

**Consolidated Financial Statements of
JALUX Inc. and Consolidated Subsidiaries**

JALUX Inc.

*Year ended March 31, 2019
with Independent Auditor's Report*

Independent Auditor's Report

To the Board of Directors of JALUX Inc.:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, 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 JALUX Inc. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

KPMG AZSA LLC

July 17, 2019

Tokyo, Japan

JALUX Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Assets			
Current assets:			
Cash and time deposits <i>(Notes 17 and 21)</i>	¥ 6,050,750	¥ 6,027,362	\$ 54,511
Trade notes and accounts receivable <i>(Notes 17 and 21)</i>	21,328,708	15,452,147	192,151
Inventories <i>(Note 5)</i>	14,371,088	13,181,691	129,469
Accounts receivable - other <i>(Note 17)</i>	2,994,748	2,643,953	26,980
Others	1,674,454	1,264,471	15,085
Allowance for doubtful accounts	(20,916)	(24,468)	(188)
Total current assets	46,398,833	38,545,156	418,008
Property and equipment <i>(Notes 6, 12, 15 and 20)</i> :			
Buildings and structures	1,977,380	2,002,569	17,814
Machinery and vehicles	1,601,841	1,864,218	14,431
Land	407,227	411,541	3,669
Construction in process	36,784	8,661	331
Others	484,977	448,758	4,369
Property and equipment, net	4,508,210	4,735,748	40,615
Intangible assets:			
Software <i>(Note 12)</i>	458,202	425,360	4,128
Others	32,716	33,787	295
Total intangible assets	490,919	459,148	4,423
Investments and other assets:			
Investment securities <i>(Notes 7, 17 and 18)</i>	2,701,645	2,381,271	24,339
Long-term loans receivable	29,494	150,660	266
Long-term guarantee deposit <i>(Note 17)</i>	1,979,203	1,971,093	17,831
Deferred tax assets <i>(Note 13)</i>	582,190	540,296	5,245
Asset for retirement benefits <i>(Note 9)</i>	75,903	110,690	684
Others	136,156	144,000	1,227
Allowance for doubtful accounts	(15,556)	(24,634)	(140)
Total investment and other assets	5,489,037	5,273,378	49,451
Total assets	¥ 56,887,000	¥ 49,013,432	\$ 512,495

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Liabilities and net assets			
Current liabilities:			
Trade notes and accounts payable <i>(Notes 17 and 23)</i>	¥ 8,687,138	¥ 11,362,733	\$ 78,263
Short-term borrowings and Current portion of long-term debt <i>(Notes 8 and 17)</i>	7,741,919	2,094,859	69,747
Commercial papers	2,999,997	—	27,027
Accrued income taxes	1,001,952	1,005,360	9,027
Accrued expenses <i>(Note 17)</i>	5,767,120	3,825,901	51,956
Others <i>(Note 8)</i>	3,130,047	2,718,159	28,199
Total current liabilities	29,328,176	21,007,014	264,218
Long-term liabilities:			
Long-term debt <i>(Notes 8 and 17)</i>	940,569	3,413,658	8,474
Liability for retirement benefits <i>(Note 9)</i>	43,928	39,177	396
Deferred tax liabilities <i>(Note 13)</i>	9,577	184,463	86
Others	513,446	734,582	4,626
Total long-term liabilities	1,507,521	4,371,882	13,581
Net assets <i>(Note 10)</i> :			
Shareholders' equity:			
Common stock	2,558,550	2,558,550	23,050
Capital surplus	688,723	688,723	6,205
Retained earnings	21,458,367	19,191,298	193,319
Common stock in treasury	(135,155)	(134,809)	(1,218)
Total shareholders' equity	24,570,484	22,303,762	221,356
Accumulated other comprehensive income:			
Net unrealized gain (loss) on other securities, net of taxes <i>(Note 18)</i>	19,295	21,679	174
Deferred gain or loss on hedges, net of taxes <i>(Note 19)</i>	(17,932)	(67,321)	(162)
Translation adjustments	(392,253)	(260,703)	(3,534)
Retirement benefits liability adjustments <i>(Note 9)</i>	(50,884)	(29,217)	(458)
Total accumulated other comprehensive income	(441,774)	(335,563)	(3,980)
Non-controlling interests	1,922,592	1,666,337	17,321
Total net assets	26,051,302	23,634,536	234,696
Total liabilities and net assets	¥ 56,887,000	¥ 49,013,432	\$ 512,495

The accompanying notes are an integral part of these statements.

JALUX Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

	Years ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Operating revenues <i>(Notes 22 and 23)</i>	¥ 185,726,096	¥ 153,404,093	\$ 1,673,208
Operating expenses <i>(Notes 22 and 23)</i> :			
Cost of sales	159,136,030	128,252,981	1,433,658
Selling, general and administrative expenses	21,961,971	20,442,048	197,856
	<u>181,098,001</u>	<u>148,695,030</u>	<u>1,631,514</u>
Operating income	<u>4,628,094</u>	<u>4,709,063</u>	<u>41,695</u>
Non-operating income (expenses):			
Interest income	8,205	10,779	74
Interest expense	(155,353)	(106,420)	(1,400)
Equity in earnings of affiliates	568,691	417,758	5,123
Others, net <i>(Note 11)</i>	(53,535)	(340,351)	(482)
	<u>(368,008)</u>	<u>(18,234)</u>	<u>(3,315)</u>
Net Profit before income taxes	<u>4,996,103</u>	<u>4,690,829</u>	<u>45,010</u>
Income taxes <i>(Note 13)</i> :			
Current	1,760,665	1,643,943	15,862
Deferred	(227,371)	(24,002)	(2,048)
	<u>1,533,293</u>	<u>1,619,941</u>	<u>13,813</u>
Net Profit	<u>3,462,809</u>	<u>3,070,887</u>	<u>31,196</u>
Net Profit attributable to:			
Non-controlling interests	499,908	377,538	4,504
Owners of the company	<u>¥ 2,962,900</u>	<u>¥ 2,693,349</u>	<u>\$ 26,693</u>

The accompanying notes are an integral part of these statements.

JALUX Inc. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

	Years ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Net Profit	¥ 3,462,809	¥ 3,070,887	\$ 31,196
Other comprehensive income:			
Net unrealized holding gain (loss) on other securities, net of taxes	(793)	17,346	(7)
Deferred gain or loss on hedges, net of taxes	49,389	(90,230)	445
Translation adjustments	(86,133)	(52,798)	(776)
Retirement benefits liability adjustment, net of tax	(21,667)	31,668	(195)
Share of other comprehensive income of companies accounted for by the equity method	(55,088)	(24,831)	(496)
Total other comprehensive income <i>(Note 14)</i>	(114,293)	(118,845)	(1,030)
Comprehensive income	¥ 3,348,516	¥ 2,952,042	\$ 30,167
Comprehensive income attributable to:			
Owners of the company	¥ 2,856,689	¥ 2,575,719	\$ 25,736
Non-controlling interests	¥ 491,826	¥ 376,323	\$ 4,431

