840)
Total shareholders' equity	153,303	139,383	1,381,241
Accumulated other comprehensive income:			
Unrealized holding gain on securities	467	680	4,215
Foreign currency translation adjustments	278	57	2,507
Remeasurements of defined benefit plans (Note 13)	(119)	(745)	(1,072)
Total accumulated other comprehensive income (loss)	627	(7)	5,649
Subscription rights	3	7	32
Non-controlling interests	6,555	7,284	59,063
Total net assets	160,490	146,667	1,445,986
Total liabilities and net assets	¥202,750	¥192,034	\$1,826,742

Consolidated Statements of Income

Calbee, Inc. and Consolidated Subsidiaries
Consolidated Statements of Income
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2019	2018	2019
Net sales	¥248,655	¥251,575	\$2,240,339
Cost of sales (Notes 9 and 17)	137,534	142,671	1,239,159
Gross profit	111,120	108,904	1,001,180
Selling, general and administrative expenses (Notes 16 and 17)	84,156	82,075	758,237
Operating profit	26,964	26,828	242,943
Other income (expenses)			
Interest and dividend income	162	127	1,463
Interest expense	(71)	(78)	(640)
Real estate income	26	77	236
Cost of real estate	(18)	(35)	(167)
Foreign exchange gains (losses)	406	(562)	3,661
Share of profit of entities accounted for using equity method	1	-	16
Share of loss of entities accounted for using equity method	(10)	-	(93)
Loss on valuation of inventories	(64)	-	(577)
Depreciation	(92)	(41)	(835)
Gain on sales of non-current assets (Note 18)	36	6	331
Gain on sales of investment securities	52	-	468
Gain on sales of shares of subsidiaries and affiliates	2,378	-	21,429
Gain on liquidation of business	477	-	4,301
Subsidy income	106	185	963
Loss on sales of non-current assets (Note 18)	(16)	(2)	(146)
Loss on retirement of non-current assets (Note 18)	(263)	(160)	(2,377)
Loss on sales of shares of subsidiaries and affiliates	(24)	-	(224)
Impairment loss (Note 19)	(839)	(97)	(7,560)
Retirement benefits for directors	(350)	-	(3,153)
Loss on sale of businesses	(222)	-	(2,007)
Loss on cancellation of outsourcing agreement	(211)	-	(1,907)
Other	42	(149)	385
Net income before income taxes	28,469	26,099	256,508
Income taxes (Note 11):			
Current	(9,481)	(8,756)	(85,422)
Deferred	387	(270)	3,487
	(9,093)	(9,026)	(81,935)
Net income	19,375	17,072	174,573
Net income (loss) attributable to:			
Non-controlling interests	(53)	(258)	(483)
Owners of parent	¥19,429	¥17,330	\$175,057

Consolidated Statements of Comprehensive Income

Calbee, Inc. and Consolidated Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2019	2018	2019
Net income	¥19,375	¥17,072	\$174,573
Other comprehensive income (Note 20):			
Unrealized holding gain (loss) on securities	(212)	76	(1,918)
Foreign currency translation adjustments	276	(633)	2,491
Remeasurements of defined benefit plans	626	428	5,645
Total other comprehensive loss	690	(129)	6,217
Comprehensive income	¥20,066	¥16,942	\$180,791
Comprehensive income attributable to:			
Owners of parent	¥20,064	¥17,400	\$180,776
Non-controlling interests	¥1	¥(457)	\$14

Consolidated Statements of Changes in Net Assets

Calbee, Inc. and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
Years ended March 31, 2019 and 2018

	Number of Shares of Common Stock Outstanding	Millions of yen				
		Shareholders' Equity				
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT APRIL 1, 2017	133,821,800	¥12,020	¥4,781	¥111,936	¥(539)	¥128,198
Issuance of stock (exercise of subscription rights)	54,000	12	12			25
Cash dividends paid				(5,620)		(5,620)
Profit attributable to owners of parent				17,330		17,330
Purchase of treasury stock					(599)	(599)
Disposal of treasury stock					66	66
Purchase of shares of consolidated subsidiaries			(18)			(18)
Net changes during the year						
BALANCE AT APRIL 1, 2018	133,875,800	¥12,033	¥4,775	¥123,647	¥(1,073)	¥139,383
Issuance of stock (exercise of subscription rights)	46,000	10	10			21
Cash dividends paid				(5,622)		(5,622)
Profit attributable to owners of parent				19,429		19,429
Disposal of treasury stock					91	91
Net changes during the year						
BALANCE AT MARCH 31, 2019	133,921,800	¥12,044	¥4,786	¥137,453	¥(981)	¥153,303

	Millions of yen						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasur- ements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights	Non- controlling Interests	Total Net Assets
BALANCE AT APRIL 1, 2017	¥604	¥492	¥(1,173)	¥(77)	¥11	¥6,924	¥135,056
Issuance of stock (exercise of subscription rights)					(4)		21
Cash dividends paid							(5,620)
Profit attributable to owners of parent							17,330
Purchase of treasury stock							(599)
Disposal of treasury stock							66
Purchase of shares of consolidated subsidiaries							(18)
Net changes during the year	76	(434)	428	69		360	430
BALANCE AT APRIL 1, 2018	¥680	¥57	¥(745)	¥(7)	¥7	¥7,284	¥146,667
Issuance of stock (exercise of subscription rights)					(3)		18
Cash dividends paid							(5,622)
Profit attributable to owners of parent							19,429
Disposal of treasury stock							91
Net changes during the year	(212)	220	626	634		(729)	(94)
BALANCE AT MARCH 31, 2019	¥467	¥278	¥(119)	¥627	¥3	¥6,555	¥160,490

Calbee, Inc. and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
Years ended March 31, 2019

	Number of Shares of Common Stock Outstanding	Thousands of U.S. Dollars (Note 6)				
		Shareholders' Equity				
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT APRIL 1, 2018	133,875,800	\$108,419	\$43,030	\$1,114,038	(\$9,667)	\$1,225,820
Issuance of stock (exercise of subscription rights)	46,000	98	98			196
Cash dividends paid				(50,659)		(50,659)
Profit attributable to owners of parent				175,057		175,057
Disposal of treasury stock					827	827
Net changes during the year						
BALANCE AT MARCH 31, 2019	133,921,800	\$108,517	\$43,128	\$1,238,435	(\$8,840)	\$1,381,241

	Thousands of U.S. Dollars (Note 6)						
	Accumulated Other Comprehensive Income						
	Unrealized Holding Gain on Securities	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights	Non- controlling Interests	Total Net Assets
BALANCE AT APRIL 1, 2018	\$6,130	\$517	(\$6,717)	(\$69)	\$63	\$65,635	\$1,321,449
Issuance of stock (exercise of subscription rights)					(31)		165
Cash dividends paid							(50,659)
Profit attributable to owners of parent							175,057
Disposal of treasury stock							827
Net changes during the year	(1,915)	1,989	5,645	5,719		(6,572)	(853)
BALANCE AT MARCH 31, 2019	\$4,215	\$2,507	(\$1,072)	\$5,649	\$32	\$59,063	\$1,445,986

