Consolidated Financial Statements

Consolidated Balance Sheet

MANDOM CORPORATION and its Consolidated Subsidiaries
As of March 31, 2017

	Millions of yen	
	2017	2016
Assets		
CURRENT ASSETS:		
Cash and cash equivalents (Note 13)	¥ 12,880	¥ 12,200
Short-term investments (Notes 3 and 13)	19,030	17,029
Receivables (Note 13):		
Trade notes and accounts	9,498	10,135
Unconsolidated subsidiary and associated company	91	268
Other	248	596
Allowance for doubtful accounts	(17)	(17)
Inventories (Note 4)	10,499	9,415
Deferred tax assets (Note 9)	836	856
Prepaid expenses and other current assets	1,066	975
Total current assets	54,131	51,457
PROPERTY, PLANT, AND EQUIPMENT:		
Land	511	511
Buildings and structures	24,145	23,540
Machinery and equipment	18,325	16,951
Furniture and fixtures	5,794	5,479
Lease assets (Note 12)	51	64
Construction in progress	532	287
Total	49,358	46,832
Accumulated depreciation	(30,686)	(28,507)
Net property, plant and equipment	18,672	18,325
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Notes 3 and 13)	7,533	6,942
Investments in unconsolidated subsidiary and associated company	620	529
Deferred tax assets (Note 9)	267	262
Other assets	2,613	2,307
Total investments and other assets	11,033	10,040
TOTAL	¥ 83,836	¥ 79,822

See notes to consolidated financial statements.

	Millions of yen	
	2017	2016
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank loans (Notes 5 and 13)	¥ 283	¥ 308
Payables (Note 13):		
Trade notes and accounts	5,874	6,173
Unconsolidated subsidiary and associated company	11	12
Other	243	56
Accrued income taxes (Note 13)	1,076	1,134
Accrued expenses	2,143	2,115
Other current liabilities	547	566
Total current liabilities	10,177	10,364
LONG-TERM LIABILITIES:		
Liability for retirement benefits (Note 6)	1,938	1,710
Deferred tax liabilities (Note 9)	1,116	909
Other long-term liabilities	1,014	982
Total long-term liabilities	4,068	3,601
COMMITMENTS (Note 12)		
EQUITY (Notes 7 and 15):		
Common stock		
authorized, 81,969,700 shares;		
issued, 24,134,606 shares in 2017 and 2016	11,395	11,395
Capital surplus	11,235	11,235
Retained earnings	44,264	40,638
Treasury stock - at cost, 757,361 shares and 756,548 shares in 2017 and 2016, respectively	(1,863)	(1,859)
Accumulated other comprehensive income (loss):		
Unrealized gain on available-for-sale securities	2,799	2,382
Foreign currency translation adjustments	(4,353)	(3,878)
Defined retirement benefit plans	(224)	(205)
Total	63,253	59,708
Noncontrolling interests	6,338	6,149
Total equity	69,591	65,857
TOTAL	¥ 83,836	¥ 79,822

Consolidated Statement of Income

MANDOM CORPORATION and its Consolidated Subsidiaries
For the Year Ended March 31, 2017

	Millions of yen	
	2017	2016
NET SALES	¥ 77,351	¥ 75,079
COST OF SALES	35,164	34,207
Gross profit	42,187	40,872
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10, 11 and 12)	34,569	34,278
Operating income	7,618	6,594
OTHER INCOME (EXPENSES):		
Interest and dividend income	332	310
Foreign exchange (loss) gain	(52)	33
Gain on sales of investment securities		34
Loss on disposal of property, plant, and equipment	(31)	(61)
Loss on fire (Note 8)		(1,024)
Gain on sales of property, plant, and equipment	5	4,034
Claim of insurance	220	482
Compensation expenses	(130)	(1)
Equity in earnings of associated company	235	274
Other—net	181	23
Other income (expenses) - net	760	4,104
INCOME BEFORE INCOME TAXES	8,378	10,698
INCOME TAXES (Note 9):		
Current	2,163	2,339
Deferred	70	42
Total income taxes	2,233	2,381
NET INCOME	6,145	8,317
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	579	1,934
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 5,566	¥ 6,383