JALUX Inc. and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Net unrealized holding gain (loss) on other securities, net of taxes (Note 18)	Deferred gain or loss on hedges, net of taxes (Note 19)	Translation adjustments	Retirement benefits liability adjustments (Note 9)	Non- controlling interests	Total net assets
Balance at March 31, 2017	12,775,000	¥ 2,558,550	¥ 688,723	¥ 17,130,525	¥ (134,674)	¥ 3,314	¥ 22,908	¥ (183,270)	¥ (60,886)	¥ 1,420,003	¥ 21,445,194
Cash dividends (Note 10) (¥50 per share)				(632,576)							(632,576)
Net income for the year ended March 31, 2018				2,693,349							2,693,349
Purchase of common stock in treasury					(135)						(135)
Others						18,364	(90,230)	(77,433)	31,668	246,334	128,703
Balance at March 31, 2018	12,775,000	¥ 2,558,550	¥ 688,723	¥ 19,191,298	¥ (134,809)	¥ 21,679	¥ (67,321)	¥ (260,703)	¥ (29,217)	¥ 1,666,337	¥ 23,634,536
Cash dividends (Note 10) (¥55 per share)				(695,831)							(695,831)
Net income for the year ended March 31, 2019				2,962,900							2,962,900
Purchase of common stock in treasury					(346)						(346)
Others						(2,383)	49,389	(131,549)	(21,667)	256,255	150,043
Balance at March 31, 2019	12,775,000	¥2,558,550	¥688,723	¥21,458,367	¥(135,155)	¥ 19,295	¥ (17,932)	¥ (392,253)	¥ (50,884)	¥ 1,922,592	¥ 26,051,302

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Common stock in treasury	Net unrealized holding gain (loss) on other securities, net of taxes (Note 18)	Deferred gain or loss on hedges, net of taxes (Note 19)	Translation adjustments	Retirement benefits liability adjustments (Note 9)	Non- controlling interests	Total net assets
Balance at March 31, 2018	12,775,000	\$ 23,050	\$ 6,205	\$ 172,895	\$ (1,214)	\$ 195	\$ (606)	\$ (2,349)	\$ (263)	\$ 15,012	\$ 212,924
Cash dividends (\$0.50 per share)				(6,269)							(6,269)
Net income for the year ended March 31, 2019				26,693							26,693
Purchase of common stock in treasury					(3)						(3)
Others						(21)	445	(1,185)	(195)	2,309	1,352
Balance at March 31, 2019	12,775,000	\$ 23,050	\$ 6,205	\$ 193,319	\$ (1,218)	\$ 174	\$ (162)	\$ (3,534)	\$ (458)	\$ 17,321	\$ 234,696

The accompanying notes are an integral part of these statements.

JALUX Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

	Years ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Operating activities			
Net Profit before income taxes	¥ 4,996,103	¥ 4,690,829	\$ 45,010
Depreciation and amortization	867,994	742,160	7,820
Increase (decrease) in provision for allowance for doubtful accounts	(12,383)	(3,407)	(112)
Decrease (increase) in asset for retirement benefits	(25,691)	(24,073)	(231)
Increase (decrease) in liability for retirement benefits	5,043	2,572	45
Interest and dividend income	(30,484)	(37,042)	(275)
Interest expense	155,353	106,420	1,400
Exchange loss (gain), net	(16,397)	7,139	(148)
Equity in earnings of affiliates	(568,691)	(417,758)	(5,123)
Loss (gain) on sales of, and loss on disposal of property and equipment	53,165	17,814	479
Impairment losses on fixed assets	4,472	417,003	40
Loss (gain) on sales of subsidiary securities <i>(Note 21)</i>	37,518	–	338
Loss on revaluation of investments in securities	–	4,999	–
Decrease (increase) in notes and accounts receivable	(5,894,235)	(2,152,669)	(53,101)
Decrease (increase) in inventories	(1,261,245)	(2,130,381)	(11,363)
Increase (decrease) in notes and accounts payable	(2,642,048)	1,668,326	(23,802)
Decrease (increase) in advance payment	(392,905)	420,515	(3,540)
Increase (decrease) in advance received	59,558	21,799	537
Decrease (increase) in bad debts on receivables	12,144	(142)	109
Others, net	1,983,400	518,341	17,868
Subtotal	(2,669,327)	3,852,447	(24,048)
Interest and dividends received	183,779	134,185	1,656
Interest paid	(156,059)	(105,114)	(1,406)
Income taxes paid	(1,821,796)	(1,438,911)	(16,413)
Net cash provided by (used in) operating activities	(4,463,404)	2,442,608	(40,211)
Investing activities			
Purchases of property and equipment	(509,435)	(1,405,921)	(4,590)
Proceeds from sales of property and equipment	2,522	8,678	23
Purchases of intangible assets	(248,565)	(141,056)	(2,239)
Purchases of investments in securities	(333)	(301)	(3)
Payments from changes in ownership interests in subsidiaries that result in change in scope of consolidation <i>(Note 21)</i>	(15,131)	–	(136)
Long-term loans receivable made	(1,910)	(951)	(17)
Collection of long-term loans	136,403	11,458	1,229
Increase in long-term guarantee deposit	(140,429)	(185,133)	(1,265)
Decrease in long-term guarantee deposit	110,581	53,562	996
Others, net	(39,871)	(49,239)	(359)
Net cash provided by (used in) investing activities	(706,170)	(1,708,905)	(6,362)
Financing activities			
Increase (decrease) in short-term borrowings, net	4,672,826	(483,066)	42,098
Net increase (decrease) in commercial papers	2,999,997	–	27,027
Proceeds from long-term loans	–	1,503,678	–
Repayment of long-term loans	(1,454,249)	(1,162,602)	(13,101)
Proceeds from share issuance to non-controlling shareholders	–	56,940	–
Dividends paid to stockholders	(695,453)	(632,080)	(6,265)
Dividends paid to minority stockholders	(274,359)	(180,000)	(2,472)
Others, net	(37,553)	(39,742)	(338)
Net cash provided by (used in) financing activities	5,211,207	(936,873)	46,948
Effect of exchange rate changes on cash and cash equivalents	(19,903)	10,866	(179)
Net increase (decrease) in cash and cash equivalents	21,729	(192,303)	196
Cash and cash equivalents at beginning of the year	6,021,572	6,213,875	54,248
Cash and cash equivalents at end of the year <i>(Note 21)</i>	¥ 6,043,301	¥ 6,021,572	\$ 54,444

The accompanying notes are an integral part of these statements.

JALUX Inc. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

March 31, 2019

1. Summary of Significant Accounting Policies

a. Basis of preparation

JALUX Inc. (the “Company”) and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency as required by the Financial Instruments and Exchange Law of Japan, certain modifications and inclusion of certain additional financial information are made for the convenience of readers outside Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one thousand yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

b. Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

The balance sheet date of fourteen of the consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 to March 31 have been adjusted, if necessary, for the respective years.

All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

c. Securities

Securities except for investments in unconsolidated subsidiaries and affiliates are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of net assets, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the average method.