Consolidated Statements of Cash Flows

Calbee, Inc. and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars(Note 6)
	2019	2018	2019
Cash flows from operating activities			
Net income before income taxes	¥28,469	¥26,099	\$256,508
Depreciation and amortization	8,023	7,845	72,294
Impairment loss	839	97	7,561
Goodwill amortization	758	600	6,831
Increase (decrease) in provision	125	(328)	1,128
Increase (decrease) in net defined benefit asset/liability	54	431	490
Interest and dividend income	(162)	(127)	(1,463)
Interest expense	71	78	640
Foreign exchange loss (gain)	(223)	382	(2,016)
Share of loss (profit) of entities accounted for using equity method	8	-	77
Net loss (gain) on sales of investment securities	(2,405)	-	(21,673)
Net loss (gain) on sales of non-current assets	(20)	(4)	(184)
Loss on retirement of non-current assets	263	160	2,377
Decrease (increase) in notes and accounts receivables	914	(13,256)	8,241
Decrease (increase) in inventories	(504)	(938)	(4,548)
Increase (decrease) in notes and accounts payable	(528)	117	(4,761)
Increase (decrease) in other payables	177	3	1,599
Others	899	(2,346)	8,101
Subtotal	36,760	18,813	331,205
Interest and dividends received	149	131	1,349
Interest paid	(71)	(73)	(639)
Income taxes paid	(9,218)	(9,512)	(83,054)
Net cash provided by operating activities	27,620	9,358	248,859
Cash flows from investing activities			
Acquisition of property, plant and equipment	(9,390)	(10,583)	(84,605)
Proceeds from sale of property, plant and equipment	235	25	2,119
Acquisition of intangible fixed assets	(555)	(425)	(5,002)
Proceeds from sale of intangible fixed assets	0	-	0
Acquisition of marketable securities	(39,425)	(27,997)	(355,212)
Proceeds from redemption of marketable securities	23,826	32,000	214,667
Purchase of investment securities	(45)	(116)	(410)
Proceeds from sale of investment securities	93	-	842
Payment of loans receivable	(980)	(60)	(8,829)
Collection of loans receivable	2,378	60	21,433
Payment into time deposits	(730)	(1,686)	(6,580)
Proceeds from withdrawal of time deposits	355	1,669	3,200
Payment of security deposit	(89)	(170)	(807)
Collection of security deposit	128	152	1,159
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,351)	-	(66,236)
Payment for sale of shares of subsidiaries resulting in change in scope of consolidation	(460)	-	(4,152)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	3,169	-	28,554
Others	494	874	4,454
Net cash used in investing activities	¥(28,347)	¥(6,258)	\$(255,404)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(¥509)	¥82	(\$4,593)
Purchase of treasury stock	-	(599)	-
Inflow from exercise of stock options	18	21	165
Repayment for lease obligations	(104)	(136)	(941)
Cash dividends paid	(5,621)	(5,617)	(50,646)
Proceeds from share issuance to non-controlling shareholders	-	816	-
Dividends paid to non-controlling interests	(10)	(16)	(92)
Net cash used in financing activities	(6,227)	(5,450)	(56,108)
Effect of exchange rate changes on cash and cash equivalents	184	(82)	1,662
Net increase (decrease) in cash and cash equivalents	(6,769)	(2,432)	(60,990)
Cash and cash equivalents at beginning of year	42,195	44,627	380,171
Cash and cash equivalents at end of year (Note 15)	¥35,425	¥42,195	\$319,180

Notes to Consolidated Financial Statements

Calbee, Inc. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2019

1. Basis of Presentation

The accompanying consolidated financial statements of Calbee, Inc. (the "Company") and its consolidated subsidiaries have been prepared from the consolidated financial statements filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan and in conformity with generally accepted accounting principles and practices in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Accordingly, International Financial Reporting Standards are not applied in preparing the accompanying consolidated financial statements. The consolidated financial statements are not intended to present the financial position, results of operations or cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present the information in a form familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen.

As permitted, amounts of less than one million yen are rounded down. As a result, 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.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries in which the Company holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The consolidated financial statements consist of the Company and its 26 (27 in 2018) significant subsidiaries as listed below.

Consolidated subsidiaries

- Calbee Potato, Inc.
- Calbee Logistics, Inc.
- Calnac Co., Ltd.
- Calbee Eatalk Co., Ltd.
- Japan Frito-Lay Ltd.
- ICS Investment Co., LTD. (Note 3)
- Studio Socio, Inc.
- Calbee America, Inc. (Note 3)
- Calbee North America, LLC (Note 3)
- Haitai-Calbee Co., Ltd. (Note 3)
- Qingdao Calbee Foods Co., Ltd. (Note 3)
- Yantai Calbee Co., Ltd. (Note 3)
- CFSS Co. Ltd. (Note 3)
- Calbee (Hangzhou) Foods Co., Ltd. (Notes 3)
- Calbee Four Seas Co., Ltd.
- Calbee E-commerce Limited (Note 3)
- Calbee (Taiwan) Co., Ltd. (Note 3)
- Calbee Tanawat Co., Ltd. (Note 3)
- Calbee Moh Seng Pte. Ltd. (Note 3)
- PT. Calbee-Wings Food (Note 3)
- Calbee Australia Pty Limited (Note 3)
- Calbee (UK) Ltd (Note 3)
- Pacific Shelf 1809 Limited (Notes 1 and 3)
- Seabrook Group Limited (Notes 1 and 3)
- Seabrook Crisps Holdings Limited (Notes 1 and 3)
- Seabrook Crisps Limited (Notes 1 and 3)

(Notes)

- (1) Calbee (UK) Ltd., the Company's consolidated subsidiary, acquired all shares of Pacific Shelf 1809 Limited. This company and its subsidiaries has been included in the scope of consolidation from the year ended March 31, 2019.
- (2) Following the sales of shares of Garden Bakery, Inc., which was within the scope of consolidation as of March 31, 2018, it has been excluded from the scope of consolidation, included in affiliate that is accounted for by the equity method during the year ended March 31, 2019.
Following the sales of shares of CalNeCo, Inc. and Calbee-URC, Inc., which were within the scope of consolidation as of March 31, 2018, they have been excluded from the scope of consolidation during the year ended March 31, 2019.
- (3) The fiscal year-end of these subsidiaries is December 31.

For the year ended March 31, 2019, all subsidiaries are consolidated and there are two affiliates (Garden Bakery, Inc. and Calbee URC Malaysia Sdn. Bhd.) that are accounted for by the equity method. For the year ended March 31, 2018, all subsidiaries are consolidated and there is one affiliate (Calbee URC Malaysia Sdn. Bhd.) that is accounted for by the equity method.

For the years ended March 31, 2019 and 2018, two affiliates, Potato Foods Co., Ltd., and Hiroshima Agricultural Produce Distributors Cooperative are not accounted for using the equity method as they are not significant in terms of net income and retained earnings of the consolidated financial statements. Investments in these affiliates are carried at cost.

All significant intercompany balances and transactions have been eliminated in consolidation. Accounts of subsidiaries whose year-ends differ by three months from March 31 have been included using pro forma financial information prepared as of March 31.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate in effect at the balance sheet date and gains or losses arising from such translation are credited or charged to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the exchange rate in effect at the balance sheet date, whereas shareholders' equity of such subsidiaries is translated at the historical rate that prevailed on the date of their acquisition. Income and expenses of overseas subsidiaries are translated into yen using the average exchange rate during the fiscal year. Translation adjustments are included in foreign currency translation adjustments and non-controlling interests in net assets section of the accompanying consolidated balance sheets.

(c) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks available for withdrawal on demand and short-term highly liquid investments with an original maturity of three months or less which are readily convertible into cash and subject to insignificant risk of changes in value.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the Company's actual historical experience of credit loss for active accounts and on an individual basis after an analysis of collectability for certain doubtful accounts.

(e) Marketable and investment securities

Marketable and investment securities are classified and valued as follows:

(1) Held-to-maturity debt securities

Amortized cost method (straight-line method)

(2) Available-for-sale securities

Securities for which fair values are readily available:

Marked-to-market using market prices at the fiscal year-end, with any changes in unrealized holding gains or losses, net of applicable income taxes, included directly in net assets. Cost of securities sold is determined using the moving average method.

Securities for which fair values are not readily available:

Stated at cost based on the moving-average method.

(f) Inventories

Inventories are stated at cost using the average method for finished goods and work-in-process. The moving-average method is applied for commercial goods, raw materials and supplies. The book value of inventories is written down to reflect any declines in profitability.

(g) Property, plant and equipment (except for leases)

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

The useful lives of buildings, machinery and equipment are as follows:

	Useful lives (years)
Buildings	15 to 31 years
Machinery and equipment	10 years

(h) Goodwill

Goodwill is amortized using the straight-line method over 5, 10 or 15 years.

