



## **SAKATA INX CORPORATION**

Consolidated Financial Statements

As of December 31, 2017 and 2016



## **Independent Auditor's Report**

To the Board of Directors of  
SAKATA INX CORPORATION:

We have audited the accompanying consolidated financial statements of SAKATA INX CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated income statements, 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 SAKATA INX CORPORATION and its consolidated subsidiaries as at December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

*KPMG AZSA LLC*

KPMG AZSA LLC  
July 20, 2018  
Osaka, Japan

**SAKATA INX CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**Years ended December 31, 2017 and 2016**

		<i>Millions of yen</i>	
		2017	2016
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Note 7) .....	¥	10,002	¥     9,297
Notes and accounts receivable - trade (Notes 6, 7 and 11):			
Unconsolidated subsidiaries and affiliates .....		2,546	2,169
Other .....		42,553	41,370
		45,099	43,539
Inventories (Note 9) .....		18,637	17,325
Deferred tax assets (Note 15) .....		613	576
Other .....		2,244	1,470
Allowance for doubtful accounts .....		(396)	(491)
Total current assets .....		76,199	71,716
 <b>Property, plant and equipment (Notes 4 and 11):</b>			
Buildings and structures .....		31,906	30,074
Machinery, equipment and vehicles .....		43,267	41,933
Land .....		8,983	8,921
Lease assets .....		1,394	1,695
Construction in progress .....		919	569
Other .....		2,820	2,849
		89,289	86,041
Accumulated depreciation .....		(52,256)	(50,188)
Net property, plant and equipment .....		37,033	35,853
 <b>Investments and other assets:</b>			
Investments in (Notes 5, 7, 8 and 11):			
Unconsolidated subsidiaries and affiliates .....		14,504	14,259
Other .....		14,704	12,864
		29,208	27,123
Long-term loans receivable .....		952	985
Deferred tax assets (Note 15) .....		212	193
Other .....		1,498	1,584
Allowance for doubtful accounts .....		(464)	(492)
Total investments and other assets .....		31,406	29,393
 <b>Intangible assets:</b>			
Other .....		852	1,050
Total intangible assets .....		852	1,050
	¥	145,490	¥     138,012

*The accompanying notes are an integral part of these statements.*

		<i>Millions of yen</i>	
		2017	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Notes 6, 7 and 11):			
Unconsolidated subsidiaries and affiliates	¥	0	¥ 4
Other		29,332	27,392
		<u>29,332</u>	<u>27,396</u>
Short-term loans payable (Note 7, 10 and 11)		5,343	3,584
Current portion of long-term loans payable (Notes 7, 10 and 11)		4,189	6,203
Lease obligations		214	266
Accrued expenses		3,623	3,655
Income taxes payable		994	895
Provision for bonuses		647	631
Other (Note 11)		3,626	2,674
Total current liabilities		<u>47,968</u>	<u>45,304</u>
<b>Non-current liabilities:</b>			
Long-term loans payable (Notes 7, 10 and 11)		6,158	6,572
Lease obligations		328	389
Deferred tax liabilities (Note 15)		4,922	3,985
Net defined benefit liability (Note 14)		5,026	5,261
Asset retirement obligations		72	71
Other (Note 11)		2,249	2,116
Total non-current liabilities		<u>18,755</u>	<u>18,394</u>
Total liabilities	¥	<u>66,723</u>	<u>¥ 63,698</u>
<b>Contingent liabilities (Note 16)</b>			
<b>Net Assets (Note 24):</b>			
<b>Shareholders' equity</b>			
Capital stock:			
Authorized – 144,000,000 shares			
Issued – 62,601,161 shares	¥	7,473	¥ 7,473
Capital surplus		5,673	5,673
Retained earnings		65,638	59,053
Treasury shares, at cost – 4,201,482 shares in December 2017 and 2,093,210 shares in December 2016		<u>(4,046)</u>	<u>(643)</u>
Total shareholders' equity		<u>74,738</u>	<u>71,556</u>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities		4,957	4,027
Deferred gains or losses on hedges		2	(1)
Foreign currency translation adjustment		(2,612)	(2,615)
Remeasurements of defined benefit plans		<u>(1,435)</u>	<u>(1,605)</u>
Total accumulated other comprehensive income		912	(194)
Non-controlling interests		3,117	2,952
Total net assets		<u>78,767</u>	<u>74,314</u>
	¥	<u>145,490</u>	<u>¥ 138,012</u>

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years ended December 31, 2017 and 2016**

	<i>Millions of yen</i>	
	2017	2016
<b>Net sales</b> .....	¥ 157,303	¥ 151,199
<b>Cost of sales</b> .....	120,371	113,774
<b>Selling, general and administrative expenses (Note 17)</b> .....	28,359	27,306
Operating income .....	8,573	10,119
<b>Other income (expenses):</b>		
Interest and dividend income .....	378	400
Real estate rent .....	198	191
Equity in earnings of affiliates .....	1,784	1,670
Interest expenses .....	(247)	(263)
Foreign exchange gains and losses .....	390	(323)
Gain on sales of property, plant and equipment .....	-	699
Gain on sales of investment securities .....	1,124	3
Subsidy income .....	100	100
Insurance income .....	200	-
Impairment loss (Note 18) .....	-	(236)
Loss on disaster .....	(175)	-
Loss on sales of property, plant and equipment .....	-	(32)
Loss on retirement of property, plant and equipment (Note 19) .....	(70)	(118)
Loss on valuation of investment securities .....	(0)	-
Plant transfer expenses .....	(72)	-
Other, net .....	174	74
Income before income taxes .....	12,357	12,284
<b>Income taxes:</b>		
Current .....	3,092	3,395
Deferred (Note 15) .....	375	403
	3,467	3,798
<b>Net income</b> .....	8,890	8,486
<b>Net income attributable to non-controlling interests</b> .....	(506)	(648)
Net income attributable to owners of parent .....	¥ 8,384	¥ 7,838
	<i>Yen</i>	
	2017	2016
Net income per share of capital stock (Note 26) .....	¥ 142.76	¥ 129.53
Cash dividends per share applicable to the year (Note 26) .....	¥ 30.00	¥ 28.00

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years ended December 31, 2017 and 2016**

	<i>Millions of yen</i>	
	2017	2016
<b>Net income</b> .....	¥ 8,890	¥ 8,486
<b>Other comprehensive income (Note 20):</b>		
Valuation difference on available-for-sale securities.....	971	718
Deferred gains or losses on hedges.....	1	(1)
Foreign currency translation adjustment.....	(247)	(1,468)
Remeasurements of defined benefit plans, net of tax.....	157	(950)
Share of other comprehensive income of affiliates accounted for using equity method.....	174	(403)
Total other comprehensive income.....	1,056	(2,104)
<b>Comprehensive income</b> .....	¥ 9,946	¥ 6,382
<b>Comprehensive income attributable to:</b>		
Owners of parent.....	¥ 9,490	¥ 5,855
Non-controlling interests.....	¥ 456	¥ 527

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**Year ended December 31, 2017**

	<i>Number of shares of common stock</i>	<i>Millions of yen</i>					
		<i>Capital stock</i>	<i>Capital surplus</i>	<i>Retained earnings</i>	<i>Treasury shares</i>	<i>Total shareholders' equity</i>	
<b>Balance at the beginning of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 59,053	¥ (643)	¥ 71,556	
Dividends of surplus (¥29.0 per share) .....	-	-	-	(1,725)	-	(1,725)	
Net income attributable to owners of parent .....	-	-	-	8,384	-	8,384	
Purchase of treasury shares .....	-	-	-	-	(3,403)	(3,403)	
Change of scope of consolidation in entities accounted for using equity method .....	-	-	-	(74)	-	(74)	
Net changes of items other than shareholders' equity .....	-	-	-	-	-	-	
Total changes of items during the period .....	-	-	-	6,585	(3,403)	3,182	
<b>Balance at the end of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 65,638	¥ (4,046)	¥ 74,738	