	Yen	
	2017	2016
PER SHARE OF COMMON STOCK (Note 2.m):		
Basic net income	¥ 238.10	¥ 273.04
Cash dividends applicable to the year	83.00	80.00

Diluted net income per share is not presented because no dilutive securities exist.
See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

MANDOM CORPORATION and its Consolidated Subsidiaries
For the Year Ended March 31, 2017

	Millions of yen	
	2017	2016
NET INCOME	¥ 6,145	¥ 8,317
OTHER COMPREHENSIVE INCOME (LOSS) (Note 14):		
Unrealized gain on available-for-sale securities	417	795
Foreign currency translation adjustments	(567)	(1,940)
Defined retirement benefit plans	(43)	(148)
Share of other comprehensive loss in associates	(12)	(13)
Total other comprehensive income (loss)	(205)	(1,306)
COMPREHENSIVE INCOME	¥ 5,940	¥ 7,011
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	¥ 5,490	¥ 5,584
Noncontrolling interests	450	1,427

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

MANDOM CORPORATION and its Consolidated Subsidiaries
For the Year Ended March 31, 2017

	Thousands	Millions of yen			
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
BALANCE, APRIL 1, 2015	23,379	¥ 11,395	¥ 11,235	¥ 36,102	¥ (1,855)
Net income attributable to owners of the parent				6,383	
Cash dividends, ¥79 per share				(1,847)	
Purchase of treasury stock	(1)				(4)
Net change in the year					
BALANCE, APRIL 1, 2016	23,378	11,395	11,235	40,638	(1,859)
Net income attributable to owners of the parent				5,566	
Cash dividends, ¥83 per share				(1,940)	
Purchase of treasury stock	(1)				(4)
Disposal of treasury stock	0		0		0
Change in the parent's ownership interest due to transactions with noncontrolling interests			0		
Net change in the year					
BALANCE, MARCH 31, 2017	23,377	¥ 11,395	¥ 11,235	¥ 44,264	¥ (1,863)

See notes to consolidated financial statements.

	Millions of yen					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling interests	Total Equity
BALANCE, APRIL 1, 2015	¥ 1,578	¥ (2,440)	¥ (40)	¥ 55,975	¥ 5,005	¥ 60,980
Net income attributable to owners of the parent				6,383		6,383
Cash dividends, ¥79 per share				(1,847)		(1,847)
Purchase of treasury stock				(4)		(4)
Net change in the year	804	(1,438)	(165)	(799)	1,144	345
BALANCE, APRIL 1, 2016	2,382	(3,878)	(205)	59,708	6,149	65,857
Net income attributable to owners of the parent				5,566		5,566
Cash dividends, ¥83 per share				(1,940)		(1,940)
Purchase of treasury stock				(4)		(4)
Disposal of treasury stock				0		0
Change in the parent's ownership interest due to transactions with noncontrolling interests				0		0
Net change in the year	417	(475)	(19)	(77)	189	122
BALANCE, MARCH 31, 2017	¥ 2,799	¥ (4,353)	¥ (224)	¥ 63,253	¥ 6,338	¥ 69,591

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

MANDOM CORPORATION and its Consolidated Subsidiaries
For the Year Ended March 31, 2017

	Millions of yen	
	2017	2016
OPERATING ACTIVITIES:		
Income before income taxes	¥ 8,378	¥ 10,698
Adjustments for:		
Income taxes paid	(2,312)	(2,249)
Payments for loss on fire		(400)
Depreciation and amortization	3,166	2,919
Loss on fire (Note 8)		1,024
Loss on disposal of property, plant, and equipment	31	59
Gain on sales of investment securities		(34)
Gain on sales of property, plant, and equipment	(5)	(4,034)
Claim of insurance	(220)	(482)
Insurance received	488	
Changes in assets and liabilities:		
Decrease (increase) in receivables	443	(1,048)
Increase in inventories	(1,245)	(101)
Increase (decrease) in payables	(260)	1,175
Increase in liability for retirement benefits	232	122
Other—net	349	(416)
Total adjustments	667	(3,465)
Net cash provided by operating activities	9,045	7,233
INVESTING ACTIVITIES:		
Transfers to time deposits other than cash equivalents	(2,638)	(5,067)
Proceeds from maturity of time deposits other than cash equivalents	2,514	3,686
Proceeds from sales of land right		2,523
Proceeds from sales of property, plant, and equipment	16	824
Acquisition of property, plant, and equipment	(3,302)	(3,500)
Proceeds from sales and redemptions of investment securities	7	64
Payments for purchases of investment securities	(8)	(8)
Proceeds from sales and redemptions of short-term investment securities	17,700	31,600
Payments for purchases of short-term investment securities	(19,699)	(31,993)
Other—net	(511)	(512)
Net cash used in investing activities	(5,921)	(2,383)
FINANCING ACTIVITIES:		
Proceeds from short-term bank loans		319
Repayments of short-term bank loans		(1,707)
Dividends paid	(2,200)	(2,131)
Other—net	(16)	(16)
Net cash used in financing activities	(2,216)	(3,535)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(228)	(380)
NET INCREASE IN CASH AND CASH EQUIVALENTS	680	935
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,200	11,265
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 12,880	¥ 12,200