(i) Intangible assets (except for leases)

Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over the estimated useful life of five years.

(j) Leases

Finance lease assets that do not transfer ownership of the property to the lessee are depreciated using the straight-line method over the lease term with no residual value.

(k) Provision for bonuses

Provision for bonuses is provided for the bonus payments to employees and directors in the estimated bonus amount attributable to the current fiscal year.

(l) Provision for stock payments

To prepare for future awards of the Company's shares to Group employees, provision for stock payments is provided for stock award debt based on predetermined regulations for awarding stock.

(m) Provision for directors' retirement benefits

To provide for the payment of directors' retirement benefit, the amount payable under internal regulations at the consolidated balance sheet date is recorded.

(n) Provision for directors' stock payments

To prepare for future awards of the Company's shares to the Company's directors, etc, provision for stock payments is provided for stock award debt based on predetermined regulations for awarding stock.

(o) Accounting method for retirement benefits

(1) Period allocation methodology for the estimated retirement benefit amount

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a benefit formula basis.

(2) Amortization of net unrecognized actuarial gains (losses) and unrecognized past service cost

Net unrecognized actuarial gains (losses) are amortized beginning in the following fiscal year by the straight-line method over a specified number of years (12 years) within the average remaining service period of employees at the time the difference arose.

Unrecognized past service cost is amortized by the straight-line method over a specified number of years (5 years) within the average remaining service period of employees at the time the cost incurred.

(3) Application of the simplified method for small businesses

For part-time employees of the Company, amount payable at the fiscal year-end in accordance with internal regulations is provided for.

For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses in which the necessary retirement benefit provisions for voluntary resignations at the end of the fiscal year are recorded as retirement benefit obligations.

(p) Consumption taxes

Transactions subject to consumption tax and local consumption tax are stated at the amount, net of consumption taxes.

(q) Business commencement expenses

Business commencement expenses are expensed as incurred.

3. Standards and guidance not yet adopted

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

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

(1) Overview

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

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

The Company and its consolidated subsidiaries have not yet determined its first application date.

(3) Effects of the application of the standards

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

4. Changes in presentation method

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

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the current fiscal year, the Company and its subsidiaries changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of 'investments and other assets' and 'non-current liabilities', respectively.

As a result, deferred tax assets of JPY 2,576 million classified as "current assets" have been included in deferred tax assets (JPY 4,469 million) in "investments and other assets", and deferred tax liabilities of JPY 1 million classified as "current liabilities" have been included in deferred tax liabilities (JPY 651 million) classified as "non-current liabilities" in the balance sheet as of the end of the previous fiscal year.

The notes related to tax effect accounting additionally included those described in notes 8 (excluding total amount of valuation reserves) and 9 of "Accounting Standard for Tax Effect Accounting", which are required in paragraphs 3 to 5 of Statement No.28. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in paragraph 7 of Statement No. 28.

5. Additional Information

Employee Stock Ownership Plan (ESOP) Trust

The Company awards the Company's own stock to the employees of the Group through a trust.

(1) Transaction summary

On March 7, 2014, the Employee Stock Ownership Plan (ESOP) Trust was introduced as an employee incentive plan with the aim of improving long-term corporate value. By raising awareness of our financial results and share price among employees, the Company aims to further promote corporate activities that improve financial results. The Company has established the Trust by contributing funds for acquisition of the Company's stocks for those employees who satisfy certain requirements. Based on predetermined regulations for awarding stocks, the Trust will acquire the estimated number of the Company's stocks to be awarded to employees from the stock market during the predetermined stock acquisition period. Funds required for the Trust to purchase the aforementioned stocks will be provided by the Company. The employees will bear no liabilities.

Introducing the Trust will enable employees to profit from a rise in stock prices, and will promote awareness of the stock price among employees as they fulfill their duties and is thereby expected to improve employee motivation. Further, the voting rights of the Company's stocks held in the Trust will be executed within a structure that will reflect the will of the employees who are potential beneficiaries and is an effective way to improve corporate value by promoting employees' participation in management planning.

(2) The Company's own stock in the Trust

The Company's own stock in the Trust is recorded in treasury stock under net assets based on the book value in the trust (excluding ancillary expenses). The book value and the number of these treasury stock as of March 31, 2019 and 2018 were ¥282 million (\$2,541 thousand) and 78,715 shares, and ¥333 million and 92,965 shares, respectively.

Performance-linked Stock Compensation Plan

The Company awards stock to board members (excluding outside and part-time directors) and executives contractually bound to the Company including Senior Executive Officers and Executive Officers (hereinafter "Board Members") through the Trust.

(1) Transaction summary

On August 6, 2014, the Company introduced a performance-linked stock compensation plan (hereinafter the "Plan") 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. The plan will be highly transparent and objective and closely linked with the Company's performance for Board Members.

The Plan is the performance-linked stock compensation plan under which the Company's shares are acquired through the Board Incentive Plan Trust (hereafter "BIP Trust") with the funds of remuneration contributed by the Company and the Company's shares are awarded to the Company's Board Members in accordance with performance targets achieved. Upon their retirement, Board Members will receive the Company's stocks in principle.

In order to ensure the neutrality of the Company's management, voting rights for the Company's stocks in the Trust shall not be exercised while in the Trust.

(2) The Company's own stock in the Trust

The Company's own stock in the Trust is recorded in treasury stock under net assets based on the book value in the Trust (excluding ancillary expenses). The book value and the number of treasury stock in the Trust as of March 31, 2019 and 2018 were ¥696 million (\$6,279 thousand) and 188,200 shares, and ¥737 million and 199,200 shares, respectively.

6. U.S. Dollar Amounts

For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by converting Japanese yen amounts at the rate of ¥110.99 = \$1, the approximate rate in effect on March 31, 2019. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

7. Financial Instruments

(1) Policy for financial instruments

The Company's fund management policy is to use highly secure financial instruments, such as term deposits, with purchases of financial instruments carried out in accordance with internal regulations including the fund management policy. As for funding, domestic consolidated subsidiaries are prohibited from borrowing from third parties and are only allowed to borrow from the Company. The Company borrows necessary funds from third parties if necessary. The Company uses derivatives in order to hedge foreign exchange risk and does not enter into derivative transactions for speculative or trading purposes.

(2) Nature of financial instruments and the related risks and risk management

Trade receivables consist of notes and accounts receivable and are exposed to customers' credit risk. In order to reduce such risk, the Company monitors the credit standing, due dates and outstanding balance by individual customer in accordance with the Group credit management policy.

Marketable securities consist of commercial paper and jointly-managed money trust and are highly safe financial instruments held for short-term investment. The Company considers their credit risk to be insignificant.

Investment securities consist of shares of companies with business relationships and debt securities for surplus fund management, and are exposed to market volatility risk. In order to reduce such risk, the Company reviews the market values and the financial position of the issuers on a regular basis.

Trade payables consist of notes and accounts payable and other payable are exposed to liquidity risk. The Company manages such risk by preparing fund management plans on a monthly basis. Also, the Company enhanced its centralized funding and cash management functions by implementing a cash management system.

Long-term debt (including current portion of long-term debt) are taken out for the purpose of capital investments. To avoid risks from fluctuations in interest rates for payments on long-term debt, the Company's borrowings are limited to those with fixed interest rates.

To hedge exchange rate volatility risk related to monetary receivables and payables denominated in foreign currencies, the Company uses forward foreign exchange contracts. These derivative transactions are executed and managed in accordance with the internal regulations governing the transaction authorizations. The Company considers that credit risk arising from non-performance of counterparties is minimal because the counterparties to the derivative transactions are limited to domestic banks with high credit standing.

(3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments includes the market value, or the reasonably determined value, in case there is no relevant market value. Such value may change depending on the different presumptions adopted, since variable factors are taken into account in determining the fair value. The contract amount of derivative transactions shown in Note 21 Derivative Financial Instruments does not represent market risk.

