



SAKATA INX CORPORATION

Consolidated Financial Statements

As of December 31, 2018 and 2017



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, 2018 and 2017, 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, 2018 and 2017, 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 19, 2019
Osaka, Japan

SAKATA INX CORPORATION
CONSOLIDATED BALANCE SHEETS
Years ended December 31, 2018 and 2017

		<i>Millions of yen</i>	
		2018	2017
ASSETS			
Current assets:			
Cash and deposits (Note 6)	¥	7,194	¥ 10,002
Notes and accounts receivable - trade (Notes 5, 6 and 10):			
Unconsolidated subsidiaries and affiliates		2,876	2,546
Other		43,631	42,553
		46,507	45,099
Inventories (Note 8)		20,159	18,637
Deferred tax assets (Note 14)		457	613
Other		2,378	2,244
Allowance for doubtful accounts		(453)	(396)
Total current assets		76,242	76,199
 Property, plant and equipment (Notes 4, 10 and 11):			
Buildings and structures		32,990	31,906
Machinery, equipment and vehicles		45,590	43,267
Land		9,005	8,983
Lease assets		1,460	1,394
Construction in progress		913	919
Other		2,761	2,820
		92,719	89,289
Accumulated depreciation		(53,787)	(52,256)
Net property, plant and equipment		38,932	37,033
 Investments and other assets:			
Investments (Notes 5, 6, 7 and 10):			
Unconsolidated subsidiaries and affiliates		15,059	14,504
Other		11,445	14,704
		26,504	29,208
Long-term loans receivable		1,491	952
Deferred tax assets (Note 14)		178	212
Other		2,182	1,498
Allowance for doubtful accounts		(262)	(464)
Total investments and other assets		30,093	31,406
 Intangible assets:			
Other		590	852
Total intangible assets		590	852
	¥	145,857	¥ 145,490

The accompanying notes are an integral part of these statements.

		<i>Millions of yen</i>	
		2018	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable - trade (Notes 5, 6 and 10):			
Unconsolidated subsidiaries and affiliates	¥	6	¥ 0
Electronically recorded obligations - operating		13,815	-
Other		17,983	29,332
		31,804	29,332
Short-term loans payable (Notes 6, 9 and 10)		9,060	5,343
Current portion of long-term loans payable (Notes 6, 9 and 10)		1,358	4,189
Lease obligations		225	214
Accrued expenses		3,182	3,623
Income taxes payable		180	994
Provision for bonuses		554	647
Other (Note 10)		2,870	3,626
Total current liabilities		49,233	47,968
Non-current liabilities:			
Long-term loans payable (Notes 6, 9, 10 and 12)		7,332	6,158
Lease obligations		349	328
Deferred tax liabilities (Note 14)		4,250	4,922
Net defined benefit liability (Note 13)		4,968	5,026
Asset retirement obligations		73	72
Other (Note 10)		2,254	2,249
Total non-current liabilities		19,226	18,755
Total liabilities	¥	68,459	¥ 66,723
Contingent liabilities (Note 15)			
Net Assets (Note 22):			
Shareholders' equity			
Capital stock:			
Authorized – 144,000,000 shares			
Issued – 62,601,161 shares	¥	7,473	¥ 7,473
Capital surplus		5,673	5,673
Retained earnings		68,430	65,638
Treasury shares, at cost – 4,201,943 shares in December 2018 and 4,201,482 shares in December 2017		(4,047)	(4,046)
Total shareholders' equity		77,529	74,738
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities		2,714	4,957
Deferred gains or losses on hedges		5	2
Foreign currency translation adjustment		(4,550)	(2,612)
Remeasurements of defined benefit plans		(1,390)	(1,435)
Total accumulated other comprehensive income		(3,221)	912
Non-controlling interests		3,090	3,117
Total net assets		77,398	78,767
	¥	145,857	¥ 145,490

The accompanying notes are an integral part of these statements.