  

	<i>Millions of yen</i>						
	<i>Valuation difference on available-for- sale securities</i>	<i>Deferred gains or losses on hedges</i>	<i>Foreign currency translation adjustment</i>	<i>Remeasurements of defined benefit plans</i>	<i>Total accumulated other comprehensive income</i>	<i>Non-controlling interests</i>	<i>Total net assets</i>
<b>Balance at the beginning of current period</b> .....	¥ 4,027	¥ (1)	¥ (2,615)	¥ (1,605)	¥ (194)	¥ 2,952	¥ 74,314
Dividends of surplus (¥29.0 per share) .....	-	-	-	-	-	-	(1,725)
Net income attributable to owners of parent .....	-	-	-	-	-	-	8,384
Purchase of treasury shares .....	-	-	-	-	-	-	(3,403)
Change of scope of consolidation in entities accounted for using equity method .....	-	-	-	-	-	-	(74)
Net changes of items other than shareholders' equity .....	930	3	3	170	1,106	165	1,271
Total changes of items during the period .....	930	3	3	170	1,106	165	4,453
<b>Balance at the end of current period</b> .....	¥ 4,957	¥ 2	¥ (2,612)	¥ (1,435)	¥ 912	¥ 3,117	¥ 78,767

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**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**Year ended December 31, 2016**

	<i>Number of shares of common stock</i>	<i>Millions of yen</i>				
		<i>Capital stock</i>	<i>Capital surplus</i>	<i>Retained earnings</i>	<i>Treasury shares</i>	<i>Total shareholders' equity</i>
<b>Balance at the beginning of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 52,728	¥ (643)	¥ 65,231
Dividends of surplus (¥25.0 per share) .....	-	-	-	(1,513)	-	(1,513)
Net income attributable to owners of parent .....	-	-	-	7,838	-	7,838
Purchase of treasury shares .....	-	-	-	-	(0)	(0)
Disposal of treasury shares .....	-	-	0	-	0	0
Net changes of items other than shareholders' equity .....	-	-	-	-	-	-
Total changes of items during the period .....	-	-	0	6,325	(0)	6,325
<b>Balance at the end of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 59,053	¥ (643)	¥ 71,556

	<i>Millions of yen</i>					
	<i>Valuation difference on available-for- sale securities</i>	<i>Deferred gains or losses on hedges</i>	<i>Foreign currency translation adjustment</i>	<i>Remeasurements of defined benefit plans</i>	<i>Total accumulated other comprehensive income</i>	<i>Total net assets</i>
<b>Balance at the beginning of current period</b> .....	¥ 3,281	¥ 0	¥ (823)	¥ (668)	¥ 1,790	¥ 2,599
Dividends of surplus (¥25.0 per share) .....	-	-	-	-	-	-
Net income attributable to owners of parent .....	-	-	-	-	-	-
Purchase of treasury shares .....	-	-	-	-	-	-
Disposal of treasury shares .....	-	-	-	-	-	-
Net changes of items other than shareholders' equity .....	746	(1)	(1,792)	(937)	(1,984)	353
Total changes of items during the period .....	746	(1)	(1,792)	(937)	(1,984)	353
<b>Balance at the end of current period</b> .....	¥ 4,027	¥ (1)	¥ (2,615)	¥ (1,605)	¥ (194)	¥ 2,952

*The accompanying notes are an integral part of these statements.*



**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2017 and 2016**

	<i>Millions of yen</i>	
	2017	2016
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 12,357	¥ 12,284
Depreciation and amortization	3,703	3,495
Impairment loss	-	236
Amortization of goodwill	-	26
Increase (decrease) in allowance for doubtful accounts	(145)	(2)
Increase (decrease) in net defined benefit liability	145	151
Increase (decrease) in provision for bonuses	15	36
Interest and dividend income	(378)	(400)
Interest expenses	247	263
Equity in (earnings) losses of affiliates	(1,784)	(1,670)
Loss (gain) on sales of property, plant and equipment	-	(667)
Loss on retirement of property, plant and equipment	70	118
Loss (gain) on sales of investment securities	(1,124)	(3)
Loss (gain) on valuation of investment securities	0	-
Subsidy income	(100)	(100)
Insurance income	(200)	-
Loss on disaster	175	-
Plant transfer expenses	72	-
Decrease (increase) in notes and accounts receivable - trade	(1,609)	(160)
Decrease (increase) in inventories	(1,564)	(450)
Increase (decrease) in notes and accounts payable	1,923	32
Other, net	(264)	563
Subtotal	11,539	13,752
Interest and dividend income received	729	720
Interest expenses paid	(249)	(260)
Proceeds from insurance income	30	248
Proceeds from subsidy income	150	150
Income taxes paid	(2,997)	(2,913)
Net cash provided by (used in) operating activities	9,202	11,697
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(3,809)	(5,589)
Proceeds from sales of property, plant and equipment	29	1,293
Purchase of investment securities	(224)	(1,552)
Proceeds from sales of investment securities	1,965	15
Payment of loans receivable	(48)	(975)
Collection of loans receivable	56	48
Other, net	(707)	32
Net cash provided by (used in) investing activities	(2,738)	(6,728)

*The accompanying notes are an integral part of these statements.*

	<i>Millions of yen</i>	
	2017	2016
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term loans payable .....	1,738	(548)
Proceeds from long-term loans payable .....	3,877	2,669
Repayment of long-term loans payable .....	(6,189)	(3,674)
Purchase of treasury shares .....	(3,403)	(0)
Cash dividends paid .....	(1,725)	(1,513)
Dividends paid to non-controlling interests .....	(292)	(174)
Other, net .....	(265)	(312)
Net cash provided by (used in) financing activities .....	(6,259)	(3,552)
<b>Effect of exchange rate change on cash and cash equivalents .....</b>	<b>(151)</b>	<b>(9)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>54</b>	<b>1,408</b>
<b>Cash and cash equivalents at beginning of period .....</b>	<b>9,297</b>	<b>7,889</b>
<b>Cash and cash equivalents at end of period (Note 21) .....</b>	<b>¥ 9,351</b>	<b>¥ 9,297</b>

*The accompanying notes are an integral part of these statements.*

# SAKATA INX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SAKATA INX CORPORATION (the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with generally accepted accounting principles in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards (IFRS).

The accounts of the Company’s consolidated foreign subsidiaries are based on IFRS or generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of shareholders’ equity from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

### 2. Significant Accounting Policies

#### *Consolidation*

The consolidated financial statements include the accounts of the Company and its twenty-three significant subsidiaries (twenty-three in 2016). The principal subsidiaries of the Company were THE INX GROUP LIMITED, INX International Ink Co. SAKATA INX (INDIA) PRIVATE LIMITED and P.T. SAKATA INX INDONESIA. All significant intercompany transactions and accounts have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. Differences between the cost of investments in consolidated subsidiaries and the equity in the net assets at the date of acquisition are amortized over a period that is within twenty years.

The equity method was applied to six affiliates (six in 2016). The principal affiliate of the Company was SIIX Corporation.

The consolidated financial statements do not include the accounts of three unconsolidated subsidiaries (two in 2016), and the equity method was not applied to these subsidiaries because they were immaterial. The principal unconsolidated subsidiary was Creative Industria e Comercio Ltda.

#### *Securities*

The Companies classify securities as (a) securities held for trading purposes (“trading securities”), (b) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities that are not classified in any of the above categories (“available-for-sale securities”).