(4) Fair values of financial instruments

Carrying amount, estimated fair value and the difference between them for financial instruments as of March 31, 2019 and 2018 are shown in the following table. The financial instruments for which fair values are not readily available are not included (see Note 2 below).

(As of March 31, 2019)	Millions of yen		
	Carrying Amount	Estimated Fair Value	Difference
Assets			
(1) Cash and deposits	¥ 12,992	¥ 12,992	-
(2) Notes and accounts receivable	39,736	39,736	-
(3) Marketable and investment securities			
Held-to-maturity	42,760	42,758	¥ (1)
Available-for-sale	1,863	1,863	-
Total assets	¥ 97,353	¥ 97,351	¥ (1)
Liabilities			
(4) Notes and accounts payable	¥ (8,987)	¥ (8,987)	-
(5) Short-term borrowings	(1,027)	(1,027)	-
(6) Other payables	(5,878)	(5,878)	-
Total liabilities	¥ (15,893)	¥ (15,893)	-
Derivative transactions			
Hedge accounting not applied	¥ 53	¥ 53	-
Total derivative transactions	¥ 53	¥ 53	-

Thousands of U.S. dollars			
(As of March 31, 2019)	Carrying Amount	Estimated Fair Value	Difference
Assets			
(1) Cash and deposits	\$117,059	\$117,059	-
(2) Notes and accounts receivable	358,020	358,020	-
(3) Marketable and investment securities			
Held-to-maturity	385,267	385,249	\$ (17)
Available-for-sale	16,793	16,793	-
Total assets	\$877,140	\$877,122	\$ (17)
Liabilities			
(4) Notes and accounts payable	\$(80,974)	\$(80,974)	-
(5) Short-term borrowings	(9,261)	(9,261)	-
(6) Other payables	(52,961)	(52,961)	-
Total liabilities	\$(143,198)	\$(143,198)	-
Derivative transactions			
Hedge accounting not applied	\$ 484	\$ 484	-
Total derivative transactions	\$ 484	\$ 484	-
Millions of yen			
(As of March 31, 2018)	Carrying Amount	Estimated Fair Value	Difference
Assets			
(1) Cash and deposits	¥ 23,559	¥ 23,559	-
(2) Notes and accounts receivable	41,749	41,749	-
(3) Marketable and investment securities			
Held-to-maturity	22,998	22,996	¥ (2)
Available-for-sale	2,197	2,197	-
Total assets	¥ 90,506	¥ 90,504	¥ (2)
Liabilities			
(4) Notes and accounts payable	¥ (9,728)	¥ (9,728)	-
(5) Short-term borrowings	(1,129)	(1,129)	-
(6) Other payables	(6,273)	(6,273)	-
Total liabilities	¥ (17,130)	¥ (17,130)	-
Derivative transactions			
Hedge accounting not applied	¥ (66)	¥ (66)	-
Total derivative transactions	¥ (66)	¥ (66)	-

*Receivables and payables arising from derivative transactions are presented in net amount, with the net liability amount presented in parenthesis.

Notes 1. Methods to determine the estimated fair value of financial instruments and information related to securities and derivatives

Assets

(1) Cash and deposits and (2) Notes and accounts receivable

The carrying amount approximates fair value due to the short maturities.

(3) Marketable and investment securities

Fair values of equity securities are based on the quoted prices on stock exchanges, and fair values of debt securities are based on the prices quoted by financial institutions.

Liabilities

(4) Notes and accounts payable, (5) Short-term borrowings and (6) Other payables

The carrying amount approximates fair value due to the short maturities.

Derivative transactions

Refer to Note 21, "Derivative Financial Instruments."

2. Unlisted shares with carrying value of ¥138 million (\$1,250 thousand) and ¥108 million at March 31, 2019 and 2018, respectively, are not included in "(3) Marketable and investment securities" in the above table as their market value is not readily available. Net realizable values that are below 50% of the acquisition costs are considered to have "significantly declined," and impairment loss is recognized unless there is sufficient evidence for their recoverability. During the years ended March 31, 2019 and 2018, no impairment loss was recognized on unlisted shares.

Investments in affiliates with carrying value of ¥219 million (\$1,978 thousand) and ¥9 million at March 31, 2019 and 2018 are also excluded from the above table as their market value is not readily available.

3. Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2019.

(As of March 31, 2019)	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 11,912	-	-	-
Notes and accounts receivable	39,736	-	-	-
Marketable securities				
Held-to- maturity				
Jointly-managed money trust	20,762	-	-	-
Commercial paper	22,000	-	-	-
Total	¥ 94,411	-	-	-

As of March 31, 2019	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$107,332	-	-	-
Notes and accounts receivable	358,020	-	-	-
Marketable securities				
Held-to- maturity				
Jointly-managed money trust	187,064	-	-	-
Commercial paper	198,216	-	-	-
Total	\$850,633	-	-	-

8. Marketable and Investment Securities

- (1) The summary of acquisition cost and carrying value of held to maturity and available-for-sale securities as of March 31, 2019 and 2018 is as follows:

Held-to-maturity

	Millions of yen			Thousands of U.S. dollars		
	2019			2019		
	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)						
Jointly-managed money trust	¥6,000	¥6,000	¥ 0	\$54,058	\$54,064	\$5
Commercial paper	4,999	5,000	0	45,047	45,053	5
(Securities with estimated fair value not exceeding carrying amount)						
Jointly-managed money trust	¥14,762	¥14,761	¥ (0)	\$133,005	\$133,001	\$(3)
Commercial paper	16,998	16,995	(2)	153,155	153,129	(25)
Total	¥42,760	¥42,758	¥ (1)	\$385,267	\$385,249	\$(17)

Available-for-sale

	Millions of yen			Thousands of U.S. dollars		
	2019			2019		
	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)						
Equity securities	¥ 1,781	¥ 1,144	¥ 637	\$16,053	\$10,312	\$5,740
(Securities with carrying value not exceeding acquisition cost)						
Equity securities	82	86	(4)	739	781	(41)
Total	¥ 1,863	¥ 1,231	¥ 632	\$16,793	\$11,094	\$5,699

Held-to-maturity

	Millions of yen		
	2018		
	Carrying amount	Estimated fair value	Unrealized gains (losses)
(Securities with estimated fair value exceeding carrying amount)			
Jointly-managed money trust	¥2,000	¥2,000	¥ 0
Commercial paper	1,999	2,000	0
(Securities with estimated fair value not exceeding carrying amount)			
Jointly-managed money trust	¥7,000	¥6,999	¥ (0)
Commercial paper	11,999	11,997	(1)
Total	¥22,998	¥22,996	¥ (2)

Available-for-sale

	Millions of yen		
	2018		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
(Securities with carrying value exceeding acquisition cost)			
Equity securities	¥ 2,197	¥ 1,269	¥ 928
(Securities with carrying value not exceeding acquisition cost)			
Equity securities	-	-	-
Total	¥ 2,197	¥ 1,269	¥ 928

(Note) Unlisted shares with carrying values of ¥138 million (\$1,250 thousand) and ¥108 million at March 31, 2019 and 2018, respectively, are not included in the above table as their market value is not readily available.

(2) Sales of available-for-sale securities

	Millions of yen			Thousands of U.S. dollars		
	2019			2019		
	Sales amount	Gain on sales	Loss on sales	Sales amount	Gain on sales	Loss on sales
Equity securities	¥93	¥52	-	\$842	\$468	-
Total	¥93	¥52	-	\$842	\$468	-

No applicable item is sold during the year ended March 31, 2018.

(3) Impairment loss on available-for-sale securities

The Company recognizes impairment loss for the full amount of securities when the fair value declines below 50% of the acquisition cost, and for amounts deemed necessary after consideration of recoverability when the fair value declines by 30 to 50% of the acquisition cost. During the years ended March 31, 2019 and 2018, impairment loss recognized on equity securities classified as available-for-sale securities amounted to nil.