SAKATA INX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2018 and 2017

	<i>Millions of yen</i>			
	2018		2017	
Net sales	¥	162,056	¥	157,303
Cost of sales		128,824		120,371
Selling, general and administrative expenses (Note 16)		28,120		28,359
Operating income		5,112		8,573
Other income (expenses):				
Interest and dividend income		370		378
Real estate rent		204		198
Equity in earnings of affiliates		1,573		1,784
Interest expenses		(267)		(247)
Foreign exchange gains and losses		(240)		390
Gain on sales of investment securities (Notes 6 and 7)		-		1,124
Subsidy income		100		100
Insurance income		186		200
Loss on disaster		-		(175)
Loss on retirement of property, plant and equipment (Note 17)		(71)		(70)
Loss on valuation of investment securities (Notes 6 and 7)		-		(0)
Plant transfer expenses		-		(72)
Other, net		158		174
Income before income taxes		7,125		12,357
Income taxes:				
Current		1,731		3,092
Deferred (Note 14)		424		375
		2,155		3,467
Net income		4,970		8,890
Net income attributable to non-controlling interests		(277)		(506)
Net income attributable to owners of parent	¥	4,693	¥	8,384
	<i>Yen</i>			
Net income per share of capital stock (Note 24)	¥	80.36	¥	142.76
Cash dividends per share applicable to the year (Note 24)	¥	30.00	¥	30.00

The accompanying notes are an integral part of these statements.

SAKATA INX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2018 and 2017

	<i>Millions of yen</i>	
	2018	2017
Net income	¥ 4,970	¥ 8,890
Other comprehensive income (Note 18):		
Valuation difference on available-for-sale securities.....	(2,136)	971
Deferred gains or losses on hedges.....	0	1
Foreign currency translation adjustment.....	(1,595)	(247)
Remeasurements of defined benefit plans, net of tax.....	64	157
Share of other comprehensive income of affiliates accounted for using equity method.....	(546)	174
Total other comprehensive income.....	(4,213)	1,056
Comprehensive income	<u>¥ 757</u>	<u>¥ 9,946</u>
Comprehensive income attributable to:		
Owners of parent.....	¥ 560	¥ 9,490
Non-controlling interests.....	¥ 197	¥ 456

The accompanying notes are an integral part of these statements.

SAKATA INX CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
Year ended December 31, 2018

	<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>
Balance at the beginning of current period	62,601,161	¥ 7,473	¥ 5,673	¥ 65,638	¥ (4,046)	¥ 74,738
Dividends of surplus (¥31.0 per share)	-	-	-	(1,810)	-	(1,810)
Net income attributable to owners of parent	-	-	-	4,693	-	4,693
Purchase of treasury shares	-	-	-	-	(1)	(1)
Change in scope of consolidation in affiliates accounted for using equity method	-	-	-	(91)	-	(91)
Net changes in items other than shareholders' equity	-	-	-	-	-	-
Total changes in items during the period	-	-	-	2,792	(1)	2,791
Balance at the end of current period	62,601,161	¥ 7,473	¥ 5,673	¥ 68,430	¥ (4,047)	¥ 77,529

	Millions of yen							
	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets	
Balance at the beginning of current period	¥ 4,957	¥ 2	¥ (2,612)	¥ (1,435)	¥ 912	¥ 3,117	¥ 78,767	
Dividends of surplus (¥31.0 per share).....	-	-	-	-	-	-	(1,810)	
Net income attributable to owners of parent.....	-	-	-	-	-	-	4,693	
Purchase of treasury shares	-	-	-	-	-	-	(1)	
Change in scope of consolidation in affiliates accounted for using equity method	-	-	-	-	-	-	(91)	
Net changes in items other than shareholders' equity.....	(2,243)	3	(1,938)	45	(4,133)	(27)	(4,160)	
Total changes in items during the period	(2,243)	3	(1,938)	45	(4,133)	(27)	(1,369)	
Balance at the end of current period	¥ 2,714	¥ 5	¥ (4,550)	¥ (1,390)	¥ (3,221)	¥ 3,090	¥ 77,398	