The Companies do not hold trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies accounted for by the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on the sales of such securities are computed using moving average cost. Other securities with no available fair value are stated at moving average cost.

#### *Inventories*

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost based on the moving average method, in which the amount of inventories shown on the balance sheet are written down based on any decrease in profitability.

Inventories of the consolidated foreign subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

#### *Property, plant and equipment*

Property, plant and equipment are carried at cost. The Company and its consolidated domestic subsidiaries depreciate property, plant and equipment principally by the straight-line method over the estimated useful life of the asset.

The range of useful lives is summarized as follows:

Buildings and structures	3 to 60 years
Machinery, equipment and vehicles	2 to 17 years
Other	2 to 20 years

#### *Intangible assets*

Intangible assets consist of in-house software and other. The straight-line method is used to amortize intangible assets. The amortization of in-house software is computed using the straight-line method based on the estimated useful life of mainly five years.

#### *Finance leases*

Lease assets under finance lease transactions that do not transfer title of the lease assets are capitalized and depreciated on a straight-line basis with the lease period used as the useful life and no residual value.

Finance lease transactions that did not transfer title of the lease assets and that commenced prior to April 1, 2009 are accounted for as operating leases.

#### *Allowance for doubtful accounts*

The Company and its consolidated subsidiaries (the “Companies”) have adopted the policy of providing an allowance for doubtful accounts in an amount sufficient to cover possible losses on collection mainly by estimating the uncollectible amounts of certain receivables and applying a percentage based on collection experience to the remaining receivables.

#### *Bonuses*

The Company and certain consolidated subsidiaries provide for employees’ bonuses at the balance sheet date based on the estimated amounts of projected bonus payments.

#### *Retirement benefits*

##### 1. Method used to attribute estimated amounts of retirement benefits to periods

In calculating retirement benefit obligations, the method used to attribute the estimated amount of retirement benefits to a period until the end of the consolidated fiscal year is mainly based on the benefit formula basis.

##### 2. Accounting methods for actuarial difference and prior service cost

Prior service cost is recognized mainly as current costs, and actuarial gains and losses are recognized in expenses using the straight-line method over mainly 15 years, a period which reflects the average of the estimated remaining service years of employees, commencing with the current period.

#### *Translation of foreign currencies*

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. All revenues and expenses in foreign currencies are translated at the exchange rates prevailing when such transactions are made. The resulting gains and losses are recognized in the statements of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at year-end rates, except for equity, which is translated at historical rates. Differences arising from the translations are presented as “Foreign currency translation adjustment” and “Non-controlling interests” in net assets. Income statement accounts of the consolidated foreign subsidiaries are translated at average annual rates.

#### *Derivatives and hedge accounting*

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the corresponding loss or gain on the hedged items is recognized. However, if forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedged items are accounted for at the forward foreign exchange contract rate. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the hedged assets or liabilities for which the interest rate swap contracts were executed.

The following summarizes hedging derivative financial instruments used by the Companies and the items hedged:

<u>Hedging instruments</u>	<u>Hedged items</u>
Forward foreign exchange contracts	Receivables and payables in foreign currency and others
Currency swap contracts	Loans payable in foreign currency
Interest rate swap contracts	Interest on loans payable in foreign currency and loans payable

The Companies use derivative financial instruments for hedging purposes to mitigate the risk of fluctuation in foreign currency exchange rates and interest rates.

The Companies evaluate hedging effectiveness by confirming a correlation between the hedging instruments and the hedged items. However, interest rate swap contracts that meet the requirements for special treatment are omitted from an assessment of effectiveness.

#### *Cash and cash equivalents*

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### *Research and development expenses*

Research and development expenses are charged to income as incurred. Research and development expenses for the year ended December 31, 2017 and 2016 were ¥3,219 million and ¥3,108 million, respectively.

#### *Income taxes*

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss and tax credit carryforwards.

#### *Consumption taxes*

Consumption taxes are excluded from revenue and expense accounts.

#### *Amounts per share*

##### *(a) Net income per share of common stock*

The Companies have adopted ASBJ Statement No. 2, "Accounting Standard for Earnings Per Share," and Financial Accounting Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share."

##### *(b) Cash dividends per share*

Cash dividends per share presented in the statements of income represent the cash dividends declared applicable to the year, including dividends declared and paid after the end of the year.

#### *Net assets*

Under the Japanese Corporation Law (the "Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law requires that an amount equal to 10% of dividends must be appropriated as additional paid-in capital or legal earnings reserve until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

#### *Reclassification*

Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2016 to conform to the presentation for the year ended December 31, 2017.

### **3. Additional Information**

#### *Application of 'Revised Implementation Guidance on Recoverability of Deferred Tax Assets'*

The Company and its domestic subsidiaries adopted 'Revised Implementation Guidance on Recoverability of Deferred Tax Assets' (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the fiscal year ended December 31, 2017.

#### *Impact of enactment of tax reform in the U.S.*

In the U.S., the new tax reform act, "The Tax Cuts and Jobs Act of 2017," was enacted on December 22, 2017.

As a result, Net income attributable to owners of parent for the year ended December 31, 2017 decreased by ¥68 million.

#### 4. Deferred Capital Gains on Tangible Fixed Assets

Under certain conditions, such as the exchange of similar kinds of fixed assets, gains from insurance claims and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer gains arising from such transactions by reducing the cost of the assets acquired. Accordingly, deferred capital gains from insurance claims were deducted from the cost of replacement properties, which amounted to ¥41 million as of both December 31, 2017 and 2016.

#### 5. Securities Lent under Loan Agreements

Investment securities included securities lent of ¥636 million as of December 31, 2016.

#### 6. Effect of Bank Holiday

As financial institutions in Japan were closed on both December 31, 2017 and 2016, amounts that would have been settled on December 31 were collected or paid on the following business day. The amounts actually settled on the first business day in January, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Notes and accounts receivable .....	¥ 935	¥ 958
Notes and accounts payable .....	518	373

#### 7. Financial Instruments

##### 1. Qualitative information on financial instruments

###### (1) Policies for using financial instruments

The Companies have policies to limit fund management to the use of highly secure financial assets such as short-term deposits and financing to the use of bank loans. Derivative transactions are used to manage the risk of fluctuation in the interest rates of bank loans with variable interest rates. The Companies do not use derivative transactions for speculation.

###### (2) Details of risk and risk management for financial instruments

Operating receivables such as “Notes and accounts receivable - trade” are exposed to customer credit risk. To manage such risk, due dates and the balances of operating receivables by customer are monitored by reviewing overdue receivable reports. In addition, credit research is performed regularly on customers whose accounts need attention.

Securities such as available-for-sale securities consist mainly of securities of parties with whom the Companies have business relationships and are exposed to market fluctuations risk. To manage such risk, the Companies monitor the fair value of the securities and the financial condition of the investees regularly to evaluate investment policy, taking the business relationships with the investees into consideration.

Operating payables such as “Notes and accounts payable - trade” are mostly due within one year.

Short-term loans payable are used as financing mainly for operating transactions, and long-term loans payable and lease obligations on finance leases are used as financing mainly for capital expenditure.

Loans payable at variable interest rates are exposed to the risk of interest rate fluctuation. However, for some long-term loans payable, derivative transactions, namely interest rate swap contracts, are used as hedging instruments to avoid interest rate risk and stabilize interest expense. Hedge effectiveness testing is not conducted as the interest rate swap contracts meet certain hedging criteria.

The execution and management of derivative transactions are conducted under the Company’s derivative transaction management rules and regulations, and the counterparties to derivative financial instruments are limited to high credit rating financial institutions to mitigate credit risk.