9. Inventories

Inventories at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished goods and commercial goods	¥ 4,446	¥ 4,275	\$40,066
Work in process	1,435	1,389	12,937
Raw materials and supplies	5,426	5,082	48,891
	¥ 11,309	¥ 10,748	\$101,896

Valuation losses (reversal) due to declines in profitability included in cost of sales for the years ended March 31, 2019 and 2018 were ¥ (256) million (\$ (2,312) thousand) and ¥273 million, respectively.

10. Short-Term Borrowings and Long-Term Debt

The outstanding balance of short-term borrowings, long-term debt, lease obligations and other interest-bearing liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2019	2018	2019	2019	2018
				(%)	(%)
Short-term borrowings	¥1,027	¥1,129	\$9,261	6.2	5.5
Current portion of lease obligations	104	119	940	-	-
Lease obligations, excluding current portion	111	214	1,003	-	-
Other interest-bearing liabilities	30	47	277	1.1	0.7
Total	¥ 1,274	¥ 1,511	\$11,483		

(Note) "Average interest rate" represents the weighted average interest rate on the respective ending balance. The average interest rate for lease obligations is not disclosed as lease obligations include the interest component of the lease payments and it is not practicable to calculate average interest rate.

The aggregate annual maturities of lease obligations are summarized below:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
	Lease obligations	
2020	104	940
2021	84	765
2022	16	145
2023	7	66
2024	2	22
2025 and thereafter	0	3

11. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to several types of taxes: corporate tax, local inhabitant taxes and enterprise taxes, which in the aggregate resulted in a statutory tax rate of approximately 30.5% and 30.7% for the fiscal years ended March 31, 2019 and 2018, respectively. Overseas subsidiaries are subject to income and other taxes of the respective countries in which they operate.

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2019 and 2018 is as follows:

	2019	2018
	(%)	(%)
Statutory tax rate	—	30.7
Adjustments:		
Entertainment and other permanently non-deductible expenses	—	1.0
Dividend and other permanently non-taxable income	—	(0.0)
Special tax credit for income tax	—	(0.4)
Per capita inhabitant tax	—	0.3
Changes in valuation allowances	—	1.7
Tax rate differences in consolidated subsidiaries	—	0.2
Effect of consolidation adjustments	—	0.8
Others	—	0.4
Effective tax rates	—	34.6

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2019 was omitted since the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

Significant components of deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	¥ 20	¥ 87	\$ 189
Provision for bonuses	1,210	1,158	10,906
Accrued expenses	1,187	1,118	10,700
Enterprise tax payable	318	314	2,866
Provision for stock payments	10	16	98
Provision for directors' stock payments	28	27	252
Net defined benefit liability	1,287	1,632	11,604
Provision for directors' retirement benefits	22	39	202
Share-based payment expense	1	2	9
Depreciation	1,121	939	10,108
Impairment loss	333	248	3,000
Asset retirement obligations	164	211	1,479
Carryforward tax loss (Note 2)	1,979	685	17,834
Others	735	1,041	6,629
Deferred tax assets – total	8,422	7,522	75,881
Valuation reserve for carryforward tax loss (Note 2)	(1,686)	-	(15,190)
Valuation reserve for deductible temporary differences	(8)	-	(74)
Valuation reserve – total (Note 1)	(1,694)	(1,044)	(15,264)
Net deferred tax assets	6,727	6,478	60,616
Deferred tax liabilities:			
Unrealized holding gain on securities	(187)	(270)	(1,686)
Deferred gains on property, plant and equipment	(466)	(482)	(4,199)
Asset retirement obligations	(18)	(21)	(164)
Others	(2,258)	(1,886)	(20,345)
Deferred tax liabilities – total	(2,929)	(2,660)	(26,395)
Net deferred tax assets	¥ 3,798	¥ 3,817	\$ 34,220

(Note) 1. Valuation reserve increased by ¥ 649 million, because the consolidated subsidiaries recognized valuation reserve for carryforward tax loss in the fiscal year.

2. Carryforward tax loss and its deferred tax assets by expiration periods (2019)

	(Millions of yen)						
	2020	2021	2022	2023	2024	2025 and beyond	Total
Carryforward tax loss (a)	29	107	26	189	258	1,368	1,979
Valuation reserve	(29)	(107)	(26)	(189)	(258)	(1,074)	(1,686)
Net deferred tax assets	-	-	-	-	-	293	(b) 293

	(Thousands of U.S. dollars)						
	2020	2021	2022	2023	2024	2025 and beyond	Total
Carryforward tax loss (a)	265	968	240	1,706	2,327	12,326	17,834
Valuation reserve	(265)	(968)	(240)	(1,706)	(2,327)	(9,682)	(15,190)
Net deferred tax assets	-	-	-	-	-	2,643	(b) 2,643

(a) Carryforward tax loss shown in the above table is after multiplying the statutory tax rate.

(b) The net deferred tax assets of ¥ 293 million (\$2,643 thousand) for carryforward tax loss of ¥ 1,979 million (\$17,834 thousand) in consolidated subsidiaries was available for reduction of future taxable income respectively.

12. Net Assets

(1) Movements of number of common stock issued and outstanding during the years ended March 31, 2019 and 2018 are as follows:

	Number of shares	
	2019	2018
Balance at beginning of year	133,875,800	133,821,800
Increase	46,000	54,000
Decrease	-	-
Balance at end of year	133,921,800	133,875,800

Note: The breakdown of the increase during the year ended March 31, 2019 is as follows:

Increase due to an exercise of subscription rights 46,000 shares

The breakdown of the increase during the year ended March 31, 2018 is as follows:

Increase due to an exercise of subscription rights 54,000 shares

(2) Movements of number of treasury stock during the years ended March 31, 2019 and 2018 are as follows:

	Number of shares	
	2019	2018
Balance at beginning of year	292,997	166,997
Increase	-	149,800
Decrease	(25,250)	(23,800)
Balance at end of year	267,747	292,997

Note: The breakdown of the increase during the year ended March 31, 2019 is as follows:

Decrease due to issuance of treasury shares by the trust 25,250 shares

The breakdown of the increase and decrease during the year ended March 31, 2018 is as follows:

Increase due to purchase of treasury shares by the trust 149,800 shares

Decrease due to issuance of treasury shares by the trust 23,800 shares

(3) As of March 31, 2019 and 2018, the outstanding balance of subscription rights provided for as stock options was ¥3 million (\$32 thousand) and ¥7 million, respectively.

(4) Cash dividends

The following appropriation of retained earnings at March 31, 2019 and 2018 was approved at the annual meetings of the Company's shareholders held on June 19, 2019 and June 20, 2018, respectively.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash dividends	¥ 6,428	¥ 5,622	\$ 57,916

Cash dividends attributable to the year ended March 31, 2018 of ¥5,622 million were paid during the year ended March 31, 2019 in accordance with the resolution at the annual meeting of the Company's shareholders held on June 20, 2018.

Amount of total dividends paid to shares held by the Company in trust in 2019 and 2018 is ¥12 million (\$115 thousand) and ¥12 million, respectively.

13. Retirement Benefits for Employees

The Company and its 2 domestic consolidated subsidiaries have corporate pension plans and lump-sum payment plans that are multi-employer plans as defined benefit pension plans. Other domestic consolidated subsidiaries and certain foreign consolidated subsidiaries have only lump-sum payment plans. The Company adopts defined contribution pension plans and prepaid retirement allowance plans.

Charges for net defined benefit liability and retirement benefit expenses for a portion of the Company's retirement benefit plans, the defined benefit pension plans for consolidated subsidiaries and the retirement lump-sum payment plans are calculated using the simplified accounting method.

Notes relating to retirement benefits based on defined benefit plans include the portion related to multi-employer plans.