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>	
Balance at the beginning of current period	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 in scope of consolidation in affiliates accounted for using equity method	-	-	-	(74)	-	(74)	
Net changes in items other than shareholders' equity	-	-	-	-	-	-	
Total changes in items during the period	-	-	-	6,585	(3,403)	3,182	
Balance at the end of current period	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>
Balance at the beginning of current period	¥ 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 in scope of consolidation in affiliates accounted for using equity method	-	-	-	-	-	-	(74)
Net changes in items other than shareholders' equity	930	3	3	170	1,106	165	1,271
Total changes in items during the period	930	3	3	170	1,106	165	4,453
Balance at the end of current period	¥ 4,957	¥ 2	¥ (2,612)	¥ (1,435)	¥ 912	¥ 3,117	¥ 78,767

The accompanying notes are an integral part of these statements.

SAKATA INX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017

	<i>Millions of yen</i>	
	2018	2017
Cash flows from operating activities:		
Income before income taxes	¥ 7,125	¥ 12,357
Depreciation and amortization	4,037	3,703
Increase (decrease) in allowance for doubtful accounts	(115)	(145)
Increase (decrease) in net defined benefit liability	202	145
Increase (decrease) in provision for bonuses	(89)	15
Interest and dividend income	(370)	(378)
Interest expenses	267	247
Equity in (earnings) losses of affiliates	(1,573)	(1,784)
Loss on retirement of property, plant and equipment	71	70
Loss (gain) on sales of investment securities	-	(1,124)
Loss (gain) on valuation of investment securities	-	0
Subsidy income	(100)	(100)
Insurance income	(186)	(200)
Loss on disaster	-	175
Plant transfer expenses	-	72
Decrease (increase) in notes and accounts receivable - trade	(2,161)	(1,609)
Decrease (increase) in inventories	(1,940)	(1,564)
Increase (decrease) in notes and accounts payable - trade, including electronically recorded obligations - operating	2,794	1,923
Other, net	(738)	(264)
Subtotal	7,224	11,539
Interest and dividend income received	766	729
Interest expenses paid	(264)	(249)
Proceeds from insurance income	238	30
Proceeds from subsidy income	100	150
Income taxes paid	(2,824)	(2,997)
Net cash provided by (used in) operating activities	5,240	9,202
Cash flows from investing activities:		
Purchase of property, plant and equipment	(6,267)	(3,809)
Proceeds from sales of property, plant and equipment	57	29
Purchase of investment securities	(190)	(224)
Proceeds from sales of investment securities	1	1,965
Payments of loans receivable	(602)	(48)
Collection of loans receivable	57	56
Other, net	(335)	(707)
Net cash provided by (used in) investing activities	(7,279)	(2,738)

The accompanying notes are an integral part of these statements.

	<i>Millions of yen</i>	
	2018	2017
Cash flows from financing activities:		
Net increase (decrease) in short-term loans payable	3,727	1,738
Proceeds from long-term loans payable	2,601	3,877
Repayments of long-term loans payable	(4,153)	(6,189)
Purchase of treasury shares	(1)	(3,403)
Cash dividends paid	(1,810)	(1,725)
Dividends paid to non-controlling interests	(223)	(292)
Other, net	(264)	(265)
Net cash provided by (used in) financing activities	(123)	(6,259)
Effect of exchange rate change on cash and cash equivalents	(401)	(151)
Net increase (decrease) in cash and cash equivalents	(2,563)	54
Cash and cash equivalents at beginning of period	9,351	9,297
Cash and cash equivalents at end of period (Note 19)	¥ 6,788	¥ 9,351

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 subsidiaries (twenty-three in 2017). 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 2017). The principal affiliate of the Company was SIIX Corporation.