1. Summary of Significant Accounting Policies (continued)

d. Derivatives

Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps utilized as hedging instruments is recognized over the terms of the swap agreements as an adjustment of interest expense on the hedged items if certain conditions are met.

e. Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined as follows:

Merchandise:

- The Company – by the moving average method
- Subsidiaries – principally by the weighted average method

Real estate held for sale – by the specific identification method

Leasing real estates for sale are depreciated by applying the method of tangible fixed assets.

f. Property and equipment

For the Company and the consolidated domestic subsidiaries, depreciation of the shops in airports and the buildings for rent is computed principally by the straight-line method and depreciation of other property and equipment is computed principally by the declining-balance method. The consolidated foreign subsidiaries principally adopt the straight-line method. The estimated useful lives of the assets are as follows:

Buildings and structures: 8 to 47 years

Machinery and vehicles: 4 to 10 years

g. Software

Computer software intended for internal use is amortized over 5 years by the straight-line method based on their estimated useful life.

h. Leased assets

Leased assets arising from transactions under finance lease agreements which do not transfer the ownership to the lessee is depreciated to residual value of zero by the straight-line method over the terms of the agreements.

1. Summary of Significant Accounting Policies (continued)

i. Allowance for doubtful accounts

The allowance for doubtful accounts on specific receivables is provided at the estimate of the unrecoverable amounts. The allowance for doubtful accounts on other receivables is provided based on the historical rate of losses on receivables.

j. Retirement benefit

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Actuarial gains and losses are amortized by the straight-line method beginning the following fiscal year over a period of 5 years.

Certain consolidated subsidiaries have adopted the simplified method in the calculation of their retirement benefit obligation and retirement benefit expense.

k. Cash equivalents

The Company and its consolidated subsidiaries define cash equivalents as highly liquid, short-term investments with an original maturity of three months or less.

l. Income tax

The provision for income taxes is based on income for financial statement purposes. Income taxes comprise corporation tax, enterprise tax and prefectural and municipal inhabitants' taxes. The assets and liabilities 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.

2. Unapplied Accounting Standards

(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.

(2) Effective date

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

(3) Effects of the application of the standards

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.

3. Changes in presentation method

(Changes due to adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

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

As a result, deferred tax assets of ¥503,891 thousand (\$4,540 thousand) classified as “current assets” have been included in deferred tax assets ¥540,296 thousand (\$4,868 thousand) in “investments and other assets” in the balance sheet as of March 31, 2018.

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

4. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥111.00 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2019, has been used. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

5. Inventories

Inventories at March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished products	¥ 14,227,793	¥ 12,325,323	\$ 128,178
Real estate held for sale	73,297	775,892	660
Raw materials and supplies	69,997	80,475	631
	<u>¥ 14,371,088</u>	<u>¥ 13,181,691</u>	<u>\$ 129,469</u>

Revaluation loss included in “Cost of sales” amounted to ¥1,076,767 thousand (\$9,701 thousand) and ¥243,550 thousand for the years ended March 31, 2019 and 2018.

6. Property and Equipment

The following table sets forth the acquisition costs and related accumulated depreciation of certain property and equipment at March 31, 2019 and 2018:

	March 31,		
	2019	2018	
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Buildings and structures	¥ 3,839,752	¥ 3,927,157	\$ 34,592
Machinery and vehicles	2,325,443	2,351,487	20,950
Others	1,783,139	1,803,682	16,064
	<u>7,948,334</u>	<u>8,082,326</u>	<u>71,607</u>
Accumulated depreciation	(3,884,136)	(3,766,780)	(34,992)
	<u>¥ 4,064,198</u>	<u>¥ 4,315,545</u>	<u>\$ 36,614</u>

7. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in “Investment securities” as of March 31, 2019 and 2018 amounted to ¥2,219,650 thousand (\$19,997 thousand) and ¥1,897,854 thousand, respectively.

8. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and Long-term debt at March 31, 2019 and 2018 consisted of the following:

	March 31,		
	2019	2018	
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term borrowings:			
Short-term borrowings without collateral, with weighted-average interest rate of 1.31%	¥5,498,360	¥830,984	\$49,535
Commercial papers	2,999,997	–	27,027
	<u>¥ 8,498,357</u>	<u>¥ 830,984</u>	<u>\$ 76,562</u>
Long-term debt:			
Long-term debt without collateral, due 2019 to 2024, with weighted-average interest rate of 2.35%	¥3,184,128	¥4,677,533	\$28,686
Lease obligations	67,949	120,936	612
	<u>3,252,078</u>	<u>4,798,470</u>	<u>29,298</u>
Less current portion	(2,269,949)	(1,305,340)	(20,450)
	<u>¥ 982,129</u>	<u>¥ 3,493,130</u>	<u>\$ 8,848</u>

8. Short-Term Borrowings and Long-Term Debt (continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 2019 are summarized as follows:

Year ending March 31,	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2020	¥ 2,243,559	\$ 20,212
2021	431,509	3,887
2022	231,509	2,086
2023	69,387	625
2024	208,162	1,875
	¥ 3,184,128	\$ 28,686

The aggregate annual maturities of lease obligations subsequent to March 31, 2019 are summarized as follows:

Year ending March 31,	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2020	¥ 26,389	\$ 238
2021	19,549	176
2022	13,459	121
2023	7,950	72
2024	600	5
	¥ 67,949	\$ 612

The Company has entered into loan commitment agreements with banks in order to source funds for its operations smoothly.

The outstanding balance of loan commitment as of March 31, 2019 and 2018 were as follows:

	March 31,	
	2019	2018
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Total commitment available	¥4,100,000	¥3,000,000
Less amount utilized	—	—
Balance available	¥4,100,000	¥3,000,000
		\$36,937

9. Retirement Benefit Plan

The Company and certain consolidated subsidiaries have either funded or unfunded defined benefit plans and defined contribution plans. The Company and certain consolidated subsidiaries have defined benefit plans covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occur. Certain consolidated subsidiaries have adopted the simplified method in the calculation of their retirement benefit obligation.

Plan excluding that calculated by simplified method

The changes in the retirement benefit obligation during the years ended March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 2,467,371	¥ 2,386,806	\$ 22,229
Service cost	122,245	117,675	1,101
Interest cost	20,232	19,571	182
Adjustment for actuarial assumptions	34,732	29,797	313
Retirement benefit paid	(160,547)	(86,480)	(1,446)
Balance at the end of the year	<u>¥ 2,484,034</u>	<u>¥ 2,467,371</u>	<u>\$ 22,379</u>

The changes in plan assets during the year ended March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥2,578,061	¥2,450,249	\$23,226
Expected return on plan assets	64,451	61,256	581
Adjustment for actuarial assumptions	(25,745)	52,971	(232)
Contributions by the Company	103,717	100,064	934
Retirement benefit paid	(160,547)	(86,480)	(1,446)
Balance at the end of the year	<u>¥2,559,937</u>	<u>¥2,578,061</u>	<u>\$23,062</u>

9. Retirement Benefit Plan (continued)

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018 for the Company's defined benefit plans:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 2,484,034	¥ 2,467,371	\$ 22,379
Plan assets at fair value	(2,559,937)	(2,578,061)	(23,062)
	(75,903)	(110,690)	(684)
Unfunded retirement benefit obligation	–	–	–
Net asset for retirement benefits in the balance sheet	(75,903)	(110,690)	(684)
Liability for retirement benefits	–	–	–
Asset for retirement benefits	(75,903)	(110,690)	(684)
Net asset for retirement benefits in the balance sheet	¥ (75,903)	¥ (110,690)	\$ (684)