Operating payables and bank loans are exposed to liquidity risk, but the Companies manage the risk by preparing and reviewing respective monthly cash management plans.

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

The contract amounts for the derivative transactions under Note 12, "Derivative Transactions," do not reflect the market risk of the derivative transactions themselves.

2. Fair values of financial instruments

Consolidated balance sheet amounts and fair values of financial instruments and any difference as of December 31, 2017 and 2016 are set forth in the tables below.

Note that the following tables do not include fair values for financial instruments for which the fair value was extremely difficult to measure.

**Year ended December 31, 2017**

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits.....	¥ 10,002	¥ 10,002	¥ -
(2) Notes and accounts receivable - trade.....	45,099	45,099	-
(3) Investments:			
Securities in affiliates.....	12,728	26,138	13,410
Available-for-sale securities .....	13,261	13,261	-
Total assets .....	¥ 81,090	¥ 94,500	¥ 13,410
(1) Notes and accounts payable - trade.....	¥ 29,332	¥ 29,332	¥ -
(2) Short-term loans payable .....	5,343	5,343	-
(3) Long-term loans payable .....	10,347	10,332	(15)
Total liabilities.....	¥ 45,022	¥ 45,007	¥ (15)
Derivative transactions (*) .....	6	6	-

(\*) Derivative assets and (liabilities) are on a net basis.

**Year ended December 31, 2016**

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits.....	¥ 9,297	¥ 9,297	¥ -
(2) Notes and accounts receivable - trade.....	43,539	43,539	-
(3) Investments:			
Securities in affiliates.....	11,463	21,327	9,864
Available-for-sale securities .....	12,672	12,672	-
Total assets .....	¥ 76,971	¥ 86,835	¥ 9,864
(1) Notes and accounts payable - trade.....	¥ 27,396	¥ 27,396	¥ -
(2) Short-term loans payable .....	3,584	3,584	-
(3) Long-term loans payable .....	12,775	12,781	6
Total liabilities.....	¥ 43,755	¥ 43,761	¥ 6
Derivative transactions (*) .....	32	32	-

(\*) Derivative assets and (liabilities) are on a net basis.

Note 1: Determination of fair value of financial instruments, securities and derivative transactions

Assets

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

The fair value approximates the carrying amount because of the short maturity of these instruments.



### (3) Investments

The fair value of securities is stated at the quoted market price. The fair value of investment trusts approximates the carrying amount because of the short maturity.

Securities are classified as securities in affiliates or available-for-sale securities.

The consolidated balance sheet amount, acquisition cost and any difference for securities as of December 31, 2017 and 2016 were as follows:

<i>Year ended December 31, 2017</i>		<i>Millions of yen</i>	
	Consolidated balance sheet amount	Acquisition cost (*)	Difference
(1) Securities with consolidated balance sheet amount exceeding acquisition cost .....	¥ 25,813	¥ 6,552	¥ 19,261
(2) Other .....	-	-	-
Subtotal .....	25,813	6,552	19,261
(1) Securities with consolidated balance sheet amount not exceeding acquisition cost .....	1	1	(0)
(2) Other .....	175	175	-
Subtotal .....	176	176	(0)
Total .....	¥ 25,989	¥ 6,728	¥ 19,261

(\*) Acquisition cost is the consolidated balance sheet amount after write-down.

The amount of write-down for the year ended December 31, 2017 was 0 million, and the amount of sales was ¥1,965 million and the amount of gain on sales was ¥1,124 million.

<i>Year ended December 31, 2016</i>		<i>Millions of yen</i>	
	Consolidated balance sheet amount	Acquisition cost (*)	Difference
(1) Securities with consolidated balance sheet amount exceeding acquisition cost .....	¥ 23,927	¥ 7,330	¥ 16,597
(2) Other .....	-	-	-
Subtotal .....	23,927	7,330	16,597
(1) Securities with consolidated balance sheet amount not exceeding acquisition cost .....	36	40	(4)
(2) Other .....	172	172	-
Subtotal .....	208	212	(4)
Total .....	¥ 24,135	¥ 7,542	¥ 16,593

(\*) Acquisition cost is the consolidated balance sheet amount after write-down.

The amount of sales for the year ended December 31, 2016 was ¥15 million and the amount of gain on sales was ¥3 million.

### Liabilities

#### (1) Notes and accounts payable - trade and (2) Short-term loans payable

The fair value approximates the carrying amount because of the short maturity of these instruments.

#### (3) Long-term loans payable

The fair value of long-term loans payable is estimated by the present value of the total amount of principal and interest discounted at the interest rate that would apply to similar new borrowings. For variable interest rates, long-term loans payable which are hedged by interest rate swap contracts and meet certain hedging criteria (See Note 13, "Derivative Transactions"), the principal and interest booked with an interest rate swap as a unit is assessed by discounting at the estimated interest rate of similar borrowings.

### Derivative transactions

Refer to the Note 12, “Derivative Transactions.”

Note 2: Financial instruments for which the fair value is extremely difficult to measure

Available-for-sale securities (non-listed equity securities) in the consolidated balance sheet amount of ¥3,218 million as of December 31, 2017 and ¥2,988 million as of December 31, 2016 were not included in “Assets (3) Investments” because they had no quoted market price, future cash flows were not estimable and the fair values were unavailable.

Note 3: Aggregate annual maturities of money claims and securities with maturities as of December 31, 2017 and 2016 were as follows:

#### ***Year ended***

***December 31, 2017***

	<i>Millions of yen</i>			
	2018	2019-2023	2024-2028	2029 and thereafter
Cash and deposits.....	¥ 10,002	¥ -	¥ -	¥ -
Notes and accounts receivable - trade .....	45,099	-	-	-
Total .....	¥ 55,101	¥ -	¥ -	¥ -

#### ***Year ended***

***December 31, 2016***

	<i>Millions of yen</i>			
	2017	2018-2022	2023-2027	2028 and thereafter
Cash and deposits.....	¥ 9,297	¥ -	¥ -	¥ -
Notes and accounts receivable - trade .....	43,539	-	-	-
Total .....	¥ 52,836	¥ -	¥ -	¥ -

Note 4: Aggregate annual maturities of long-term loans payable and lease obligations as of December 31, 2017 and 2016 were as follows:

#### ***Year ended***

***December 31, 2017***

	<i>Millions of yen</i>					
	2018	2019	2020	2021	2022	2023 and thereafter
Long-term loans payable .....	¥ 4,189	¥ 1,373	¥ 1,771	¥ 1,684	¥ 1,245	¥ 85

#### ***Year ended***

***December 31, 2016***

	<i>Millions of yen</i>					
	2017	2018	2019	2020	2021	2022 and thereafter
Long-term loans payable .....	¥ 6,203	¥ 3,996	¥ 1,175	¥ 750	¥ 483	¥ 168

## 8. Securities

The following tables summarize the consolidated balance sheet amount, acquisition cost and fair value of available-for sale securities as of December 31, 2017 and 2016. Available-for-sale securities (non-listed equity securities) in the consolidated balance sheet amount of ¥192 million as of December 31, 2017 and ¥192 million as of December 31, 2016 were not included because they had no quoted market price, the future cash flows were not estimable and the fair values were unavailable. Proceeds from the sale of available-for-sale securities amounted to ¥1,965 million for the year ended December 31, 2017 and ¥15 million for the year ended December 31, 2016, and the related gains amounted to ¥1,124 million for the year ended December 31, 2017 and ¥3 million for the year ended December 31, 2016.

When the fair value of securities at the fiscal year end is lower than acquisition cost by 50% or more, the whole amount of such difference is recorded as impairment loss, in principle. When the fair value at the fiscal year end is lower than acquisition cost by between 30% and 50%, impairment loss in an amount deemed necessary is recorded after determining recoverability by considering quoted market price transactions during a certain past period, business performance and other factors.