The consolidated financial statements do not include the accounts of three unconsolidated subsidiaries (three in 2017), 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.

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, 2018 and 2017 were ¥3,311 million and ¥3,219 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, 2017 to conform to the presentation for the year ended December 31, 2018.

3. Accounting 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 dates

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

(3) Effect of application of the standard

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

4. 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, 2018 and 2017.

5. Effect of Bank Holiday

As financial institutions in Japan were closed on both December 31, 2018 and 2017, amounts that would have been settled on December 31 were collected or paid on the first business day in January, 2019 and 2018. The amounts included in Balance sheet as of December 31, 2018 and 2017 were as follows:

	<i>Millions of yen</i>			
	2018		2017	
Notes and accounts receivable - trade.....	¥	868	¥	935
Notes and accounts payable - trade.....		58		518
Electronically recorded obligations - operating.....		1,893		-

6. 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” and “Electronically recorded obligations - operating” 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, 2018 and 2017 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, 2018

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits.....	¥ 7,194	¥ 7,194	¥ -
(2) Notes and accounts receivable - trade.....	46,507	46,507	-
(3) Investments:			
Securities in affiliates.....	13,187	15,461	2,274
Available-for-sale securities	10,033	10,033	-
Total assets.....	¥ 76,921	¥ 79,195	¥ 2,274
(1) Notes and accounts payable - trade.....	¥ 17,989	¥ 17,989	¥ -
(2) Electronically recorded obligations - operating	13,815	13,815	-
(3) Short-term loans payable	9,060	9,060	
(4) Long-term loans payable	8,690	8,672	(18)
Total liabilities.....	¥ 49,554	¥ 49,536	¥ (18)
Derivative transactions (*)	-	-	-

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

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.

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, 2018 and 2017 were as follows:

<i>Year ended December 31, 2018</i>		<i>Millions of yen</i>	
	Consolidated balance sheet amount	Acquisition cost (*)	Difference
(1) Securities with consolidated balance sheet amount exceeding acquisition cost	¥ 23,109	¥ 6,456	¥ 16,653
(2) Other	-	-	-
Subtotal	23,109	6,456	16,653
(1) Securities with consolidated balance sheet amount not exceeding acquisition cost	111	119	(8)
(2) Other	-	-	-
Subtotal	111	119	(8)
Total	¥ 23,220	¥ 6,575	¥ 16,645

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

<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.

Liabilities

(1) Notes and accounts payable - trade, (2) Electronically recorded obligations – operating and (3) Short-term loans payable

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

(4) 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 12, “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 ¥3,284 million as of December 31, 2018 and ¥3,218 million as of December 31, 2017 were not included in “Assets (3) Investments” because they had no quoted market price, future cash flows could not be estimated and the fair values were unavailable.

Note 3: Aggregate annual maturities of money claims and securities with maturities as of December 31, 2018 and 2017 were as follows:

Year ended

December 31, 2018

	<i>Millions of yen</i>			
	2019	2020-2024	2025-2029	2030 and thereafter
Cash and deposits.....	¥ 7,194	¥ -	¥ -	¥ -
Notes and accounts receivable - trade	46,507	-	-	-
Total	¥ 53,701	¥ -	¥ -	¥ -

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	¥ -	¥ -	¥ -

Note 4: Aggregate annual maturities of long-term loans payable as of December 31, 2018 and 2017 were as follows:

Year ended

December 31, 2018

	<i>Millions of yen</i>					
	2019	2020	2021	2022	2023	2024 and thereafter
Long-term loans payable	¥ 1,358	¥ 1,733	¥ 1,674	¥ 3,841	¥ 83	¥ 1

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

7. Securities

The following tables summarize the consolidated balance sheet amount, acquisition cost and fair value of available-for sale securities as of December 31, 2018 and 2017. Available-for-sale securities (non-listed equity securities) in the consolidated balance sheet amount of ¥191 million as of December 31, 2018 and ¥192 million as of December 31, 2017 were not included because they had no quoted market price, the future cash flows could not be estimated and the fair values were unavailable. Proceeds from the sale of available-for-sale securities were ¥1,965 million for the year ended December 31, 2017, and the related gains amounted to ¥1,124 million for the year ended December 31, 2017. A description for the year ended December 31, 2018 was omitted because proceeds from the sale of available-for-sale securities were immaterial.