(1) The changes in the retirement benefit obligation for the years ended March 31, 2019 and 2018 are as follows:

(excluding the plans to which the simplified accounting method is applied)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥16,073	¥15,877	\$144,819
Service cost	813	800	7,328
Interest cost	72	79	654
Actuarial loss (gain)	1,510	103	13,611
Retirement benefits paid	(856)	(786)	(7,718)
Past service cost	(2,348)	-	(21,159)
Retirement benefit obligations at end of year	¥15,265	¥16,073	\$137,536

(2) The changes in plan assets for the years ended March 31, 2019 and 2018 are as follows:

(excluding the plans to which the simplified accounting method is applied)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥11,795	¥11,374	\$106,279
Expected return on plan assets	117	113	1,062
Actuarial gain (loss)	(75)	322	(676)
Employer's contribution	432	428	3,894
Retirement benefits paid	(501)	(443)	(4,518)
Plan assets at end of year	¥11,769	¥11,795	\$106,040

(3) Changes to balance of net defined benefit liability of the plans, to which the simplified accounting method is applied, at beginning and end of year

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥1,221	¥1,182	\$11,001
Retirement benefit expense	90	200	817
Retirement benefits paid	(141)	(148)	(1,274)
Contribution to the plans	(13)	(14)	(124)
Increase (decrease) due to foreign currency translation	(2)	0	(19)
Other	(230)	-	(2,074)
Net defined benefit liability at end of year	¥924	¥1,221	\$8,326

(4) Reconciliation of the ending balances of retirement benefit obligations and plan assets with the net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligations	¥9,849	¥9,811	\$88,739
Plan assets	(11,960)	(11,983)	(107,764)
	(2,111)	(2,171)	(19,024)
Unfunded retirement benefit obligations	6,531	7,670	58,846
Net liabilities (assets) recorded on the consolidated balance sheet	4,419	5,498	39,821
Net defined benefit liability	6,531	7,674	58,846
Net defined benefit asset	(2,111)	(2,175)	(19,024)
Net liabilities (assets) recorded on the consolidated balance sheet	¥4,419	¥5,498	\$39,821

(5) Retirement benefit expenses and breakdown of amounts

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥813	¥800	\$7,328
Interest cost	72	79	654
Expected return on plan assets	(117)	(113)	(1,062)
Amortization of actuarial loss	258	269	2,328
Amortization of past service cost	(120)	130	(1,084)
Retirement benefit expense using the simplified method	90	200	817
Additional severance payments, etc.	60	93	541
Retirement benefit expense related to the defined benefit plans	<u>¥1,057</u>	<u>¥1,459</u>	<u>\$9,524</u>

(6) Remeasurements of defined benefit plans

The breakdowns of items recorded under remeasurements of defined benefit plans (before deduction of tax) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service cost	¥ 2,228	¥ 130	\$ 20,075
Actuarial gain (loss)	(1,327)	488	(11,959)
Total	<u>¥ 900</u>	<u>¥ 618</u>	<u>\$ 8,115</u>

(7) Accumulated remeasurements of defined benefit plans

The breakdowns of items recorded under accumulated remeasurements of defined benefit plans (before deduction of tax) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized past service cost	¥ (2,216)	¥ 11	\$ (19,971)
Unrecognized actuarial loss	2,396	1,069	21,592
Total	<u>¥ 179</u>	<u>¥ 1,080</u>	<u>\$ 1,621</u>

(8) Items related to plan assets

(a) Breakdown of main items

Allocation of main plan asset items comprising the total is as follows:

	2019	2018
Domestic bonds	26.4%	29.2%
Domestic equity	8.5	7.9
Foreign bonds	14.3	12.2
Foreign equity	3.0	2.6
Alternative investments*	31.3	31.7
General life insurance accounts	13.6	13.4
Other	3.0	3.0
Total	<u>100.0%</u>	<u>100.0%</u>

* Alternative investments are mainly managed by the investment advisory company with the deposits of investment fund.

(b) Method for determining the long-term expected rate of return

In determining the long-term expected rate of return, conservative estimates are made of the assumed interest rate for the corporate pension, the current and expected allocation of plan assets, and the current and future long-term expected rate of return from the various assets that compose the plan assets.

(9) Items related to actuarial calculations

Main components used in actuarial calculations are as follows:

	2019	2018
	(%)	(%)
Discount rate	0.4	0.5
Long-term expected rate of return	1.0	1.0
Expected salary increase rate	4.0	4.8

The amounts of required contributions to the defined contribution plans of the Company and consolidated subsidiaries for the years ended March 31, 2019 and 2018 were ¥209 million (\$1,884 thousand) and ¥212 million, respectively.

14. Contingent Liabilities

Contingent liabilities for the years ended March 31, 2019 and 2018 are as follows

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trade notes discounted	¥ 199	¥ 152	\$ 1,799

15. Supplemental Cash Flow Information

(1) The reconciliation between cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and deposits	¥12,992	¥23,559	\$117,059
Time deposits maturing over three months	(730)	(363)	(6,581)
Commercial paper included in the marketable securities	9,999	11,999	90,091
Jointly-managed money trust included in the marketable securities	13,164	7,000	118,611
Cash and cash equivalents	¥35,425	¥42,195	\$319,180

(2) The major components of assets and liabilities at the beginning of consolidation of Pacific shelf 1809 Limited and other 3 companies, which have become consolidated subsidiaries as a result of acquisition of shares, and the relation between acquisition cost of shares and payments (net increase) for acquisition for the year ended March 31, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,188	\$ 10,704
Non-current assets	1,772	15,966
Goodwill	5,843	52,645
Current liabilities	(1,245)	(11,224)
Non-current liabilities	(6,196)	(55,827)
Acquisition cost of shares	1,361	12,264
Repayment of loan related acquisition of shares	6,443	58,051
Cash and cash equivalents	(452)	(4,078)
Net: Payments for acquisition	¥ 7,351	\$ 66,236

16. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Sales promotion expenses	¥ 35,098	¥ 32,641	\$316,228
Advertisement expenses	3,026	3,144	27,270
Freight expenses	12,837	13,463	115,659
Salaries and other allowances	11,265	11,488	101,499
Provision for directors' retirement benefits	23	83	212
Provision for bonuses	2,727	2,199	24,577
Provision for directors' bonuses	67	117	604
Provision for stock payments	33	48	298
Provision for directors' stock payments	39	-	357
Retirement benefit expense	711	976	6,414

17. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Selling, general and administrative expenses	¥ 2,606	¥ 2,390	\$23,480
Manufacturing expenses	54	78	491
Total	¥ 2,660	¥ 2,469	\$23,971

18. Sale and retirement of Non- current Assets

Gain on sales of non-current assets for the year ended March 31, 2019 mainly consists of gain on sales of Land. Gain on sales of non-current assets for the year ended March 31, 2018 mainly consists of gain on sales of Machinery, equipment and vehicles.

Loss on sales of non-current assets for the year ended March 31, 2019 mainly consists of loss on sales of Machinery, equipment and vehicles. Loss on sales of non-current assets for the year ended March 31, 2018 mainly consists of loss on sales of Land.

Loss on retirement of non-current assets for the year ended March 31, 2019 and 2018 mainly consists of loss on retirement of Machinery, equipment and vehicles.

19. Impairment Loss

For the year ended March 31, 2019, the Company recognized impairment loss of ¥839 million (\$ 7,560 thousand) on the business assets for which there is no intended future use. With regard to business assets, the Company has reduced the book value to the recoverable amount, since the Company decided to withdraw from the businesses.

For the year ended March 31, 2018, the Company recognized impairment loss of ¥97 million on business assets. The Company has reduced the book value to the recoverable amount, since the Company decided to sell the businesses.

For the purpose of impairment testing, assets are generally grouped based on region; however, idle assets with no plans for the future usage are grouped by each asset.

The recoverable amount is higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal for which sales or other usage is unlikely, is recorded as having no value.