The amount of available-for-sale securities impaired for the year ended December 31, 2017 was ¥0 million and no amount for the year ended December 31, 2016.

### *Year ended December 31, 2017*

		<i>Millions of yen</i>		
		Consolidated balance sheet amount	Acquisition cost	Difference
(1) Securities with consolidated balance sheet amount exceeding acquisition cost.....	¥	13,085	¥ 6,128	¥ 6,957
(2) Other .....		-	-	-
Subtotal .....		13,085	6,128	6,957
(1) Securities with consolidated balance sheet amount not exceeding acquisition cost .....		1	1	(0)
(2) Other .....		175	175	-
Subtotal .....		176	176	(0)
Total .....	¥	13,261	¥ 6,304	¥ 6,957

### *Period ended December 31, 2016*

		<i>Millions of yen</i>		
		Consolidated balance sheet amount	Acquisition cost	Difference
(1) Securities with consolidated balance sheet amount exceeding acquisition cost.....	¥	12,464	¥ 6,906	¥ 5,558
(2) Other .....		-	-	-
Subtotal .....		12,464	6,906	5,558
(1) Securities with consolidated balance sheet amount not exceeding acquisition cost .....		36	40	(4)
(2) Other .....		172	172	-
Subtotal .....		208	212	(4)
Total .....	¥	12,672	¥ 7,118	¥ 5,554

## 9. Inventories

Inventories at December 31, 2017 and 2016 consisted of the following:

	<i>Millions of yen</i>	
	2017	2016
Merchandise and finished goods .....	¥ 9,898	¥ 9,408
Work-in-process .....	1,097	1,017
Raw materials and supplies .....	7,642	6,900
	<u>¥ 18,637</u>	<u>¥ 17,325</u>

## 10. Short-term Loans Payable and Long-term Loans Payable

Short-term loans payable at December 31, 2017 and 2016 consisted of short-term notes generally for one year bearing interest ranging from 0.23% to 9.28%.

Long-term loans payable at December 31, 2017 and 2016 consisted of the following:

	<i>Millions of yen</i>	
	2017	2016
Secured:		
Loans principally from banks at		
1.23% - 5.95% maturing through 2023 .....	¥ 494	¥ 741
Unsecured:		
Loans principally from banks at		
0.20% - 7.40% maturing through 2024 .....	9,853	12,034
	<u>10,347</u>	<u>12,775</u>
Less amounts due within one year .....	4,189	6,203
	<u>¥ 6,158</u>	<u>¥ 6,572</u>

The aggregate annual maturities of long-term loans payable at December 31, 2017 were as follows:

<u>Year ending December 31,</u>	<i>Millions of yen</i>
2018 .....	¥ 4,189
2019 .....	1,374
2020 .....	1,771
2021 .....	1,684
2022 and thereafter .....	1,329
	<u>¥ 10,347</u>

The Company has specific commitment lines with two banks to finance working capital as follows:

Specific commitment lines .....	¥ 3,000 million
Used portion as of December 31, 2017 .....	¥ -

## 11. Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Notes and accounts receivable - trade .....	¥ 8	¥ 9
Land .....	173	174
Buildings and structures, net of accumulated depreciation .....	1,132	1,163
Machinery, equipment and vehicles,		
net of accumulated depreciation .....	7	10
Investments in other .....	79	51
	<u>¥ 1,399</u>	<u>¥ 1,407</u>

Liabilities secured by the above assets were as follows:

	<i>Millions of yen</i>	
	2017	2016
Short-term loans payable.....	¥ 8	¥ 9
Current portion of long-term loans payable .....	158	148
Notes and accounts payable - trade.....	209	203
Other current liabilities.....	3	3
Long-term loans payable.....	420	585
Other noncurrent liabilities .....	4	6
	<u>¥ 802</u>	<u>¥ 954</u>

## 12. Finance Leases

1. Non-capitalized finance leases of the Companies at December 31, 2017 and 2016 were as follows:

(As lessee)

(1) Acquisition cost, accumulated depreciation and book value of leased properties, including interest:

	<i>Millions of yen</i>	
	2017	2016
Machinery, equipment and vehicles:		
Acquisition cost .....	¥ -	¥ 343
Accumulated depreciation .....	-	343
Book value.....	<u>¥ -</u>	<u>¥ -</u>

(2) Lease payments and equivalent depreciation amounts

Lease payments under the above leases for the year ended December 31, 2016 were ¥17 million.

(3) Depreciation method for lease equivalents

Accumulated depreciation of lease assets under non-capitalized finance lease transactions is computed using the straight-line method with the lease period used as the useful life and no residual value.

2. Capitalized finance leases of the Companies at December 31, 2017 and 2016 were as follows:

(As lessee)

Finance leases for which the ownership of the lease assets was not considered to be transferred to the lessee as of and for the year ended December 31, 2017 and 2016 were as follows:

(1) Description of leased assets

Tangible fixed assets:

Mainly, the production facilities in the printing ink business (machinery and equipment) for common purposes or each business.

(2) Depreciation method for leased assets

As described in Note 2, "Significant Accounting Policies - Finance leases."

### 13. Derivative Transactions

#### 1. Derivative transactions to which hedge accounting has not been applied

Interest related

**Year ended December 31, 2017**

Not applicable

**Year ended December 31, 2016**

(Millions of yen)

Category	Hedging instruments	Contract amount		Fair value (*)	Gain (loss) on evaluation
			Over 1 year		
Transactions except market transactions	Interest rate swap contracts Pay fixed, Receive variable	¥ 29	¥ -	¥ (0)	¥ (0)

(\*) The fair values of derivative transactions are determined at the quoted price obtained from the relevant financial institutions.

#### 2. Derivative transactions to which hedge accounting has been applied

Currency related

**Year ended December 31, 2017**

(Millions of yen)

Hedge accounting	Hedging instruments	Hedged items	Contract amount		Fair value
				Over 1 year	
Hedging transactions	Currency swap contracts	Long-term loans payable	¥ 89	¥ -	¥ 6

(\*) The fair values of derivative transactions are determined at the quoted prices obtained from the relevant financial institutions.

**Year ended December 31, 2016**

(Millions of yen)

Hedge accounting	Hedging instruments	Hedged items	Contract amount		Fair value
				Over 1 year	
Hedging transactions	Currency swap contracts	Long-term loans payable	¥ 258	¥ 86	¥ 32

(\*) The fair values of derivative transactions are determined at the quoted prices obtained from the relevant financial institutions.

## 14. Retirement Benefits

### 1. Outline of adopted retirement benefit plans

The Company and certain domestic consolidated subsidiaries provide funded non-contributory pension plans, which include defined benefit pension plans and unfunded lump-sum payment plans. Certain foreign consolidated subsidiaries provide defined contribution plans as well as defined benefit pension plans.

### 2. Defined benefit plans, including plans applying the simplified method

#### (1) Movement in retirement benefit obligations

	<i>Millions of yen</i>	
	2017	2016
Balance at the beginning of current period .....	¥ 12,706	¥ 11,118
Service cost (*) .....	513	426
Interest cost .....	86	150
Actuarial loss (gain) .....	103	1,436
Benefits paid .....	(480)	(436)
Other .....	19	12
Balance at the end of current period .....	¥ 12,947	¥ 12,706

(\*) Service cost includes retirement benefit costs of consolidated subsidiaries applying the simplified method.