When the fair value of securities at the fiscal year end is lower than the 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 the 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.

There was no amount of available-for-sale securities impaired for the year ended December 31, 2018 and ¥0 million for the year ended December 31, 2017.

Year ended December 31, 2018

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Acquisition cost	Difference
(1) Securities with consolidated balance sheet amount exceeding acquisition cost.....	¥ 9,922	¥ 6,032	¥ 3,890
(2) Other	-	-	-
Subtotal	9,922	6,032	3,890
(1) Securities with consolidated balance sheet amount not exceeding acquisition cost	111	119	(8)
(2) Other	-	-	-
Subtotal	111	119	(8)
Total	¥ 10,033	¥ 6,151	¥ 3,882

Period 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

8. Inventories

Inventories at December 31, 2018 and 2017 consisted of the following:

		<i>Millions of yen</i>	
		2018	2017
Merchandise and finished goods	¥	9,759	¥ 9,898
Work-in-process		1,220	1,097
Raw materials and supplies		9,180	7,642
	¥	20,159	¥ 18,637

9. Short-term Loans Payable and Long-term Loans Payable

Short-term loans payable at December 31, 2018 and 2017 consisted of short-term notes generally for one year bearing interest ranging from 0.23% to 10.43%.

Long-term loans payable at December 31, 2018 and 2017 consisted of the following:

		<i>Millions of yen</i>	
		2018	2017
Secured:			
Loans principally from banks at 3.65% - 3.65% maturing through 2024	¥	405	¥ 494
Unsecured:			
Loans principally from banks at 0.20% - 4.51% maturing through 2022		8,285	9,853
		8,690	10,347
Less amounts due within one year		1,358	4,189
	¥	7,332	¥ 6,158

The aggregate annual maturities of long-term loans payable at December 31, 2018 were as follows:

<u>Year ending December 31,</u>	<i>Millions of yen</i>	
2019	¥	1,358
2020		1,733
2021		1,674
2022		3,841
2023 and thereafter		84
	¥	8,690

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, 2018	¥ -

10. Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2018 and 2017 were as follows:

		<i>Millions of yen</i>	
		2018	2017
Notes and accounts receivable - trade	¥	8	¥ 8
Land		168	173
Buildings and structures, net of accumulated depreciation		1,051	1,132
Machinery, equipment and vehicles, net of accumulated depreciation		3	7
Investments in other		47	79
	¥	1,277	¥ 1,399

Liabilities secured by the above assets were as follows:

	<i>Millions of yen</i>	
	2018	2017
Short-term loans payable.....	¥ 8	¥ 8
Current portion of long-term loans payable	113	158
Notes and accounts payable - trade.....	228	209
Other current liabilities.....	2	3
Long-term loans payable.....	298	420
Other non-current liabilities	1	4
	<u>¥ 650</u>	<u>¥ 802</u>

11. Finance Leases

Capitalized finance leases of the Companies at December 31, 2018 and 2017 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, 2018 and 2017 were as follows:

(1) Description of lease 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 lease assets

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

12. Derivative Transactions

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

Interest related

Year ended December 31, 2018

Not applicable

Year ended December 31, 2017

Not applicable

2. Derivative transactions to which hedge accounting has been applied

Currency related

Year ended December 31, 2018

Not applicable

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.