The details of impairment loss recognized are as follows:

(For the year ended March 31, 2019)

Location	Purpose of use	Type of asset	Amount	
			Millions of yen	Thousands of U.S. dollars
Chitose City, Hokkaido	Business assets	Machinery, equipment and vehicles	¥ 839	\$7,560

(For the year ended March 31, 2018)

Location	Purpose of use	Type of asset	Amount
			Millions of yen
-	Business assets	Goodwill	¥ 97

20. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other comprehensive income			
Unrealized holding gain on securities			
Amount during the year	¥(238)	¥108	\$(2,152)
Reclassification adjustments	(57)	-	(515)
Amount before tax effects	(296)	108	(2,667)
Tax effects	83	(32)	749
Total	¥(212)	¥76	\$(1,918)
Foreign currency translation adjustments			
Amount during the year	¥140	¥(555)	\$1,270
Reclassification adjustments	56	16	510
Amount before tax effects	197	(538)	1,780
Tax effects	78	(95)	710
Total	¥276	¥(633)	\$2,491
Remeasurements of defined benefit plans			
Amount during the year	¥762	¥219	\$6,870
Reclassification adjustments	138	399	1,244
Amount before tax effects	900	618	8,115
Tax effects	(274)	(190)	(2,470)
Total	¥626	¥428	\$5,645
Total	¥690	¥(129)	\$6,217

21. Derivative Financial Instruments

Information on derivative transactions of the Company that do not meet the criteria for hedge accounting as of March 31, 2019 and 2018 is as follows:

	Millions of yen			
	2019			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
GBP	¥3,198	¥ 3,198	¥ (57)	¥ (57)
Buy				
USD	5,237	2,527	111	111
Sell				
Total	¥ 8,435	¥ 5,726	¥ 53	¥ 53
	Thousands of U.S. dollars			
	2019			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Sell				
GBP	\$ 28,816	\$ 28,816	\$ (517)	\$ (517)
Buy				
USD	47,190	22,776	1,002	1,002
Total	\$ 76,006	\$ 51,593	\$ 484	\$ 484
	Millions of yen			
	2018			
	Contract amount	Maturity over one year	Fair value	Revaluation gain/loss
Non-exchange transactions				
Forward foreign exchange contracts				
Buy				
USD	¥ 4,958	¥ 2,709	¥ (73)	¥ (73)
GBP	81	-	7	7
Total	¥ 5,040	¥ 2,709	¥ (66)	¥ (66)

* Fair value is determined based on the price provided by the financial institutions that are counterparties to the transactions.

22. Stock Options

As of March 31, 2019, the Company has the following stock option programs.

Date of resolution	June 24, 2009
Type and number of eligible persons	[The Company] Directors: 2 Statutory auditor: 1 Employees: 14 [the Company's subsidiaries] Directors: 2
Class and number of shares to be granted	Common stock: 1,600,000 shares (Note 1)
Grant date	June 30, 2009
Vesting requirement	-
Vesting period	-
Exercise period	From July 1, 2009 to June 30, 2019 (Note 2)

Notes: 1. Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

2. The exercise period was revised at the extraordinary shareholders' meeting held on January 14, 2011.

(1) Number and price information

(As of March 31, 2019)

	Shares
Date of resolution	June 24, 2009
Unvested stock options	
Outstanding as of March 31, 2018	-
Granted	-
Expired	-
Vested	-
Outstanding as of March 31, 2019	-
Vested stock options	
Outstanding as of March 31, 2018	94,000
Vested	-
Exercised	46,000
Expired	-
Outstanding as of March 31, 2019	48,000

(Note) Number of shares in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

Date of resolution	June 24, 2009	
	Yen	U.S. dollars
Exercise price	¥ 400	\$ 3.60
Average stock price at exercise	3,741	33.70
Fair value at grant date	75	0.67

(Note) Exercise price in the above table reflects the 50-for-1 share split executed on January 14, 2011 and the 4-for-1 share split executed on October 1, 2013.

(2) Estimate of fair value of stock option

The fair value of the stock options granted on June 30, 2009 is estimated using the intrinsic value per unit based on the price calculated under the net asset value method and benchmark companies' analysis, as the Company was not a public company at the time of the grant.

(3) Estimate of number of vested stock options

Number of options to expire in the future cannot be reasonably estimated. Accordingly, only the actual number of expired options is reflected.

(4) Intrinsic value of stock option

	Yen	U.S. dollars
Total intrinsic value at March 31, 2019	¥ 154,319,412	\$ 1,390,390
Total intrinsic value on the exercise date of the stock options exercised in the year ended March 31, 2019	¥ 152,612,006	\$ 1,375,006

23. Related Party Transactions

The following summarizes related party transactions for the years ended March 31, 2019 and 2018.

(1) For the year ended March 31, 2019

No applicable items.

(2) For the year ended March 31, 2018

Officers and individual major shareholders

Nature of related party	Name	Description of business or occupation	Ownership ratio of voting rights	Description of transaction	Transaction volume (Note 1)
Officer and his/her close family member	Akira Matsumoto	Chairman of the Board & CEO Representative Director of the Company	Direct 0.06%	Exercise of subscription rights (Note 2)	¥16 million

Notes

1: The above amounts do not include consumption taxes.

2: The exercise of stock options granted by resolution at the ordinary shareholders' meeting held on June 24, 2009, pursuant to Article 236, 238 and 239 of the Companies Act. The transaction volume is calculated by multiplying the number of shares issued as a result of exercise of the option by the amount paid upon exercise.

24. Per Share Information

Per share information as of March 31, 2019 and 2018 and for the years then ended is as follows:

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share	¥ 1,151.71	¥ 1,043.37	\$ 10.37
Net income per share			
Basic	¥ 145.39	¥ 129.72	\$ 1.30
Diluted	¥ 145.34	¥ 129.61	\$ 1.30

Basis for calculation of net assets per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total net assets	¥ 160,490	¥ 146,667	\$1,445,986
Net assets attributable to common stock	¥ 153,931	¥ 139,375	\$1,386,891
Major components of the difference			
Subscription rights	¥ 3	¥ 7	\$ 32
Non-controlling interests	¥ 6,555	¥ 7,284	\$ 59,063
	Number of shares		
	2019	2018	
Number of common stock issued and outstanding	133,921,800	133,875,800	
Treasury stock of common stock	267,747	292,997	
Number of common shares used in calculation of net assets per share	133,654,053	133,582,803	

Basis for calculation of net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Basis for calculation of net income per share			
Net income attributable to owners of parent	¥ 19,429	¥ 17,330	\$ 175,057
Net income attributable to owners of parent attributable to common stock	¥ 19,429	¥ 17,330	\$ 175,057
Net income attributable to owners of parent to common stock	-	-	-
Number of shares			
Average number of shares outstanding during the year	133,637,330	133,603,017	
Major dilutive factors included in calculating diluted net income per share			
Adjustments to net income attributable to owners of parent	¥ -	¥ -	\$ -
Number of shares			
Subscription rights	50,210	109,671	
Increase in number of common stock	50,210	109,671	

(Note)

The Company's own stock in the trust recorded as treasury stock under shareholders' equity includes treasury shares excluded from the average number of shares during the period used for calculating net income per share and treasury shares excluded from the number of shares outstanding at the end of the fiscal year used for calculating net assets per share.

275,221 treasury shares (244,120 shares in 2018) were excluded from the average number of shares during the year used for calculating net income per share for the year ended March 31, 2019 and 266,915 treasury shares (292,165 shares in 2018) were excluded from the number of shares outstanding used for calculating net assets per share at March 31, 2019.

25. Segment Information

For the years ended March 31, 2019 and 2018, information on operating segments is not disclosed as the Company has only one reporting segment, "Production and sale of snacks and other foods."