#### (2) Movement in plan assets

	<i>Millions of yen</i>	
	2017	2016
Balance at the beginning of current period .....	¥ 7,445	¥ 7,219
Expected return on plan assets .....	167	226
Actuarial loss (gain) .....	144	(174)
Contributions paid by the employer .....	485	469
Benefits paid .....	(331)	(288)
Other .....	11	(7)
Balance at the end of current period .....	¥ 7,921	¥ 7,445

#### (3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	<i>Millions of yen</i>	
	2017	2016
Funded retirement benefit obligations .....	¥ 8,386	¥ 8,324
Plan assets .....	(7,921)	(7,445)
Total .....	465	879
Unfunded retirement benefit obligations .....	4,561	4,382
Total net liability (asset) for retirement benefits at the end of current period .....	¥ 5,026	¥ 5,261
Net defined benefit liability .....	5,026	5,261
Net defined benefit asset .....	-	-
Total net liability (asset) for retirement benefits at the end of current period .....	¥ 5,026	¥ 5,261

(4) Retirement benefit costs

	<i>Millions of yen</i>	
	2017	2016
Service cost (*)	¥ 513	¥ 426
Interest cost	86	150
Expected return on plan assets	(167)	(226)
Net actuarial loss amortization	182	291
Other	9	11
Total retirement benefit costs for defined benefit plans	¥ 623	¥ 652

(\*) Service cost includes retirement benefit costs of consolidated subsidiaries applying simplified method.

(5) Remeasurements of defined benefit plans

	<i>Millions of yen</i>	
	2017	2016
Actuarial gains and losses	227	(1,310)
Total	¥ 227	¥ (1,310)

(6) Accumulated remeasurements of defined benefit plans

	<i>Millions of yen</i>	
	2017	2016
Actuarial gains and losses that are yet to be recognized	2,013	2,240
Total	¥ 2,013	¥ 2,240

(7) Plan assets

	2017	2016
(a) Plan assets comprise:		
Bonds	53.3 %	61.8 %
Equity securities	11.5	14.5
Alternative Assets (*)	22.6	14.3
Other	12.6	9.4
Total	100.0 %	100.0 %

(\*) Alternative is investment mainly for multi-asset investment fund.

(b) Long-term expected rate of return

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

(8) Actuarial assumptions

	2017	2016
The principal actuarial assumptions were as follows:		
Discount rate	Mainly 0.30%	Mainly 0.30%
Long-term expected rate of return	Mainly 2.00%	Mainly 3.00%
Expected rate of pay raises	Mainly 2.86%	Mainly 2.86%

3. Defined contribution plan

	<i>Millions of yen</i>	
	2017	2016
Accrued contribution by consolidated subsidiaries	¥ 587	¥ 853



## 15. Deferred Income Taxes

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Deferred tax assets:		
Allowance for doubtful accounts.....	¥ 196	¥ 215
Provision for bonuses.....	177	169
Net defined benefit liability.....	1,897	2,146
Write-down of inventories.....	101	110
Intangible assets.....	127	218
Tax loss carryovers.....	740	812
Other.....	807	889
Subtotal.....	4,045	4,559
Valuation allowance.....	(917)	(958)
Total deferred tax assets.....	3,128	3,601
Deferred tax liabilities:		
Valuation difference on available-for-sale securities.....	(2,116)	(1,684)
Special reserves.....	(1,102)	(971)
Reserve for special account for advanced depreciation of non-current assets.....	-	(114)
Retained earnings of subsidiaries and affiliated companies.....	(3,092)	(2,737)
Other.....	(914)	(1,311)
Total deferred tax liabilities.....	(7,224)	(6,817)
Net deferred tax assets (liabilities).....	¥ (4,096)	¥ (3,216)

The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Statutory tax rate of the Company.....	30.8%	33.0%
(Reconciliation)		
Expenses not qualifying for deduction.....	0.9	1.4
Revenues not in gross revenue.....	(2.7)	(1.9)
Tax credits.....	(2.6)	(2.5)
Equity in earnings of affiliates.....	(4.4)	(4.5)
Elimination of dividend income.....	3.0	2.4
Valuation allowance.....	(0.2)	0.4
Retained earnings of foreign subsidiaries.....	2.9	3.1
Difference in the effective tax rates of foreign subsidiaries.....	(1.0)	(1.4)
Effect of changes in income tax rate.....	-	(0.6)
Effect of enactment of tax reform in the U.S.....	0.5	-
Other.....	0.9	1.5
Effective tax rate after adoption of tax effect accounting.....	28.1%	30.9%

## 16. Contingent Liabilities

At December 31, 2017 and 2016, the Companies were contingently liable as follows:

	<i>Millions of yen</i>	
	2017	2016
ETERNAL SAKATA INX CO., LTD. ....	¥ 216	¥ 267
Other .....	215	233
Total .....	¥ 431	¥ 500

The Company provides letters of awareness to banks for bank loans of unconsolidated subsidiaries and affiliated companies, and the Company also provides guarantees of indebtedness for leases of unconsolidated subsidiaries and affiliated companies. The guarantee obligations include amounts guaranteed by other parties, and those amounts are excluded from the amounts stated above.

The amounts guaranteed by other parties were as follows:

	<i>Millions of yen</i>	
	2017	2016
	¥ 13	¥ 17

## 17. Selling, General and Administrative Expenses

The main items of selling, general and administrative expenses for the year ended December 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Freightage and packing expenses .....	¥ 4,783	¥ 4,604
Salaries and allowances .....	9,195	8,939
Depreciation .....	861	833
Provision of allowance for doubtful accounts .....	328	40
Provision for bonuses .....	355	328
Retirement benefit expenses .....	674	926
Research and development expenses .....	3,219	3,108

## 18. Impairment Loss

*Year ended December 31, 2017*

Not applicable

*Year ended December 31, 2016*

Impairment loss recognized for the year ended December 31, 2016 was as follows:

Location	Purpose of use	Type	Amount (Millions of yen)
Shiga, Japan	Manufacturing equipment	Machinery	¥ 236

The business assets of the Companies are generally grouped based on business segments while the assets of a part of consolidated subsidiaries are grouped based on each company.

The assets above were treated as idle assets due to changes in market conditions and their full book value was recognized as impairment loss since the original expected return from the investment became unlikely.

The recoverable value of the assets was calculated based on value in use and was assessed as zero because the assets were not expected to generate cash flow in the future.

## 19. Loss on Retirement of Property, Plant and Equipment

The details of loss on retirement of property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Buildings and structures.....	¥ 20	¥ 12
Machinery, equipment and vehicles .....	2	0
Other fixed assets .....	0	0
Demolition and removal expenses .....	48	106
Total.....	¥ 70	¥ 118

## 20. Consolidated Statements of Comprehensive Income

The reclassification adjustment and the tax benefit concerning other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Valuation difference on available-for-sale securities		
Amount arising during the period .....	¥ 2,527	¥ 932
Reclassification adjustment included in net income .....	(1,124)	(3)
Pre-tax amount .....	1,403	929
Tax benefit .....	(432)	(211)
Valuation difference on available-for-sale securities .....	971	718
Deferred gains or losses on hedges		
Amount arising during the period .....	2	(1)
Pre-tax amount .....	2	(1)
Tax benefit .....	(1)	0
Deferred gains or losses on hedges .....	1	(1)
Foreign currency translation adjustment		
Amount arising during the period .....	(247)	(1,468)
Remeasurements of defined benefit plans		
Amount arising during the period .....	35	(1,501)
Reclassification adjustment included in net income .....	193	191
Pre-tax amount .....	228	(1,310)
Tax benefit .....	(71)	360
Remeasurements of defined benefit plans .....	157	(950)
Share of other comprehensive income of affiliates accounted for using equity method		
Amount arising during the period.....	166	(401)
Reclassification adjustment included in net income .....	8	(2)
Share of other comprehensive income of affiliates accounted for using equity method.....	174	(403)
Total other comprehensive income .....	¥ 1,056	¥ (2,104)

## 21. Supplementary Cash Flow Information

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of December 31, 2017 and 2016 were as follows:

	<i>Millions of yen</i>	
	2017	2016
Cash and deposits .....	¥ 10,002	¥ 9,297
Time deposits with original maturity of more than three months .....	(651)	-
Cash and cash equivalents .....	¥ 9,351	¥ 9,297

## 22. Segment Information

### 1. Overview of reportable segments

The Companies' reportable segments are components of the Companies for which separate financial information is obtainable and which the Board of Directors and Management Committee regularly consider in order to determine the allocation of business resources and evaluate business performance. The Companies are engaged mainly in the manufacture and sale of printing inks. Multiple divisions of the Company are engaged in the domestic market, and the foreign subsidiaries are engaged in their own respective overseas markets, such as markets of Asia, North America and Europe.