The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 122,245	¥ 117,675	\$ 1,101
Interest cost	20,232	19,571	182
Expected return on plan assets	(64,451)	(61,256)	(581)
Amortization of adjustment for actuarial assumptions	29,248	22,471	263
Retirement benefit expense	¥ 107,274	¥ 98,462	\$ 966

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Adjustment for actuarial assumptions	¥ 31,229	¥ (45,645)	\$ 281
Total	¥ 31,229	¥ (45,645)	\$ 281

9. Retirement Benefit Plan (continued)

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2018 were as follows:

	March 31,	
	2019	2018
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Unrecognized adjustment for actuarial assumptions	¥ 73,341	¥ 42,112
Total	¥ 73,341	\$ 661

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows:

	March 31,	
	2019	2018
Bonds	19.0%	19.4%
Stocks	23.5	23.9
General account assets	55.2	54.8
Others	2.3	1.9
Total	100.0%	100.0%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumption used in accounting for the above plans were as follows:

	March 31,	
	2019	2018
Discount rate	0.8%	0.8%
Expected rates of return on plan assets	2.5%	2.5%
Salary increase rate	1.0% ~ 4.7%	1.0% ~ 4.7%

9. Retirement Benefit Plan (continued)

Plan calculated by the simplified method

The changes in the retirement benefit obligation for consolidated subsidiaries adopting the simplified method during the year ended March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 39,177	¥ 35,429	\$ 353
Retirement benefit expense	22,658	21,217	204
Retirement benefit paid	(6,117)	(5,214)	(55)
Contribution to pension plans	(11,210)	(12,740)	(101)
Translation adjustment	(580)	485	(5)
Balance at the end of the year	<u>¥ 43,928</u>	<u>¥ 39,177</u>	<u>\$ 396</u>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018 for consolidated subsidiaries adopting the simplified method:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 127,572	¥ 134,201	\$ 1,149
Plan assets at fair value	(117,973)	(121,687)	(1,063)
	9,598	12,513	86
Unfunded retirement benefit obligation	34,329	26,664	309
Net liability for retirement benefits in the balance sheet	43,928	39,177	396
Liability for retirement benefits	43,928	39,177	396
Net liability for retirement benefits in the balance sheet	<u>¥ 43,928</u>	<u>¥ 39,177</u>	<u>\$ 396</u>

Retirement benefit expenses for the simplified method of ¥22,658 thousand (\$204 thousand) and ¥21,217 thousand were accounted for the years ended March 31, 2019 and 2018.

Defined contribution plans

Contribution made to defined contribution plans for the years ended March 31, 2019 and 2018 were ¥137,754 thousand (\$1,241 thousand) and ¥130,252 thousand, respectively.

10. Net Assets

Under Japanese laws and regulations, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Under the Japanese Corporate Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Additional paid-in capital is included in capital surplus and legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by a resolution of the shareholders' meeting. 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 unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The total number and periodic changes in the number of shares of stock in issue and the total number and periodic changes in the number of shares of common stock in treasury for the years ended March 31, 2019 and 2018 were as follows:

	Year ended March 31, 2019			At March 31, 2019
	At March 31, 2018	Increase	Decrease	
Number of shares of stock in issue:				
Common stock	12,775	–	–	12,775
Number of shares of common stock in treasury:				
Common stock	131	0	–	131

The increase in common stock in treasury of 0 thousand shares resulted from the Company's purchase of 0 thousand odd-lot shares of less than one unit at the request of the stockholders.

10. Net Assets (continued)

	Year ended March 31, 2018			
	At			At
	March 31, 2017	Increase	Decrease	March 31, 2018
		<i>(Thousands of shares)</i>		
Number of shares of stock in issue:				
Common stock	12,775	–	–	12,775
Number of shares of common stock in treasury:				
Common stock	131	0	–	131

The increase in common stock in treasury of 0 thousand shares resulted from the Company's purchase of 0 thousand odd-lot shares of less than one unit at the request of the stockholders.

Dividends

Dividends paid

Resolution	Type of shares	Total dividends		Dividends per share		Cut-off date	Effective date
		<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>		
General meeting of stockholders held on June 15, 2018	Common stock	¥695,831	\$6,269	¥55.0	\$0.50	March 31, 2018	June 18, 2018

Dividends with the cut-off date in the year ended March 31, 2019 and effective date in the year ended March 31, 2020.

Resolution	Type of shares	Total dividends		Dividends per share		Cut-off date	Effective date
		<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>	<i>(Yen)</i>	<i>(U.S. dollars)</i>		
General meeting of stockholders held on June 14, 2019	Common stock	¥822,339	\$7,408	¥65.0	\$0.59	March 31, 2019	June 17, 2019

11. Other Income (Expenses)

The components of “Others, net” in “Non-operating income (expenses)” in the period ended March 31, 2019 and 2018 were as follows:

	Years ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Dividends received	¥ 22,278	¥ 26,263	\$ 201
Exchange gain (loss), net	(62,030)	43,719	(559)
Gain on sales of property and equipment	1,505	1,977	14
Loss on sales of subsidiary securities	(37,518)	–	(338)
Commission paid	(8,088)	(8,880)	(73)
Loss on sales and disposal of property and equipment	(54,670)	(19,792)	(493)
Impairment losses on fixed assets	(4,472)	(417,003)	(40)
Loss on revaluation of investments in securities	–	(4,999)	–
Loss on liquidation of a company	–	(28,721)	–
Others, net	89,462	67,085	806
	<u>¥ (53,535)</u>	<u>¥ (340,351)</u>	<u>\$ (482)</u>

12. Impairment of Fixed Assets

For the year ended March 31, 2019, the Company and a consolidated subsidiary recognized impairment losses on fixed assets of ¥4,472 thousand (\$40 thousand), and for the year ended March 31, 2018 the Company recognized impairment losses on fixed asset of ¥417,003 thousand which consisted of the following:

Location	Use	Classification	Years ended March 31,		
			2019	2018	2019
			<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Hakodate-shi, Hokkaido	Airport shops	Furniture	–	¥121	–
Amami-shi, Kagoshima	Airport shops	Furniture and other	–	10,031	–
Chuo-ku, Tokyo	Business assets	Buildings and other	–	219,171	–
U.S.A.(Las Vegas)	Business assets	Buildings	–	24,180	–
Laos(Sekong)	Business assets	Buildings, structures and other	–	163,498	–
Kunisaki-shi, Oita	Airport shops	Furniture and other	¥4,472	–	\$40

The Company and its consolidated subsidiaries base its grouping for assessing the impairment losses on fixed assets on the smallest identifiable groups of assets which generate cash inflows and which are largely independent of the cash inflows from other assets or groups of assets.

12. Impairment of Fixed Assets (continued)

Impairment losses on business assets including airport shops were recognized due to significant decrease in expected future cash flows on the strategy plan for the years ended March 31, 2019 and 2018.

The recoverable amount of each group of assets was measured by their usage value and estimated at non-recoverable by the minus of future cash flows for the years ended March 31, 2019 and 2018.

13. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued bonuses	¥ 188,615	¥ 182,778	\$ 1,699
Allowance for doubtful accounts	3,587	13,735	32
Liability for retirement benefits	27,241	18,511	245
Impairment losses on fixed assets	9,536	114,478	86
Accrued enterprise tax	65,551	66,606	591
Elimination of unrecognized gain on intercompany accounts and transactions	88,690	86,880	799
Loss on revaluation of inventories	374,696	76,702	3,376
Loss on revaluation of investments in securities	8,807	106	79
Carryforward tax loss(*)	182,857	526,911	1,647
Deferred gain or loss on hedges	7,914	29,711	71
Asset retirement obligation	47,535	57,457	428
Others	134,342	165,599	1,210
	<u>1,139,375</u>	<u>1,339,480</u>	<u>10,265</u>
Valuation allowance for carryforward tax loss(*)	(170,913)	-	(1,540)
Valuation allowance for deductible temporary differences	(25,827)	-	(233)
Valuation allowance	<u>(196,741)</u>	<u>(620,046)</u>	<u>(1,772)</u>
Total deferred tax assets	942,634	719,433	8,492
Deferred tax liabilities:			
Accumulated retained earnings of consolidated subsidiaries	(264,313)	(248,485)	(2,381)
Asset for retirement benefits	(45,698)	(46,788)	(412)
Cost of asset retirement obligation	(29,863)	(28,637)	(269)
Others	(30,144)	(39,689)	(272)
Total deferred tax liabilities	<u>(370,020)</u>	<u>(363,600)</u>	<u>(3,334)</u>
Net deferred tax assets	<u>¥ 572,613</u>	<u>¥ 355,833</u>	<u>\$ 5,159</u>

13. Income Taxes (continued)

(*)Carryforward tax loss and its deferred tax assets by expiration periods

(March 31 2019)

(Thousands of yen)

	2020	2021	2022	2023	2024	2025 and beyond	Total
Carryforward tax loss (a)	25,064	6,966	14,700	29,172	61,455	45,498	182,857
Valuation allowance	(25,064)	(6,966)	(14,700)	(29,172)	(49,511)	(45,498)	(170,913)
Net deferred tax assets	–	–	–	–	11,943	–	(b)11,943

(March 31 2019)

(Thousands of U.S. dollars)

	2020	2021	2022	2023	2024	2025 and beyond	Total
Carryforward tax loss (a)	226	63	132	263	554	410	1,647
Valuation allowance	(226)	(63)	(132)	(263)	(446)	(410)	(1,540)
Net deferred tax assets	–	–	–	–	108	–	(b)108

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

(b) Deferred tax assets of ¥11,943 thousand (\$108 thousand) was recognized for carryforward tax loss of ¥182,857 thousand (\$1,647 thousand) (amount multiplied by the statutory tax rate). The deferred tax assets of ¥11,943 thousand (\$108 thousand) was recognized for carryforward tax loss of ¥11,943 thousand (\$108 thousand) by the consolidated subsidiary JALUX Trust Inc. The carryforward tax loss for which the deferred tax asset was recognized arose in relation to loss before income taxes of ¥77,273 thousand (\$696 thousand) having been recorded for the year ended March 31, 2015. No valuation reserve is recognized for the carryforward tax loss since the amount was determined to be recoverable based on expected future taxable income.

The difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2019 and 2018 were as follows:

	Years ended March 31,	
	2019	2018
Effective statutory tax rate		
(Reconciliations)		
Disallowed expenses, including entertainment expenses		30.62%
Inhabitants' per capita taxes		0.92
Equity in earnings of affiliates		0.42
Different tax rates applied to consolidated subsidiaries		(2.73)
Changes in valuation allowance		1.64
Others		3.79
Actual tax rate		<u>34.53%</u>

14. Other Comprehensive Income

The following table presents reclassifications adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2019 and 2018:

	March 31,	
	2019	2018
	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Net unrealized holding gain (loss) on other securities:		
Amount arising during the year	¥ (1,755)	¥ 25,002
Amount before tax effect	(1,755)	25,002
Tax effect	961	(7,655)
Net unrealized holding gain (loss) on other securities, net of taxes	(793)	17,346
Deferred gain or loss on hedges:		
Amount arising during the year	71,186	(130,167)
Amount before tax effect	71,186	(130,167)
Tax effect	(21,797)	39,936
Deferred gain or loss on hedges, net of taxes	49,389	(90,230)
Translation adjustments:		
Amount arising during the year	(82,173)	(52,798)
Reclassification adjustments for gains and losses included in profit attributable to owners of the company	(3,959)	–
Translation adjustments	(86,133)	(52,798)
Retirement benefits liability adjustments:		
Amount arising during the year	(60,477)	23,174
Reclassification adjustments for gains and losses included in profit attributable to owners of the company	29,248	22,471
Amount before tax effect	(31,229)	45,645
Tax effect	9,562	(13,976)
Retirement benefits liability adjustments, net of taxes	(21,667)	31,668
Share of other comprehensive income of companies accounted for by the equity method:		
Amount arising during the year	(55,088)	(24,831)
Total other comprehensive income	¥ (114,293)	¥ (118,845)
	\$ (1,030)	

15. Leases

As lessee under operating leases

Future rental expenses under operating leases outstanding at March 31, 2019 and 2018 are summarized as follows:

	March 31,		
	2019	2018	2019
	(Thousands of yen)		(Thousands of U.S. dollars)
Within 1 year	¥ 1,495,241	¥ 1,541,519	\$ 13,471
Over 1 year	3,460,296	4,061,620	31,174
	<u>¥ 4,955,538</u>	<u>¥ 5,603,139</u>	<u>\$ 44,644</u>

As lessor under financing leases

As the impact of financing leases is immaterial, the note is not required to be disclosed.

As lessor under operating leases

Future rental revenues under operating leases outstanding at March 31, 2019 and 2018 are summarized as follows:

	March 31,		
	2019	2018	2019
	(Thousands of yen)		(Thousands of U.S. dollars)
Within 1 year	¥ 1,063,586	¥ 1,092,363	\$ 9,582
Over 1 year	2,607,128	2,989,319	23,488
	<u>¥ 3,670,714</u>	<u>¥ 4,081,683</u>	<u>\$ 33,069</u>

16. Amounts Per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the potentially dilutive securities to be issued upon the exercise of subscription rights as stock options.

	Year ended March 31,		
	2019	2018	2019
	(Yen)		(U.S. dollars)
Net income per share of common stock:			
Basic	¥ 234.34	¥ 213.02	\$ 2.111

Diluted net income per share is not stated in 2018 and 2019 because there are no potential shares.

17. Financial Instruments (continued)

Long-term guarantee deposit are composed of mainly deposits for rental spaces of the airport buildings. Those deposits are exposed to credit risk in relation to counterparties.

All notes and accounts payable have payment due dates within one year. Although the Company is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, foreign exchange contracts are arranged to reduce the risk.

Short-term borrowings and commercial papers are raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Company utilizes interest rate swap transactions as a hedging instrument.

Risk management for financial instruments

a. Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables and long-term guarantee deposit, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have the high credit-rating.

b. Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For accounts receivables and payables denominated in foreign currencies, the Company enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the interest rate risk for loans payable bearing interest at variable rates, the Company may also enter into interest rate swap transactions if certain conditions are met.