13. 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>	
	2018	2017
Balance at the beginning of current period	¥ 12,947	¥ 12,706
Service cost (*)	518	513
Interest cost	89	86
Actuarial loss (gain)	(290)	103
Benefits paid	(555)	(480)
Other	(83)	19
Balance at the end of current period	¥ 12,626	¥ 12,947

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

(2) Movement in plan assets

	<i>Millions of yen</i>	
	2018	2017
Balance at the beginning of current period	¥ 7,921	¥ 7,445
Expected return on plan assets	150	167
Actuarial loss (gain)	(392)	144
Contributions paid by the employer	429	485
Benefits paid	(410)	(331)
Other	(41)	11
Balance at the end of current period	¥ 7,657	¥ 7,921

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

	<i>Millions of yen</i>	
	2018	2017
Funded retirement benefit obligations	¥ 8,057	¥ 8,386
Plan assets	(7,657)	(7,921)
Total	400	465
Unfunded retirement benefit obligations	4,568	4,561
Total net liability (asset) for retirement benefits at the end of current period	¥ 4,968	¥ 5,026
Net defined benefit liability	4,968	5,026
Net defined benefit asset	-	-
Total net liability (asset) for retirement benefits at the end of current period	¥ 4,968	¥ 5,026

(4) Retirement benefit costs

	<i>Millions of yen</i>	
	2018	2017
Service cost (*).....	¥ 518	¥ 513
Interest cost.....	89	86
Expected return on plan assets.....	(150)	(167)
Net actuarial loss amortization.....	178	182
Other.....	(21)	9
Total retirement benefit costs for defined benefit plans.....	¥ 614	¥ 623

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

(5) Remeasurements of defined benefit plans

	<i>Millions of yen</i>	
	2018	2017
Actuarial gains and losses.....	90	227
Total.....	¥ 90	¥ 227

(6) Accumulated remeasurements of defined benefit plans

	<i>Millions of yen</i>	
	2018	2017
Actuarial gains and losses that are yet to be recognized.....	1,923	2,013
Total.....	¥ 1,923	¥ 2,013

(7) Plan assets

	2018	2017
(a) Plan assets comprise:		
Bonds.....	54.7 %	53.3 %
Equity securities.....	9.3	11.5
Alternative Assets (*).....	22.2	22.6
Other.....	13.8	12.6
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

	2018	2017
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 2.00%
Expected rate of pay raises.....	Mainly 2.86%	Mainly 2.86%

3. Defined contribution plan

	<i>Millions of yen</i>	
	2018	2017
Accrued contribution by consolidated subsidiaries.....	¥ 368	¥ 587

14. Deferred Income Taxes

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2018 and 2017 were as follows:

	<i>Millions of yen</i>	
	2018	2017
Deferred tax assets:		
Allowance for doubtful accounts.....	¥ 166	¥ 196
Provision for bonuses.....	148	177
Net defined benefit liability.....	1,919	1,897
Write-down of inventories.....	43	101
Intangible assets.....	76	127
Tax loss carryforwards.....	690	740
Other.....	617	807
Subtotal.....	3,659	4,045
Valuation allowance.....	(858)	(917)
Total deferred tax assets.....	2,801	3,128
Deferred tax liabilities:		
Valuation difference on available-for-sale securities.....	(1,178)	(2,116)
Special reserves.....	(931)	(1,102)
Retained earnings of subsidiaries and affiliated companies.....	(3,360)	(3,092)
Other.....	(947)	(914)
Total deferred tax liabilities.....	(6,416)	(7,224)
Net deferred tax assets (liabilities).....	¥ (3,615)	¥ (4,096)

The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Statutory tax rate of the Company.....	-	30.8%
(Reconciliation)		
Expenses not qualifying for deduction.....	-	0.9
Revenues not in gross revenue.....	-	(2.7)
Tax credits.....	-	(2.6)
Equity in earnings of affiliates.....	-	(4.4)
Elimination of dividend income.....	-	3.0
Valuation allowance.....	-	(0.2)
Retained earnings of foreign subsidiaries.....	-	2.9
Difference in the effective tax rates of foreign subsidiaries.....	-	(1.0)
Effect of enactment of tax reform in the U.S.....	-	0.5
Other.....	-	0.9
Effective tax rate after adoption of tax effect accounting.....	-	28.1%

(*) A reconciliation for the year ended December 31, 2018 is omitted because the difference between the statutory tax rate and the effective tax rate after adoption of tax effect accounting was less than 5% of the statutory tax rate for the year.