Foreign subsidiaries that have independent management units establish their own comprehensive strategies and develop business activities in their respective regions and surrounding areas. Besides the sale of printing inks, the Company purchases and sells graphic arts materials in the domestic market. In addition, the Company purchases and sells printing equipment in the domestic market.

The digital & specialty products business such as inkjet ink, toner, pigment dispersion and others developed through the basic technology of printing inks like pigment dispersion make up various independent operational segments. The Companies focus on expanding the revenue base of the digital & specialty products business led by the Company.

Therefore, the Companies' printing inks business, our core business, comprises the geographic segments based on the production and sales structure. The Companies' printing inks business consists of the four reportable segments of "Printing inks and graphic arts materials (Japan)," "Printing inks (Asia)," "Printing inks (North America)" and "Printing inks (Europe)." Furthermore, the "Digital & Specialty products" business, in which the Companies promote business expansion, constitutes another reportable segment for a total of five reportable segments.

<i>Reportable segment</i>	<i>Main products and merchandise</i>
Printing inks and graphic arts materials (Japan)	News paper printing ink, Commercial printing ink, Packaging ink, Flexible packaging gravure ink, Print and plate making equipment and materials, Packaging equipment and supplies
Printing inks (Asia)	News paper printing ink, Commercial printing ink, Metal decorating ink, Packaging ink, Flexible packing gravure ink
Printing inks (North America)	Commercial ink, Metal decorating ink, Packaging ink, Flexible packaging gravure ink
Printing inks (Europe)	Commercial ink, Metal decorating ink, Packaging ink, Flexible packaging gravure ink
Digital & Specialty products	Inkjet ink, Toner, Pigment dispersion for color filter, Functional coating

### 2. Basis of measurement for reported segment sales, income or loss, assets and other items

The accounting policies of the reportable segments are essentially the same as those described in Note 2, "Significant Accounting Policies."

Segment income or loss is stated on an operating income basis. Intersegment income and transfers are based on the prevailing markets prices.

### 3. Information about reported segment sales, segment income or loss, segment assets and other items

Year ended

December 31, 2017

Millions of yen

	Reportable Segment						Other businesses (*1)	Total	Adjustments (*2)	Consolidated (*3)
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (North America)	Printing inks (Europe)	Digital & Specialty products	Total				
Net sales to outside customers	¥54,960	¥30,191	¥42,218	¥8,740	¥11,241	¥147,350	¥9,953	¥157,303	¥ -	¥157,303
Intersegment sales and transfers	25	55	1,342	38	95	1,555	5,838	7,393	(7,393)	-
Total	54,985	30,246	43,560	8,778	11,336	148,905	15,791	164,696	(7,393)	157,303
Segment income	¥2,253	¥2,347	¥1,830	¥26	¥1,140	¥7,596	¥351	¥7,947	¥626	¥8,573
Segment assets	41,000	27,308	23,544	9,014	10,295	111,161	5,585	116,746	28,744	145,490
Depreciation	1,221	551	837	239	722	3,570	133	3,703	-	3,703
Amortization of goodwill	-	-	-	-	-	-	-	-	-	-
Increase in property, plant and equipment and intangible assets	2,138	704	1,096	179	652	4,769	51	4,820	-	4,820

(\*1) The “Other businesses” category includes the chemical products business, color film developing and printing services and equipment for color matching systems not shown in reportable segments.

(\*2) Adjustments are as follows:

1. The adjustment of ¥626 million for segment income includes eliminations for intersegment transactions of ¥828 million and corporate expenses of ¥(202) million that have not been allocated to any segment. Corporate expenses are mainly service fees to unconsolidated subsidiaries and affiliates.
2. The adjustment of ¥28,744 million for segment assets includes eliminations for intersegment transactions of ¥(2,349) million and corporate assets of ¥31,093 million that have not been allocated to any segment. Corporate assets are mainly investment securities held for a common purpose.

(\*3) Segment income is adjusted to be consistent with operating income shown on the consolidated statements of income.

Year ended

December 31, 2016

Millions of yen

	Reportable Segment						Other businesses (*1)	Total	Adjustments (*2)	Consolidated (*3)
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (North America)	Printing inks (Europe)	Digital & Specialty products	Total				
Net sales to outside customers	¥55,091	¥28,257	¥40,586	¥7,740	¥10,068	¥141,742	¥9,457	¥151,199	¥ -	¥151,199
Intersegment sales and transfers	23	51	1,458	78	95	1,705	5,712	7,417	(7,417)	-
Total	55,114	28,308	42,044	7,818	10,163	143,447	15,169	158,616	(7,417)	151,199
Segment income	¥2,516	¥3,170	¥2,219	¥219	¥925	¥9,049	¥420	¥9,469	¥650	¥10,119
Segment assets	39,829	25,263	24,437	6,782	9,998	106,309	4,783	111,092	26,920	138,012
Depreciation	1,166	517	789	217	730	3,419	76	3,495	-	3,495
Amortization of goodwill	-	26	-	-	-	26	-	26	-	26
Increase in property, plant and equipment and intangible assets	1,006	585	1,222	209	379	3,401	195	3,596	-	3,596

(\*1) The “Other businesses” category includes the chemical products business, color film developing and printing services and equipment for color matching systems not shown in reportable segments.

(\*2) Adjustments are as follows:

1. The adjustment of ¥650 million for segment income includes eliminations for intersegment transactions of ¥839 million and corporate expenses of ¥(189) million that have not been allocated to any segment. Corporate expenses are mainly service fees to unconsolidated subsidiaries and affiliates.
2. The adjustment of ¥26,920 million for segment assets includes eliminations for intersegment transactions of ¥(2,278) million and corporate assets of ¥29,198 million that have not been allocated to any segment. Corporate assets are mainly investment securities held for a common purpose.

(\*3) Segment income is adjusted to be consistent with operating income shown on the consolidated statements of income.

(Related Information)

***Year ended December 31, 2017***

1. Information about each product and service

<i>Year ended December 31, 2017</i>	<i>Millions of yen</i>				
	Printing inks	Graphic arts materials	Digital & Specialty products	Other	Total
Net sales to outside customers	¥ 120,797	¥ 15,423	¥ 11,241	¥ 9,842	¥ 157,303

2. Information about geographic areas

<i>Year ended December 31, 2017</i>	<i>Millions of yen</i>										
	Japan		Asia		America		Europe		Other		Total
Net sales	¥	67,456	¥	32,912	¥	38,609	¥	10,373	¥	7,953	¥ 157,303
Property, plant and equipment	¥	21,882	¥	5,279	¥	7,139	¥	2,721	¥	12	¥ 37,033

Note: Net sales are classified by country and region based on customer location.

3. Major customers

No information is available as there were no outside customers accounting for 10% or more of the Companies' total net sales.