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MANDOM CORPORATION and its Consolidated Subsidiaries
As of and for the Year Ended March 31, 2017

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which MANDOM CORPORATION (the "Company") is incorporated and operates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 12 (12 in 2016) significant subsidiaries (collectively, the "Group").

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

Investment in one associated company is accounted for under the equity method.

Investment in the remaining one unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period of five years.

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

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Short-term Investments and Investment Securities — Securities included in short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: 1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value with the related unrealized gains and losses included in earnings; 2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and 3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group's securities (included in "short-term investments" and "investment securities") are all classified as available for sale.

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

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

e. Property, Plant, and Equipment — Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, and lease assets of the Company and its domestic consolidated subsidiaries. The straight-line method is principally applied to the property, plant, and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 15 to 50 years for buildings and structures and from 4 to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

Pursuant to an amendment to the Corporate Tax Act, the Company adopted Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 32, "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The impact of the change on profit and loss for the current fiscal year is immaterial.

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

g. Retirement Benefits and Pension Plans — The Company and certain consolidated subsidiaries have funded defined benefit pension plans, defined contribution pension plans, and advance payment systems, which cover substantially all of their employees.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects. Actuarial gains and losses are mainly amortized by the declining-balance method over 7 years within the average remaining service period, and past service costs are mainly amortized by the straight-line method over 7 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within accumulated other comprehensive income, after adjusting for tax effects, and any resulting deficit or surplus is recognized as liability for retirement benefits or asset for retirement benefits.

(b) The revised accounting standard does not change the method to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments.

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company and certain consolidated subsidiaries applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, the effect on liability for retirement benefits as of March 31, 2014, was immaterial.

h. Research and Development Costs — Research and development costs are charged to income as incurred.

i. Leases — In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company continues to account for leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee as operating lease transactions.

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

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

k. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

l. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

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

Diluted net income per share is not disclosed because no dilutive securities exist.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

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

	Millions of yen 2017	2016
Short-term investments:		
Certificates of deposit	¥ 12,500	¥ 7,700
Commercial paper other than cash equivalents	3,000	5,500
Time deposits other than cash equivalents	3,530	3,529
Government, corporate, and other bonds		300
Total	¥ 19,030	¥ 17,029
Investment securities:		
Marketable equity securities	¥ 7,530	¥ 6,932
Nonmarketable equity securities	3	10
Total	¥ 7,533	¥ 6,942

Information regarding the securities classified as available for sale as of March 31, 2017 and 2016, is as follows:

March 31, 2017	Millions of yen Cost	Unrealized Gain	Unrealized Loss	Fair Value
Equity securities	¥ 3,497	¥ 4,032	¥ (0)	¥ 7,529
Debt securities	3,000		(0)	3,000
Other	12,500			12,500

March 31, 2016	Millions of yen Cost	Unrealized Gain	Unrealized Loss	Fair Value
Equity securities	¥ 3,489	¥ 3,460	¥ (17)	¥ 6,932
Debt securities	5,800			5,800
Other	7,700			7,700

Available-for-sale securities whose fair value could not be reliably determined as of March 31, 2017 and 2016, were as follows:

	Millions of yen 2017	2016
Equity securities	¥ 3	¥ 10

Proceeds from sales of available-for-sale securities for the year ended March 31, 2016, was ¥63 million. There were no sales of available-for-sale securities for the year ended March 31, 2017.