15. Contingent Liabilities

At December 31, 2018 and 2017, the Companies were contingently liable as follows:

	<i>Millions of yen</i>	
	2018	2017
ETERNAL SAKATA INX CO., LTD.	¥ 153	¥ 216
Other	183	215
Total	¥ 336	¥ 431

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>	
	2018	2017
	¥ 8	¥ 13

16. Selling, General and Administrative Expenses

The main items of selling, general and administrative expenses for the year ended December 31, 2018 and 2017 were as follows:

	<i>Millions of yen</i>	
	2018	2017
Freightage and packing expenses	¥ 5,129	¥ 4,783
Salaries and allowances	9,423	9,195
Depreciation	786	861
Provision of allowance for doubtful accounts	-61	328
Provision for bonuses	297	355
Retirement benefit expenses	503	674
Research and development expenses	3,311	3,219

17. 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, 2018 and 2017 were as follows:

	<i>Millions of yen</i>	
	2018	2017
Buildings and structures	¥ 23	¥ 20
Machinery, equipment and vehicles	2	2
Other fixed assets	1	0
Demolition and removal expenses	45	48
Total	¥ 71	¥ 70

18. Consolidated Statements of Comprehensive Income

The reclassification adjustment and the tax benefit concerning other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<i>Millions of yen</i>	
	2018	2017
Valuation difference on available-for-sale securities		
Amount arising during the period	¥ (3,075)	¥ 2,527
Reclassification adjustment included in net income	(0)	(1,124)
Pre-tax amount	(3,075)	1,403
Tax benefit	939	(432)
Valuation difference on available-for-sale securities	(2,136)	971
Deferred gains or losses on hedges		
Amount arising during the period	0	2
Pre-tax amount	0	2
Tax benefit	(0)	(1)
Deferred gains or losses on hedges	0	1
Foreign currency translation adjustment		
Amount arising during the period	(1,595)	(247)
Remeasurements of defined benefit plans		
Amount arising during the period	(85)	35
Reclassification adjustment included in net income	175	193
Pre-tax amount	90	228
Tax benefit	(26)	(71)
Remeasurements of defined benefit plans	64	157
Share of other comprehensive income of affiliates accounted for using equity method		
Amount arising during the period	(558)	166
Reclassification adjustment included in net income	12	8
Share of other comprehensive income of affiliates accounted for using equity method	(546)	174
Total other comprehensive income	¥ (4,213)	¥ 1,056

19. 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, 2018 and 2017 were as follows:

	<i>Millions of yen</i>	
	2018	2017
Cash and deposits	¥ 7,194	¥ 10,002
Time deposits with original maturity of more than three months	(406)	(651)
Cash and cash equivalents	¥ 6,788	¥ 9,351

20. 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 reportable segment sales, segment income or loss, segment assets and other items

*Year ended
December 31, 2018*

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	¥54,932	¥32,012	¥43,440	¥9,239	¥12,101	¥151,724	¥10,332	¥162,056	¥ -	¥162,056
Intersegment sales and transfers	19	145	1,517	82	84	1,847	6,004	7,851	(7,851)	-
Total	54,951	32,157	44,957	9,321	12,185	153,571	16,336	169,907	(7,851)	162,056
Segment income	¥1,126	¥1,530	¥992	¥(792)	¥1,223	¥4,079	¥390	¥4,469	¥643	¥5,112
Segment assets	42,692	27,809	24,745	8,984	11,467	115,697	5,602	121,299	24,558	145,857
Depreciation	1,459	590	875	261	781	3,966	71	4,037	-	4,037
Increase in property, plant and equipment and intangible assets	2,788	969	1,292	245	1,067	6,361	29	6,390	-	6,390