(Loss on impairment of fixed assets by reportable segments)

Not applicable

(Amortization and unamortized balance of goodwill)

Not applicable

(Negative goodwill in other income by reportable segments)

Not applicable

**Year ended December 31, 2016**

1. Information about each product and service

<i>Year ended December 31, 2016</i>	<i>Millions of yen</i>					
	Printing inks	Graphic arts materials	Digital & Specialty products	Other	Total	
Net sales to outside customers	¥ 115,806	¥ 15,953	¥ 10,068	¥ 9,372	¥ 151,199	

2. Information about geographic areas

<i>Year ended December 31, 2016</i>	<i>Millions of yen</i>					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 67,004	¥ 30,157	¥ 37,137	¥ 9,186	¥ 7,715	¥ 151,199
Property, plant and equipment	¥ 21,132	¥ 5,219	¥ 6,920	¥ 2,565	¥ 17	¥ 35,853

Note: Net sales are classified by country and region based on customer location.

3. Major customers

No information is available as there were no outside customers accounting for 10% or more of the Companies' total net sales.

(Loss on impairment of fixed assets by reportable segments)

<i>Year ended December 31, 2016</i>	<i>Millions of yen</i>								
	Reportable Segment					Total	Other businesses	Adjustments	Consolidated
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (North America)	Printing inks (Europe)	Digital & Specialty products				
Impairment loss	¥ -	¥ -	¥ -	¥ -	¥ 236	¥ 236	¥ -	¥ -	¥ 236

(Amortization and unamortized balance of goodwill)

<i>Year ended December 31, 2016</i>	<i>Millions of yen</i>								
	Reportable Segment					Total	Other businesses	Adjustments	Consolidated
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (North America)	Printing inks (Europe)	Digital & Specialty products				
Amortization of goodwill	¥ -	¥ 26	¥ -	¥ -	¥ -	¥ 26	¥ -	¥ -	¥ 26
Balance as of December 31, 2016	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

(Negative goodwill in other income by reportable segments)

Not applicable



## 23. Related Party Transactions

Transactions with related parties for the years ended December 31, 2017 and 2016 were as follows:

### *Year ended December 31, 2017*

Attribute	Name	Location	Capital stock (Millions of RMB)	Operations or occupation	Holding equity (%)	Relationship	Transaction details	Transaction amount (Millions of yen)	Account	Balance at year end (Millions of yen)
Affiliate	SHENZHEN SAKATA INX CO., LTD.	Shenzhen, China	2	Printing ink	Direct 25.0	Sales of finished goods	Sales of finished goods	¥ 2,492	Notes and accounts receivable - trade	¥ 2,031
									Investments and other assets: Other	¥ 249

Note 1: The trade terms of the above transactions were determined using the same methods as those for third-party transactions.

Note 2: The amount of ¥249 million was accounted for as allowance for doubtful accounts to cover possible losses on collection from SHENZHEN SAKATA INX CO., LTD., and the amount of reversal of allowance for doubtful accounts for the year ended December 31, 2017 was ¥64 million.

### *Year ended December 31, 2016*

Attribute	Name	Location	Capital stock (Millions of RMB)	Operations or occupation	Holding equity (%)	Relationship	Transaction details	Transaction amount (Millions of yen)	Account	Balance at year end (Millions of yen)
Affiliate	SHENZHEN SAKATA INX CO., LTD.	Shenzhen, China	2	Printing ink	Direct 25.0	Sales of finished goods	Sales of finished goods	¥ 2,595	Notes and accounts receivable - trade	¥ 2,116
									Investments and other assets: Other	¥ 293

Note 1: The trade terms of the above transactions were determined using the same methods as those for third-party transactions.

Note 2: The amount of ¥293 million was accounted for as allowance for doubtful accounts to cover possible losses on collection from SHENZHEN SAKATA INX CO., LTD., and the amount of provision of allowance for doubtful accounts for the year ended December 31, 2016 was ¥10 million.

## 24. Changes in Net Assets

### 1. Shares issued and treasury shares

#### *Year ended December 31, 2017*

Type	Number of shares as of the beginning of current period	Increase in number of shares during the period	Decrease in number of shares during the period	Number of shares as of the end of current period
Shares issued: Common stock	62,601,161	-	-	62,601,161
Treasury shares: Common stock	2,093,210	2,108,272	-	4,201,482

Note: The increase in the number of treasury shares of 2,108,272 shares consists of the increase of 2,108,000 shares due to the purchase based on the resolution at the Board of Directors and the increase of 272 shares due to the purchase of fractional shares.

#### *Year ended December 31, 2016*

Type	Number of shares as of the beginning of current period	Increase in number of shares during the period	Decrease in number of shares during the period	Number of shares as of the end of current period
Shares issued: Common stock	62,601,161	-	-	62,601,161
Treasury shares: Common stock	2,093,007	253	50	2,093,210

Note: The increase in the number of treasury shares was due to the purchase of fractional shares.

The decrease in the number of shares of treasury shares was to meet the demand for buying fractional shares.

### 2. Dividends

#### *Dividends paid in the year ended December 31, 2017*

Date of resolution	Type of shares	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 29, 2017	Common stock	¥ 908	¥ 15	December 31, 2016	March 30, 2017
Directors' meeting held on August 10, 2017	Common stock	¥ 817	¥ 14	June 30, 2017	September 4, 2017

#### *Dividends paid in the year ended December 31, 2016*

Date of resolution	Type of shares	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 29, 2016	Common stock	¥ 726	¥ 12	December 31, 2015	March 30, 2016
Directors' meeting held on August 10, 2016	Common stock	¥ 787	¥ 13	June 30, 2016	September 2, 2016

Dividends with a record date attributable to the year ended December 31, 2017 but an effective date after December 31, 2017

Date of resolution	Type of shares	Source of dividends	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 28, 2018	Common stock	Retained earnings	¥ 934	¥ 16	December 31, 2017	March 29, 2018

Dividends with a record date attributable to the year ended December 31, 2016 but an effective date after December 31, 2016

Date of resolution	Type of shares	Source of dividends	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 29, 2017	Common stock	Retained earnings	¥ 908	¥ 15	December 31, 2016	March 30, 2017

## 25. Information on Significant Affiliates

A summary of the financial statements of SIIX Corporation, a significant affiliate, is as follows:

### Summarized balance sheets as of December 31, 2017 and 2016

	<i>Millions of yen</i>	
	2017	2016
Current assets.....	¥ 96,478	¥ 82,164
Non-current assets .....	¥ 34,048	¥ 27,531
Current liabilities.....	¥ 56,550	¥ 46,605
Non-current liabilities .....	¥ 16,367	¥ 11,516
Net assets .....	¥ 57,609	¥ 51,574

### Summarized statements of income for the years ended December 31, 2017 and 2016

	<i>Millions of yen</i>	
	2017	2016
Net sales.....	¥ 233,153	¥ 212,769
Income before income taxes.....	¥ 10,254	¥ 9,205
Net income attributable to owners of parent.....	¥ 7,093	¥ 6,698

## 26. Amounts Per Share

	<i>Yen</i>	
	2017	2016
Net assets per share .....	¥ 1,295.39	¥ 1,179.38
Dividends per share .....	¥ 30.00	¥ 28.00
Net income per share .....	¥ 142.76	¥ 129.53

Note 1: There were no dilutive securities.

Note 2: The calculation of net income per share was as follows:

	2017	2016
Net income attributable to owners of parent (millions of yen) .....	¥ 8,384	¥ 7,838
Net income attributable to owners of parent of common stock (millions of yen) .....	¥ 8,384	¥ 7,838
Average number of shares of common stock during the fiscal year (thousands) .....	58,724	60,508