4. INVENTORIES

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

	Millions of yen 2017	2016
Merchandise	¥ 2,018	¥ 2,093
Finished products	5,419	4,085
Work in process	432	463
Raw materials and supplies	2,630	2,774
Total	¥ 10,499	¥ 9,415

5. SHORT-TERM BANK LOANS

Short-term bank loans at March 31, 2017 consisted of the credit facilities from banks. The annual interest rates applicable to the short-term bank loans ranged from 2.88% to 3.00% in Philippine pesos at March 31, 2017. The loan proceeds were mainly utilized to support financing of working capital in the Philippines.

6. RETIREMENT BENEFITS AND PENSION PLANS

The Company and certain domestic consolidated subsidiaries have funded defined benefit pension plans, defined contribution pension plans and advance payment systems, which cover substantially all of their employees, and also unfunded defined benefit pension plans.

The funded defined benefit pension plans provide a lump-sum severance payment or annuity payments determined based on the salary at the time of termination, years of service, and certain other factors for employees who terminated their employment.

The unfunded defined benefit pension plans provide premium lump-sum severance pay for employees who meet the prescribed requirements.

The Company and its domestic consolidated subsidiaries participate in a contributory multiemployer pension plan (the "Plan"), which is accounted for in the same way as defined contribution pension plans.

In connection with the enforcement of the Defined Benefit Corporate Pension Law, the Company and its domestic consolidated subsidiaries applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion, which would result in the transfer of the pension obligations, and applied for transfer of the substitutional portion of past pension obligations to the government, and obtained approval by the Ministry of Health, Labour and Welfare on March 1, 2017. The Company and its domestic consolidated subsidiaries are transitioning from welfare pension funds to corporate pension funds.

Certain foreign consolidated subsidiaries have funded defined benefit pension plans, unfunded benefit pension plans, and defined contribution pension plans.

Defined Benefits

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen	
	2017	2016
Balance at beginning of year (as previously reported)	¥ 4,581	¥ 4,343
Current service cost	287	322
Interest cost	136	134
Actuarial loss	95	139
Benefits paid	(170)	(227)
Foreign currency translation	(11)	(138)
Other	7	8
Balance at end of year	¥ 4,925	¥ 4,581

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

	Millions of yen	
	2017	2016
Balance at beginning of year	¥ 2,871	¥ 2,899
Expected return on plan assets	74	72
Actuarial loss	(8)	(82)
Contributions from the employer	149	150
Benefits paid	(105)	(151)
Other	6	(17)
Balance at end of year	¥ 2,987	¥ 2,871

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen	
	2017	2016
Funded defined benefit obligation	¥ 3,184	¥ 3,048
Plan assets	(2,986)	(2,871)
	198	177
Unfunded defined benefit obligation	1,740	1,533
Net liability arising from defined benefit obligation	¥ 1,938	¥ 1,710

	Millions of yen	
	2017	2016
Liability for retirement benefits	¥ 1,938	¥ 1,710

(4) The components of net periodic retirement benefit costs for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Service cost	¥ 287	¥ 322
Interest cost	136	134
Expected return on plan assets	(74)	(72)
Recognized actuarial loss	66	1
Amortization of past service cost	(35)	(35)
Net periodic retirement benefit costs	¥ 380	¥ 350

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Prior service cost	¥ 35	¥ 35
Actuarial loss	31	195
Total	¥ 66	¥ 230

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Unrecognized prior service cost	¥ (23)	¥ (58)
Unrecognized actuarial loss	491	461
Total	¥ 468	¥ 403

(7) Plan assets

(a) Components of plan assets

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

	2017	2016
Debt investments	42%	44%
Equity investments	31	29
General accounts	14	15
Cash and cash equivalents	9	9
Other	4	3
Total	100%	100%

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

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

(8) Assumptions used for the years ended March 31, 2017 and 2016, were mainly set forth as follows:

	2017	2016
Discount rate	0.5%	0.5%
Expected rate of return on plan assets	2.0%	2.0%
Expected salary/wage increment	2.5%	2.5%

Defined Contribution

The Company and its consolidated subsidiaries recognized the defined contribution cost of \94 million and \93 million for the years ended March 31, 2017 and 2016, respectively.