[Related information]

(1) Sales by product and service

	Millions of yen			
	2019			
	Snacks	Other foods	Other	Total
Sales to third parties	¥ 215,678	¥ 30,386	¥ 2,590	¥ 248,655
	Thousands of U.S. dollars			
	2019			
	Snacks	Other foods	Other	Total
Sales to third parties	\$ 1,943,223	\$ 273,774	\$ 23,342	\$ 2,240,339
	Millions of yen			
	2018			
	Snacks	Other foods	Other	Total
Sales to third parties	¥ 206,842	¥ 40,735	¥ 3,998	¥ 251,575

(2) Information by region

Information about sales by region is as follows:

		Millions of yen				
		2019				
		Japan	America	China	Others	Total
Sales		¥ 208,193	¥ 9,941	¥ 6,663	¥ 23,856	¥ 248,655
		Thousands of U.S. dollars				
		2019				
		Japan	America	China	Others	Total
Sales		\$1,875,784	\$ 89,575	\$ 60,040	\$ 214,938	\$2,240,339
		Millions of yen				
		2018				
		Japan	America	China	Others	Total
Sales		¥ 217,774	¥ 9,843	¥ 4,376	¥ 19,581	¥ 251,575

Information about property, plant and equipment by region is as follows:

		Millions of yen				
		2019				
		Japan	America	China	Others	Total
Property, plant and equipment		¥ 52,468	¥ 7,843	¥ 543	¥ 11,696	¥ 72,552
		Thousands of U.S. dollars				
		2019				
		Japan	America	China	Others	Total
Property, plant and equipment		\$ 472,729	\$ 70,671	\$ 4,899	\$ 105,382	\$ 653,682
		Millions of yen				
		2018				
		Japan	America	China	Others	Total
Property, plant and equipment		¥ 55,006	¥ 8,195	¥ 345	¥ 9,548	¥ 73,096

(3) Sales by major customers

		Millions of yen		Thousands of U.S. dollars
		2019	2018	2019
Reported segment				
Mitsubishi Shokuhin Co., Ltd.	Production and sale of snacks and other foods	¥ 29,749	¥ 28,080	\$ 268,036
Yamaboshiya Co., Ltd.	Production and sale of snacks and other foods	¥ 25,679	¥ 24,127	\$ 231,371
Confex Co., Ltd.	Production and sale of snacks and other foods	¥ 25,176	¥ 22,392	\$ 226,837

(4) Impairment loss on fixed assets by reporting segment

		Millions of yen				
		2019				
		Reporting segment				
		Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss		¥ 839	¥ 839	-	-	¥ 839
		Thousands of U.S. dollars				
		2019				
		Reporting segment				
		Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss		\$ 7,560	\$ 7,560	-	-	\$ 7,560
		Millions of yen				
		2017				
		Reporting segment				
		Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Impairment loss		¥ 97	¥ 97	-	-	¥ 97

(5) Amortization and unamortized balance of goodwill by reporting segment

Millions of yen					
2019					
Reporting segment					
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	¥ 758	¥ 758	-	-	¥ 758
Balance at end of year	¥ 5,688	¥ 5,688	-	-	¥ 5,688
Thousands of U.S. dollars					
2019					
Reporting segment					
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	\$ 6,831	\$ 6,831	-	-	\$ 6,831
Balance at end of year	\$ 51,248	\$ 51,248	-	-	\$ 51,248
Millions of yen					
2018					
Reporting segment					
	Production and sale of snacks and other foods	Total	Other	Corporate / elimination	Total
Amortization	¥ 600	¥ 600	-	-	¥ 600
Balance at end of year	¥ 922	¥ 922	-	-	¥ 922

26. Business combination and other related matters

Business divestiture

The Company has transferred 66.6% of issued shares its subsidiary Garden Bakery, Inc. (Garden Bakery) to Showa Sangyo, Co., Ltd. (Showa Sangyo).

(1) Outline of the business divestiture

1. Name of destination company
Showa Sangyo Co., Ltd.
2. Details of the divested business
Production and sale of bread and confectionary
3. The main reason for the business divestiture
Garden Bakery was established in June 1996 as a 100% subsidiary of the Company with the purpose of producing and selling breads and snack foods, and currently produces and sells pastries and filled and stuffed breads, etc., to convenience stores.
Showa Sangyo has an integrated structure that engages in a range of operations from raw material procurement to product development to factory management, and by transferring 66.6% of shares in Garden Bakery to Showa Sangyo, we aim to further heighten Garden Bakery's product development capability and improve productivity by strengthening the business of both Showa Sangyo and the Company.
4. Date of business divestiture
April 2, 2018
5. Outline of the transaction including legal format
Transfer of shares with only cash equivalent assets as compensation

(2) Outline of accounting treatment implemented

1. Amount of gains or losses related to the transfer
No applicable items
2. Appropriate book value of the assets and liabilities of business transferred and breakdown

	(Millions of yen)	(thousands of U.S. dollars)
Current assets	1,781	16,054
Non-current assets	3,157	28,445
Total assets	4,939	44,500
Current liabilities	3,799	34,235
Non-current liabilities	470	4,235
Total liabilities	4,269	38,470

3. Accounting treatment

This transfer was accounted for, based on ASBJ Statement No.7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No.10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures", issued on September 13, 2013.

(3) Reporting segment name which includes divested business

Production and sale of snacks and other foods

(4) Estimated effect of gain or loss of the divested business in the consolidated financial statement of the Company

The date for the business divestiture is considered in the beginning of the fiscal year, therefore gain or losses related to the business divestiture are not included in the consolidated financial statement of the Company.

Business combination resulting from acquisition

Calbee (UK) Ltd., the Company's consolidated subsidiary, acquired all shares of Pacific Shelf 1809 Limited from UK private equity fund Lloyds Development Capital (Holdings) Limited and individual shareholders for the purpose of acquiring the business of UK confectionery company Seabrook Crisps Limited. A stock purchase agreement was concluded and the acquisition of 100% of the shares completed on October 2, 2018.

(1) Outline of the transaction

1. Name and business description of the acquired company
Name of acquired company: Pacific Shelf 1809 Limited
Description of business: Holding company
2. The main reason for business combination
Seabrook Crisps Limited, a subsidiary of Pacific Shelf 1809 Limited, is a UK savory snack manufacturer with a long history (founded in 1945) that owns the Seabrook brand. Calbee Group aims to bolster the Calbee brand and expand its business in Europe through the acquisition of this brand in the major potato chips category in the UK, the largest market for snacks in Europe.
3. Date of business combination
October 2, 2018 (Date of acquisition of stock)
October 1, 2018 (Deemed acquisition date)
4. Legal form of business combination
Acquisition of stock
5. Name of company after business combination
No change
6. Ratio of voting rights
100%
7. Main grounds for determining which company to acquire
Due to Calbee (UK) Ltd., the Company's consolidated subsidiary, acquiring Pacific Shelf 1809 Limited through a share acquisition by cash

(2) Period of business results of the acquired company included in the consolidated financial statements

From October 1, 2018 to March 31, 2019

(3) Acquisition cost of acquired company and the breakdown

Acquisition cost by cash: ¥1,361 million (US\$12,264 thousand)

(4) Details and amount of the main acquisition related costs

Advisory fees, etc.: ¥140 million (US\$1,268 thousand)

(5) Amount of goodwill, reason for recognition, amortization method and period

1. Goodwill arising from the acquisition
¥5,843 million (US\$52,645 thousand)
2. Reason for the recognition
Expectation of future excess earning power due to business development.
3. Amortization method and period
Straight-line amortization over 15 years.

(6) Details and amount of assets and liabilities accepted on the date of business combination

	<i>(Millions of yen)</i>	<i>(thousands of U.S. dollars)</i>
Current assets	1,188	10,704
Non-current assets	1,772	15,966
Total assets	2,960	26,670
Current liabilities	1,245	11,224
Non-current liabilities	6,196	55,827
Total liabilities	7,442	67,051

(7) Estimated effects of gain or loss in the consolidated financial statement of the Company assuming that the business combination had been completed at the beginning of the fiscal year and assuming the calculation method

Estimated effects were omitted since they were not material. This effects have not been audited.

27. Subsequent events

No applicable item



Independent Auditor's Report

To the Board of Directors of Calbee, Inc.:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 6 to the consolidated financial statements.

KPMG AZSA LLC.

KPMG AZSA LLC
June 20, 2019
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.