For marketable securities and investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities should be maintained taking into account their fair values and relationships with the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions.

c. Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

17. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments and estimated fair value on the consolidated balance sheet as of March 31, 2019 and 2018 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

	March 31, 2019		
	Carrying value	Estimated fair value	Difference
	<i>(Thousands of yen)</i>		
Assets			
Cash and time deposits	¥ 6,050,750	¥ 6,050,750	¥ –
Trade notes and accounts receivable	21,328,708	21,328,708	–
Accounts receivable - other	2,994,748	2,994,748	–
Investment securities	279,877	279,877	–
Total assets	¥ 30,654,084	¥ 30,654,084	¥ –
Liabilities			
Trade notes and accounts payable	¥8,687,138	¥8,687,138	¥ –
Short-term borrowings	5,498,360	5,498,360	–
Commercial papers	2,999,997	2,999,997	–
Accrued expenses	5,767,120	5,767,120	–
Long-term debt (*1)	3,184,128	3,175,044	(9,084)
Total liabilities	¥ 26,136,745	¥ 26,127,661	¥ (9,084)
Derivatives (*2)	¥ (51,071)	¥ (51,071)	¥ –

	March 31, 2019		
	Carrying value	Estimated fair value	Difference
	<i>(Thousands of U.S. dollars)</i>		
Assets			
Cash and time deposits	\$ 54,511	\$ 54,511	\$ –
Trade notes and accounts receivable	192,151	192,151	–
Accounts receivable- other	26,980	26,980	–
Investment securities	2,521	2,521	–
Total assets	\$ 276,163	\$ 276,163	\$ –
Liabilities			
Trade notes and accounts payable	\$ 78,263	\$ 78,263	\$ –
Short-term borrowings	49,535	49,535	–
Commercial papers	27,027	27,027	–
Accrued expenses	51,956	51,956	–
Long-term debt (*1)	28,686	28,604	(82)
Total liabilities	\$ 235,466	\$ 235,384	\$ (82)
Derivatives (*2)	\$ (460)	\$ (460)	\$ –

17. Financial Instruments (continued)

	March 31, 2018		
	Carrying value	Estimated fair value	Difference
<i>(Thousands of yen)</i>			
Assets			
Cash and time deposits	¥ 6,027,362	¥ 6,027,362	¥ –
Trade notes and accounts receivable	15,452,147	15,452,147	–
Accounts receivable - other	2,643,953	2,643,953	–
Investment securities	281,312	281,312	–
Total assets	¥ 24,404,774	¥ 24,404,774	¥ –
Liabilities			
Trade notes and accounts payable	¥11,362,733	¥11,362,733	¥ –
Short-term borrowings	830,984	830,984	–
Accrued expenses	3,825,901	3,825,901	–
Long-term debt (*1)	4,677,533	4,681,012	3,479
Total liabilities	¥ 20,697,153	¥ 20,700,632	¥ 3,479
Derivatives (*2)	¥ (50,833)	¥ (50,833)	¥ –

*1. Long-term debt includes current portion of long-term debt.

*2. The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

- a. Cash and time deposits, Trade notes and accounts receivable and Other notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

- b. Investment securities

The fair value of stocks is based on quoted market prices. The fair value of investment trusts and debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities.

- c. Trade notes and accounts payable, short-term borrowings, commercial papers and accrued expenses

Since these items are settled in a short period of time, their carrying value approximates fair value.

- d. Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new debt agreements were entered into.

17. Financial Instruments (continued)

e. Derivative transactions

Refer to Note 19 Derivative Transactions of the notes to the consolidated financial statements.

Financial instruments for which it is extremely difficult to determine the fair value

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unlisted stocks	¥ 2,421,768	¥ 2,099,958	\$ 21,818
Long-term guarantee deposit	1,979,203	1,971,093	17,831

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

Redemption schedule for receivables and marketable securities with maturities

	March 31, 2019			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Thousands of yen)</i>			
Cash and time deposits	¥ 6,050,750	¥ –	¥ –	¥ –
Trade notes and accounts receivable	21,328,708	–	–	–
Accounts receivable-other	2,994,748	–	–	–
Investment securities with maturities:				
Bonds	–	–	–	–
Others	–	–	–	–
Total	¥ 30,374,207	¥ –	¥ –	¥ –

17. Financial Instruments (continued)

March 31, 2019				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<i>(Thousands of U.S. dollars)</i>				
Cash and time deposits	\$ 54,511	\$ –	\$ –	\$ –
Trade notes and accounts receivable	192,151	–	–	–
Accounts receivable-other	26,980	–	–	–
Investment securities with maturities:				
Bonds	–	–	–	–
Others	–	–	–	–
Total	\$ 273,642	\$ –	\$ –	\$ –
March 31, 2018				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<i>(Thousands of yen)</i>				
Cash and time deposits	¥ 6,027,362	¥ –	¥ –	¥ –
Trade notes and accounts receivable	15,452,147	–	–	–
Accounts receivable-other	2,643,953	–	–	–
Investment securities with maturities:				
Bonds	–	–	–	–
Others	–	–	–	–
Total	¥ 24,123,462	¥ –	¥ –	¥ –

18. Securities

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2019 and 2018 are summarized as follows:

	March 31, 2019		
	Carrying value	Acquisition costs	Unrealized gain (loss)
	<i>(Thousands of yen)</i>		
Unrealized gain:			
Stocks	¥ 279,877	¥ 255,413	¥ 24,463
Bonds:			
Others	—	—	—
Others	—	—	—
Total	<u>¥ 279,877</u>	<u>¥ 255,413</u>	<u>¥ 24,463</u>

	March 31, 2019		
	Carrying value	Acquisition costs	Unrealized gain (loss)
	<i>(Thousands of U.S. dollars)</i>		
Unrealized gain:			
Stocks	\$ 2,521	\$ 2,301	\$ 220
Bonds:			
Others	—	—	—
Others	—	—	—
Total	<u>\$ 2,521</u>	<u>\$ 2,301</u>	<u>\$ 220</u>

	March 31, 2018		
	Carrying value	Acquisition costs	Unrealized gain (loss)
	<i>(Thousands of yen)</i>		
Unrealized gain:			
Stocks	¥ 281,312	¥ 255,094	¥ 26,217
Bonds:			
Others	—	—	—
Others	—	—	—
Total	<u>¥ 281,312</u>	<u>¥ 255,094</u>	<u>¥ 26,217</u>

Non-marketable securities classified as other securities at March 31, 2019 and 2018 amounted to ¥202,117 thousand (\$1,821 thousand) and ¥202,104 thousand, respectively.

19. Derivative Transactions

The Company utilizes forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies.