Multiemployer Pension Plan

The Company and its domestic consolidated subsidiaries participate in the Plan covering substantially all of their employees, for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by it and its domestic consolidated subsidiaries. Therefore, it is accounted for using the same method as a defined contribution plan.

Contributions to the Plan, which are accounted for using the same method as a defined contribution plan, were ¥274 million and ¥282 million for the years ended March 31, 2017 and 2016, respectively.

The financial statements of the Plan as of March 31, 2016 and 2015, were as follows:

(1) The funded status of the Plan as of March 31, 2016 and 2015, were as follows:

	Millions of yen	
	2016	2015
Plan assets	¥ 41,268	¥ 42,144
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(48,678)	(50,406)
Net balance	¥ (7,410)	¥ (8,262)

The net balance above was mainly caused by past service cost of ¥10,845 million for 2017 and ¥11,333 million for 2016. Past service cost under the Plan was amortized on a straight-line basis over 13 years for 2017 and over 14 years for 2016. The special contributions of ¥123 million and ¥117 million for the years ended March 31, 2017 and 2016, respectively, which are utilized for such amortization, were expensed in the consolidated statements of income of the Group.

(2) The contribution ratio of the Group in the Plan for the years ended March 31, 2017 and 2016, were as follows:

	2017	2016
The contribution ratio of the Group in the Plan	13.3%	12.9%

The ratios above do not represent the actual actuarial liability ratio of the Group.

8. EQUITY

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if companies have prescribed so in their articles of incorporation. The Company meets all of the above criteria. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of companies so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

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

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. LOSS ON FIRE

On July 10, 2015, a fire broke out at the aerosol production line of PT Mandom Indonesia Tbk, the Company's consolidated subsidiary in Indonesia. Loss on fire at March 31, 2016, consisted of the expenses related to the fire accident.

9. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.81% and 33.02% for the years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, were as follows:

	Millions of yen	
	2017	2016
Deferred tax assets:		
Accrued bonuses	¥ 268	¥ 269
Enterprise tax	70	82
Inventories	151	176
Liability for retirement benefits	542	482
Long-term liabilities	90	90
Property, plant, and equipment	34	34
Other	927	941
Less valuation allowance	(461)	(479)
Total	1,621	1,595
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	1,233	1,060
Other	406	327
Total	1,639	1,387
Net deferred tax (liabilities) assets	¥ (18)	¥ 208

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the years ended March 31, 2017 and 2016, reflected in the accompanying consolidated statement of income is as follows:

	2017	2016
Normal effective statutory tax rate	30.81%	33.02%
Expenses not deductible for income tax purposes	1.38	1.27
Dividends and incomes not taxable for income tax purpose	(0.31)	(9.65)
Difference in subsidiaries' tax rates	(1.90)	(4.33)
Tax credit for research and development costs and others	(2.48)	(0.91)
Change in valuation allowance	0.20	2.31
Capital levy on inhabitant tax	0.27	0.21
Decrease adjustment of deferred tax assets for changing the tax rate		0.54
Other – net	(1.32)	(0.21)
Actual effective tax rate	26.65%	22.25%

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2017 and 2016 were ¥1,717 million and ¥1,558 million, respectively.

11. ADVERTISING COSTS

Advertising costs charged to income for the years ended March 31, 2017 and 2016 were ¥5,331 million and ¥4,998 million, respectively.

12. LEASES

The Group leases office space, office equipment, and certain other assets.

Total rental expenses for the years ended March 31, 2017 and 2016 were ¥1,247 million and ¥1,497 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016 were as follows:

	Millions of yen	
	2017	2016
Due within one year	¥ 144	¥ 144
Due after one year	144	289
Total	¥ 288	¥ 433

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group uses financial instruments to invest cash surplus amounts in low-risk and highly liquid financial instruments. Derivatives are used to achieve higher yields within specified limits on the amounts, but not for speculative purposes.

(2) Nature and extent of risks arising from financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Short-term investments and investment securities, mainly debt securities with maturities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are mainly less than three months.

Receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of a regular basis payment terms and balances of major customers by the sales planning division to identify the default risk of customers in the early stages.

With respect to financial investments with maturities, since the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines, the credit risk associated with this investment is not considered to be significant.

Market risk management

With respect to foreign currency trade receivables and payables, the Group monitors on a regular basis foreign exchange risk recognized monthly in each currency.

Short-term investments and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis, and the securities, except for government bonds, are managed by reviewing the condition continuously in view of the market trend and relationship of the business partners.

Derivatives have been utilized in accordance with internal policies, which regulate the authorization and credit limit amount. The conditions and results of such transactions are regularly communicated to the Management Committee.

Liquidity risk management

The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning prepared by the financial management division based on each department's report.

(4) Concentration of credit risk

As of March 31, 2017, 54.9% of total receivables is from 2 major customers of the Group.

(5) Fair values of financial instruments

(a) Fair value of financial instruments

The carrying amounts and fair values as of March 31, 2017 and 2016, were as follows:

March 31, 2017	Carrying Amount (Millions of yen)	Fair Value (Millions of yen)
Cash and cash equivalents	¥ 12,800	¥ 12,880
Short-term investments and investment securities	26,560	26,560
Receivables	9,820	9,820
Total	¥ 49,260	¥ 49,260
Short-term bank loans	¥ 283	¥ 283
Payables	6,128	6,128
Accrued income taxes	1,076	1,076
Total	¥ 7,487	¥ 7,487

March 31, 2016	Carrying Amount (Millions of yen)	Fair Value (Millions of yen)
Cash and cash equivalents	¥ 12,200	¥ 12,200
Short-term investments and investment securities	23,961	23,961
Receivables	10,982	10,982
Total	¥ 47,143	¥ 47,143
Short-term bank loans	¥ 308	¥ 308
Payables	6,241	6,241
Accrued income taxes	1,134	1,134
Total	¥ 7,683	¥ 7,683

Cash and cash equivalents

The carrying amounts of cash and cash equivalents approximate fair value because of their short maturities.

Short-term investments and investment securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institutions for certain debt instruments. The carrying amounts of short-term investments and investment securities are equal to the fair values. Fair value information for short-term investments and investment securities by classification is included in Note 3.

Receivables, short-term bank loans, payables, and accrued income taxes

The carrying amounts of receivables, short-term bank loans, payables, and accrued income taxes approximate fair value because of their short maturities.

(b) Financial instruments whose fair value cannot be reliably determined

	Millions of yen	
	2017	2016
Investments in equity instruments that do not have a quoted market price in an active market	¥ 3	¥ 10

(6) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2017	Due in 1 Year or Less (Millions of yen)
Cash and cash equivalents	¥ 12,880
Short-term investments and investment securities:	
Available-for-sale debt securities with contractual maturities	3,000
Other	16,030
Receivables	9,820
Total	¥ 41,730

March 31, 2016	Due in 1 Year or Less (Millions of yen)
Cash and cash equivalents	¥ 12,200
Short-term investments and investment securities:	
Available-for-sale debt securities with contractual maturities	5,800
Other	11,229
Receivables	10,982
Total	¥ 40,211

14. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Millions of yen	
	2017	2016
Unrealized gain on available-for-sale securities:		
Gains arising during the year	¥ 589	¥ 1,145
Reclassification adjustments to profit or loss		(33)
Amount before income tax effect	589	1,112
Income tax effect	(172)	(317)
Total	¥ 417	¥ 795
Foreign currency translation adjustments -		
Adjustments arising during the year	¥ (567)	¥ (1,940)
Total	¥ (567)	¥ (1,940)
Defined retirement benefit plans:		
Adjustments arising during the year	¥ (97)	¥ (190)
Reclassification adjustments to profit or loss	31	(40)
Amount before income tax effect	(66)	(230)
Income tax effect	23	82
Total	¥ (43)	¥ (148)
Share of other comprehensive loss in associates -		
Gains arising during the year	¥ (12)	¥ (13)
Total	¥ (12)	¥ (13)
Total other comprehensive income (loss)	¥ (205)	¥ (1,306)

15. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2017 is expected to be approved at the Company's shareholders' meeting to be held on June 23, 2017:

	Millions of yen
	2017
Year-end cash dividends, ¥53 per share	¥ 1,238

16. SEGMENT INFORMATION

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

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available, and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group mainly produces and sells cosmetic products. The Company and its domestic consolidated subsidiaries oversee activities in Japan; PT Mandom Indonesia Tbk oversees activities in Indonesia; and other overseas subsidiaries, including Malaysia, Thailand, and China, oversee activities in each of their respective countries. Each of the overseas subsidiaries is an independent management unit, which develops product strategies and business activities in its respective region. Therefore, the Group consists of the geographical segments based on production and sales structures, which are identified as Japan, Indonesia, and other foreign countries ("Other").

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

Millions of yen

	2017					
	Reportable Segment					
	Japan	Indonesia	Other	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥ 45,946	¥ 18,324	¥ 13,081	¥ 77,351		¥ 77,351
Intersegment sales or transfers	4,517	2,649	179	7,345	¥ (7,345)	
Total	¥ 50,463	¥ 20,973	¥ 13,260	¥ 84,696	¥ (7,345)	¥ 77,351
Segment profit	¥ 5,078	¥ 925	¥ 1,615	¥ 7,618		¥ 7,618
Assets	54,649	18,632	10,555	83,836		83,836
Other:						
Depreciation	2,144	957	65	3,166		3,166
Investments in an associated company under the equity method			598	598		598
Increase in property, plant, and equipment and intangible assets	2,451	1,380	103	3,934		3,934

Millions of yen

	2016					
	Reportable Segment					
	Japan	Indonesia	Other	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥ 44,105	¥ 18,165	¥ 12,809	¥ 75,079		¥ 75,079
Intersegment sales or transfers	4,348	2,902	366	7,616	¥ (7,616)	
Total	¥ 48,453	¥ 21,067	¥ 13,175	¥ 82,695	¥ (7,616)	¥ 75,079
Segment profit	¥ 4,705	¥ 881	¥ 1,009	¥ 6,594		¥ 6,594
Assets	51,310	17,855	10,657	79,822		79,822
Other:						
Depreciation	1,864	980	74	2,918		2,918
Investments in an associated company under the equity method			507	507		507
Increase in property, plant, and equipment and intangible assets	2,796	1,356	31	4,183		4,183

Notes: 1. "Reconciliations" represent eliminations of intersegment sales or transfers.
2. "Segment profit" represents operating income included in the consolidated statement of income.

(4) Information about products and services

Millions of yen

	2017			
	Products for Men	Products for Women	Other	Total
Sales to external customers	¥ 49,737	¥ 19,642	¥ 7,972	¥ 77,351

Millions of yen

	2016			
	Products for Men	Products for Women	Other	Total
Sales to external customers	¥ 48,256	¥ 19,053	¥ 7,770	¥ 75,079

(5) Information about geographical areas

(a) Sales

Millions of yen

2017				2016			
Japan	Indonesia	Other	Total	Japan	Indonesia	Other	Total
¥ 45,073	¥ 15,573	¥ 16,705	¥ 77,351	¥ 43,322	¥ 15,441	¥ 16,316	¥ 75,079

Note: Sales are classified by country or region based on the locations of customers.

(b) Property, plant, and equipment

Millions of yen

2016				2016			
Japan	Indonesia	Other	Total	Japan	Indonesia	Other	Total
¥ 11,029	¥ 7,407	¥ 236	¥ 18,672	¥ 10,922	¥ 7,181	¥ 222	¥ 18,325

(6) Information about major customers

Millions of yen

	2017	
Name of Customer	Sales	Related Segment Name
PALTAC Corporation	¥ 24,573	Japan
PT Asia Paramita Indah	15,542	Indonesia

Millions of yen

	2016	
Name of Customer	Sales	Related Segment Name
Paltac Corporation	¥ 22,473	Japan
PT Asia Paramita Indah	15,397	Indonesia

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of MANDOM CORPORATION:

We have audited the accompanying consolidated balance sheet of MANDOM CORPORATION and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte Touche Tohmatsu LLC

June 15, 2017

Member of
Deloitte Touche Tohmatsu Limited