(*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 ¥643 million for segment income includes eliminations for intersegment transactions of ¥846 million and corporate expenses of ¥(203) million that have not been allocated to any segment. Corporate expenses are mainly service fees to unconsolidated subsidiaries and affiliates.
2. The adjustment of ¥24,558 million for segment assets includes eliminations for intersegment transactions of ¥(6,465) million and corporate assets of ¥31,023 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, 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
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.

(Related Information)

Year ended December 31, 2018

1. Information about each product and service

<i>Year ended December 31, 2018</i>	<i>Millions of yen</i>				
	Printing inks	Graphic arts materials	Digital & Specialty products	Other	Total
Net sales to outside customers	¥ 124,557	¥ 15,149	¥ 12,101	¥ 10,249	¥ 162,056

2. Information about geographic areas

<i>Year ended</i> <i>December 31, 2018</i>	<i>Millions of yen</i>										
	Japan		Asia		America		Europe		Other		Total
Net sales	¥	67,831	¥	34,913	¥	39,602	¥	11,121	¥	8,589	¥ 162,056
Property, plant and equipment	¥	23,636	¥	5,329	¥	7,457	¥	2,502	¥	8	¥ 38,932

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, 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

21. Related Party Transactions

Transactions with related parties for the years ended December 31, 2018 and 2017 were as follows:

Year ended December 31, 2018

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	¥ 2,832	Notes and accounts receivable - trade	¥ 2,079
									Investments and other assets: Other	¥ 181

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 ¥181 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, 2018 was ¥53 million.

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 provision of allowance for doubtful accounts for the year ended December 31, 2017 was ¥64 million.

22. Changes in Net Assets

1. Shares issued and treasury shares

Year ended December 31, 2018

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	4,201,482	461	-	4,201,943

Note: The increase in the number of treasury shares of 461 shares was due to the purchase of fractional 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 consisted 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.

2. Dividends

Dividends paid in the year ended December 31, 2018

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 28, 2018	Common stock	¥ 934	¥ 16	December 31, 2017	March 29, 2018
Directors' meeting held on August 10, 2018	Common stock	¥ 876	¥ 15	June 30, 2018	September 7, 2018

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 with a record date attributable to the year ended December 31, 2018 but an effective date after December 31, 2018

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 26, 2019	Common stock	Retained earnings	¥ 876	¥ 15	December 31, 2018	March 27, 2019

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

23. 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, 2018 and 2017

	<i>Millions of yen</i>	
	2018	2017
Current assets.....	¥ 101,940	¥ 96,478
Non-current assets	¥ 35,538	¥ 34,048
Current liabilities.....	¥ 63,596	¥ 56,550
Non-current liabilities	¥ 17,866	¥ 16,367
Net assets	¥ 56,016	¥ 57,609

Summarized statements of income for the years ended December 31, 2018 and 2017

	<i>Millions of yen</i>	
	2018	2017
Net sales.....	¥ 242,804	¥ 233,153
Income before income taxes.....	¥ 8,719	¥ 10,254
Net income attributable to owners of parent.....	¥ 6,415	¥ 7,093

24. Amounts Per Share

	<i>Yen</i>	
	2018	2017
Net assets per share	¥ 1,272.41	¥ 1,295.39
Dividends per share	¥ 30.00	¥ 30.00
Net income per share	¥ 80.36	¥ 142.76

Note 1: There were no dilutive securities.

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

	2018	2017
Net income attributable to owners of parent (millions of yen)	¥ 4,693	¥ 8,384
Net income attributable to owners of parent related to common stock (millions of yen)	¥ 4,693	¥ 8,384
Average number of shares of common stock during the fiscal year (thousands)	58,399	58,724