The notional amounts and the estimated fair value of the forward foreign exchange contracts outstanding at March 31, 2019 and 2018 for which hedged accounting has not been applied, are summarized as follows:

	March 31, 2019	
	Notional amount	Fair value
Maturing within one year	<i>(Thousands of yen)</i>	
Sell:		
USD	¥ 1,235,889	¥ (24,166)
THB	40,345	(947)
Total	¥ 1,276,234	¥ (25,114)

	March 31, 2019	
	Notional amount	Fair value
Maturing within one year	<i>(Thousands of U.S. dollars)</i>	
Sell:		
USD	\$ 11,134	\$ (218)
THB	363	(9)
Total	\$ 11,498	\$ (226)

	March 31, 2018	
	Notional amount	Fair value
Maturing within one year	<i>(Thousands of yen)</i>	
Sell:		
USD	¥ 1,253,726	¥ 46,199
Total	¥ 1,253,726	¥ 46,199

The notional amounts and the estimated fair value of the forward foreign exchange contracts outstanding at March 31, 2019 and 2018, for which hedged accounting has been applied, are summarized as follows:

	March 31, 2019	
	Notional amount	Fair value
Maturing within one year	<i>(Thousands of yen)</i>	
Sell:		
USD	¥ 552,015	¥ (3,389)
EUR	72,356	2,226
Others	1,774	(5)
Buy:		
USD	4,502,695	(8,016)
EUR	823,667	(18,534)
THB	26,525	(857)
GBP	369,389	654
Others	193,641	1,965
Total	¥ 6,542,066	¥ (25,957)

19. Derivative Transactions (continued)

		March 31, 2019	
Maturing within one year		Notional amount	Fair value
		<i>(Thousands of U.S. dollars)</i>	
Sell:			
USD		\$ 4,973	\$ (31)
EUR		652	20
Others		16	0
Buy:			
USD		40,565	(72)
EUR		7,420	(167)
THB		239	(8)
GBP		3,328	6
Others		1,745	18
Total		<u>\$ 58,938</u>	<u>\$ (234)</u>

		March 31, 2018	
Maturing within one year		Notional amount	Fair value
		<i>(Thousands of yen)</i>	
Sell:			
USD		¥ 340,765	¥ 4,587
EUR		4,611	(187)
Buy:			
USD		5,275,953	(94,061)
EUR		643,948	(6,613)
THB		157,772	(1,347)
GBP		25,407	(8)
Others		126,917	597
Total		<u>¥ 6,575,373</u>	<u>¥ (97,032)</u>

19. Derivative Transactions (continued)

Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. The notional amounts of the forward foreign exchange contracts accounted for as part of accounts receivable or payable outstanding at March 31, 2019 and 2018 are summarized as follows:

	March 31,		
	<u>2019</u>	<u>2018</u>	<u>2019</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Sell:			
USD	¥ 87,165	¥ 344,494	\$ 785
EUR	–	8,946	–
Buy:			
USD	2,040,324	1,521,192	18,381
EUR	39,032	54,956	352
THB	44,828	50,348	404
Others	6,755	31,306	61
Total	<u>¥ 2,218,104</u>	<u>¥ 2,011,242</u>	<u>\$ 19,983</u>

The notional amounts of derivatives are not necessarily indicative of the actual market risk involved in derivative transactions.

20. Investment and Rental Properties

The Company and a certain consolidated subsidiary own buildings and lands for lease mainly in Thai land and other areas.

The carrying value in the consolidated balance sheet and corresponding fair value of those properties for the year ended March 31, 2019 are as follows:

Carrying Value		Fair Value	
<u>March 31, 2019</u>	<u>Net change</u>	<u>March 31, 2018</u>	<u>March 31, 2019</u>
<i>(Thousands of yen)</i>			
<u>¥ 963,329</u>	<u>¥ (42,846)</u>	<u>¥ 1,006,175</u>	<u>¥ 982,035</u>
Carrying Value		Fair Value	
<u>March 31, 2019</u>	<u>Net change</u>	<u>March 31, 2018</u>	<u>March 31, 2019</u>
<i>(Thousands of U.S. dollars)</i>			
<u>\$ 8,679</u>	<u>\$ (386)</u>	<u>\$ 9,065</u>	<u>\$ 8,847</u>

The components of net change in carrying value include decreases mainly due to depreciation of Buildings and structures in the amount of ¥34,666 thousand (\$312thousand) and increases mainly due to acquisitions of real estate in the amount of ¥3,039 thousand (\$27 thousand).

20. Investment and Rental Properties (continued)

The carrying value in the consolidated balance sheet and corresponding fair value of those properties for the year ended March 31, 2018 were as follows:

March 31, 2018	Carrying Value		Fair Value
	Net change	March 31, 2017	March 31, 2018
<i>(Thousands of yen)</i>			
¥ 1,006,175	¥ (82,178)	¥ 1,088,353	¥ 1,025,093

The components of net change in carrying value include decreases mainly due to transfer to movables from Construction in progress in the amount of ¥378,926 thousand and increases mainly due to acquisitions of real estate in the amount of ¥251,963 thousand.

The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss. The fair value is mainly estimated in accordance with appraisal standards for valuing real estate. However, if no material change has occurred in certain values or indices, the fair values are determined by adjusting such appraised values and indices.

21. Cash Flow Information

The components of cash and cash equivalents are summarized as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and time deposits	¥ 6,050,750	¥ 6,027,362	\$ 54,511
Time deposits with maturities of more than three months	(7,448)	(5,789)	(67)
	<u>¥ 6,043,301</u>	<u>¥ 6,021,572</u>	<u>\$ 54,444</u>

The following is the summary of assets and liabilities lost through the sales of shares of Advance Agriculture Co., Ltd. and Thierry Marx Japan Inc. that result in change in scope of consolidation for the year ended March 31, 2019, related selling price and net payments due to the sales:

	<i>(Thousands of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Current assets	¥78,885	\$ 711
Fixed assets	44,143	398
Current liabilities	(43,267)	(390)
Long-term liabilities	(66,046)	(595)
Non-controlling interests	38,788	349
Loss on sales of subsidiary securities	(37,518)	(338)
Selling price	14,985	135
Cash and cash equivalents	(30,116)	(271)
Net payments due to the sales	<u>¥(15,131)</u>	<u>\$(136)</u>

22. Segment Information

The reportable segments of the Company and its consolidated subsidiaries are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

Aviation & airport-related business segment includes aircraft components and aviation-related business. Life service business segment includes insurance, real estate business and printing. Retail business segment includes cabin service supply, mail-order sales, airport shops and gift item business. Food & beverage business segment includes agriculture & marine products, processed foods and wine sales business.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Segment performance is evaluated based on operating income or loss. Intersegment sales are recorded at the same price used in transactions with third parties.

22. Segment Information (continued)

The reportable segments information of the Company and its consolidated subsidiaries for the years ended March 31, 2019 and 2018 were summarized as follows:

	Year ended March 31, 2019							
	Reportable segments						Adjustments and eliminations	Consolidated
	Aviation & airport-related business	Life service business	Retail business	Food & beverage business	Total			
	<i>(Thousands of yen)</i>							
Sales, profits and assets by reportable segments:								
Sales to outside parties	¥84,443,519	¥13,517,035	¥63,230,925	¥24,534,615	¥185,726,096	¥ –	¥185,726,096	
Inter-segment sales and transfers	1,409	137,911	40,837	1,135,742	1,315,900	(1,315,900)	–	
Total	84,444,929	13,654,946	63,271,763	25,670,357	187,041,996	(1,315,900)	185,726,096	
Segment profits	¥ 558,420	¥ 1,133,470	¥ 3,912,643	¥ 911,186	¥ 6,515,720	¥(1,887,625)	¥ 4,628,094	
Segment assets	¥21,722,503	¥ 5,860,889	¥15,796,706	¥11,113,912	¥ 54,494,012	¥ 2,392,988	¥ 56,887,000	
Other items:								
Depreciation and amortization	¥ 251,976	¥ 110,211	¥ 361,494	¥ 72,624	¥ 796,306	¥ 71,688	¥ 867,994	
Investment in affiliates accounted for by the equity method	¥ 857,281	¥ 372,844	¥ 506,221	¥ –	¥ 1,736,347	¥ 422,224	¥ 2,158,571	
Capital expenditures	¥ 29,544	¥ 18,451	¥ 529,995	¥ 137,075	¥ 715,066	¥ 69,696	¥ 784,762	
	Year ended March 31, 2019							
	Reportable segments							
	Aviation & airport-related business	Life service business	Retail business	Food & beverage business	Total	Adjustments and eliminations	Consolidated	
	<i>(Thousands of U.S. dollars)</i>							
Sales, profits and assets by reportable segments:								
Sales to outside parties	\$760,752	\$ 121,775	\$569,648	\$221,033	\$ 1,673,208	\$ –	\$1,673,208	
Inter-segment sales and transfers	13	1,242	368	10,232	11,855	(11,855)	–	
Total	760,765	123,018	570,016	231,264	1,685,063	(11,855)	1,673,208	
Segment profits	\$ 5,031	\$ 10,211	\$ 35,249	\$ 8,209	\$ 58,700	\$(17,006)	\$ 41,695	
Segment assets	\$195,698	\$ 52,801	\$142,313	\$100,125	\$490,937	\$ 21,558	\$512,495	
Other items:								
Depreciation and amortization	\$ 2,270	\$ 993	\$ 3,257	\$ 654	\$ 7,174	\$ 646	\$ 7,820	
Investment in affiliates accounted for by the equity method	\$ 7,723	\$ 3,359	\$ 4,561	\$ –	\$ 15,643	\$ 3,804	\$ 19,447	
Capital expenditures	\$ 266	\$ 166	\$ 4,775	\$ 1,235	\$ 6,442	\$ 628	\$ 7,070	

Adjustments and eliminations for segment profits and losses include ¥ 75 thousand (\$1 thousand) of elimination of inter-segment profit and minus ¥1,887,701 thousand (\$17,006 thousand) of corporate general administration expenses which are not allocable to the reportable segments.

Adjustments and eliminations for segment assets include minus ¥175,647 thousand (\$1,582 thousand) of elimination of accounts inter-segment receivable and ¥2,568,636 thousand (\$23,141 thousand) of corporate assets which are not allocable to the reportable segments. Corporate assets consist primarily of investments in securities and assets belonging to the administrative part of the Company.

Adjustments and eliminations for capital expenditures consist primarily of investments in the head office software.

22. Segment Information (continued)

Segment profits are adjusted with operating income reported in the consolidated statements of income.

	Year ended March 31, 2018						
	Reportable segments					Adjustments and eliminations	Consolidated
	Aviation & airport-related business	Life service business	Retail business	Food & beverage business	Total		
	<i>(Thousands of yen)</i>						
Sales, profits and assets by reportable segments:							
Sales to outside parties	¥56,852,577	¥13,414,866	¥59,171,481	¥23,965,168	¥153,404,093	¥	¥153,404,093
Inter-segment sales and transfers	11,972	135,866	73,859	975,887	1,197,586	(1,197,586)	–
Total	56,864,549	13,550,733	59,245,341	24,941,056	154,601,679	(1,197,586)	153,404,093
Segment profits	¥ 784,654	¥ 1,134,349	¥ 3,721,463	¥ 795,661	¥ 6,436,128	¥(1,727,065)	¥ 4,709,063
Segment assets	¥16,934,020	¥ 6,338,145	¥14,891,245	¥ 9,397,296	¥ 47,560,708	¥ 1,452,724	¥ 49,013,432
Other items:							
Depreciation and amortization	¥ 146,457	¥ 96,556	¥ 330,856	¥ 78,432	¥ 652,302	¥ 89,857	¥ 742,160
Investment in affiliates accounted for by the equity method	¥ 598,503	¥ 336,005	¥ 482,467	¥ –	¥ 1,416,976	¥ 419,620	¥ 1,836,596
Capital expenditures	¥ 768,283	¥ 264,180	¥ 537,748	¥ 47,801	¥ 1,618,014	¥ 89,925	¥ 1,707,939

Adjustments and eliminations for segment profits and losses include minus ¥ 421 thousand of elimination of inter-segment profit and minus ¥1,726,644 thousand of corporate general administration expenses which are not allocable to the reportable segments.

Adjustments and eliminations for segment assets include minus ¥145,050 thousand of elimination of accounts inter-segment receivable and ¥1,597,775 thousand of corporate assets which are not allocable to the reportable segments. Corporate assets consist primarily of investments in securities and assets belonging to the administrative part of the Company.

Adjustments and eliminations for capital expenditures consist primarily of investments in the head office software.

Segment profits are adjusted with operating income reported in the consolidated statements of income.

For the years ended March 31, 2019 and 2018, net sales to outside parties in Japan represent more than 90% of consolidated operating revenues. As a result, net sales to outside parties by countries or areas grouped according to geographical classification are not required to be disclosed.

22. Segment Information (continued)

Property, plant and equipment by geographical countries or areas at March 31, 2019 and 2018 were summarized as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Japan	¥ 1,552,485	¥ 1,476,270	\$ 13,986
Thailand	1,446,421	1,499,573	13,031
Singapore	1,269,670	1,514,609	11,438
Other foreign countries	239,633	245,294	2,159
	<u>¥ 4,508,210</u>	<u>¥ 4,735,748</u>	<u>\$ 40,615</u>

Net sales to major customers for the fiscal year ended March 31, 2019 and 2018 were as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
IHI Corporation (Aviation & airport-related business)	¥ 43,245,346	¥ 34,652,224	\$ 389,598
Mitsubishi Heavy Industries Aero Engines, Ltd. (Aviation & airport-related business)	20,102,843	–	181,107

Impairment losses on fixed assets by reportable segments for the years ended March 31, 2019 and 2018 were summarized as follows:

	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Aviation & airport-related business	¥ –	¥ –	\$ –
Life service business	–	–	–
Retail business	4,472	253,504	40
Food & beverage business	–	163,498	–
Reportable segments total	<u>4,472</u>	<u>417,003</u>	<u>40</u>
Adjustments and eliminations	–	–	–
	<u>¥ 4,472</u>	<u>¥ 417,003</u>	<u>\$ 40</u>

23. Related Party Transactions

The significant transactions between the Company and Japan Airline Co., Ltd., for the years ended March 31, 2019 and 2018 were summarized as follows:

	Year ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Sales of flight equipment	¥ 5,608,588	¥ 5,416,305	\$ 50,528
Purchases of merchandise	512,011	325,567	4,613
	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Accounts receivable	¥ 650,829	¥ 575,922	\$ 5,863
Accounts payable	95,125	62,387	857

The significant transactions between certain consolidated subsidiaries of the Company and Japan Airlines Co., Ltd. for the years ended March 31, 2019 and 2018 were summarized as follows:

	Year ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Sales of flight equipment	¥ 390,008	¥ 295,127	\$ 3,514
	March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Accounts receivable	¥ 34,798	¥ 33,057	\$ 313

24. Contingent liabilities

As guarantors of indebtedness to unconsolidated subsidiaries and affiliates, for the years ended March 31, 2019 and 2018 were summarized as follows:

	Year ended March 31,		
	2019	2018	2019
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
MC-Jalux Airport Services Co.,Ltd.	¥ 227,550	¥ 217,812	\$ 2,050