JAPAN CASHMACHINE CO., LTD.
2-3-15, Nishiwaki, Hirano-ku, Osaka 547-0035, Japan
Tel: +81-6-6703-8400 Fax: +81-6-6707-0348
http://www.jcm-hq.co.jp/english/

Annual Report 2018

Year ended March 31, 2018

JAPAN CASHMACHINE CO., LTD.

Dedicated to becoming a truly global company, continually creating markets and value in the circulation of cash

Company Profile

Established in 1955, Japan Cash Machine Co., Ltd. (JCM) is an integrated manufacturer of money-handling machines. Today JCM and its Group companies use advanced technology and expertise to supply a wide range of superior products to users across a broad spectrum of industries, including gaming, amusement, financial, retail and other service industries. The JCM Group has built an excellent reputation among casinos and financial institutions worldwide by developing high-performance units for use with the US dollar, the euro and more than 100 other currencies. In all business activities, JCM is determined to maximize the benefit to people by reducing the effort required for currency distribution and storage, including the identification, sorting, delivery and quantity management of currency, and by maintaining the high standards of accuracy required to ensure that people can have confidence in their currency.

The JCM Group is determined to enhance corporate value and maximize returns to shareholders through the appropriate and efficient management of business operations, while maintaining excellent relations with all stakeholders, including shareholders, investors, suppliers, local communities and employees.

Forward-Looking Statements

This report contains forward-looking statements regarding the JCM Group plans, forecasts, strategies, business results and other items. These forward-looking statements are based on judgments made using the information available at the time. Actual business results will be affected by various risk factors and uncertainties, and readers are advised that these may differ substantially from the projections presented here. Factors affecting future projections include, but are not limited to, the economic conditions under which the JCM Group operates, competitive pressures, laws and regulations, the status of product development programs, and fluctuations in exchange rates.

Contents

Net sales
¥29,861 million
Down **1.2%** year on year

Operating income
¥1,372 million
Down **21.7%** year on year

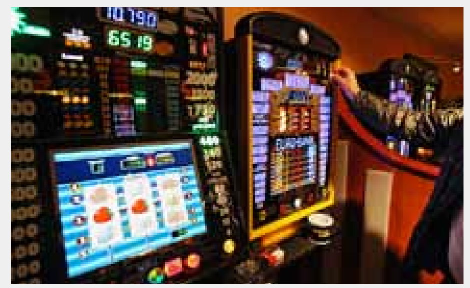
Net income attributable to owners of parent
¥924 million
Down **8.7%** year on year

JCM applies currency validation technologies needed in the world today to develop and manufacture currency processing equipment, financial-related equipment, and amusement and gaming equipment not only in Japan, but in the global market.

Casino and Gaming Markets

JCM stands as a pioneer in the casino industry

JCM first began manufacturing bill validators for Japanese yen banknotes in 1981. After that, it shifted attention to US dollars, the most widely circulated currency worldwide, and succeeded in developing bill validator units for US banknotes. Building on that momentum, JCM shifted focus from manufacturing cash registers and security safes to producing specialized products fitted with technologies for validating and sorting the currencies of countries around the world, in addition to the yen.



Banking, Retail and Transportation Markets

JCM's currency validation technology supports the flow of money around the world

Drawing on the trust and experience built up through global operations as an expert in currency handling, JCM has been expanding business in a wide range of markets, including the banking, retail and transportation markets, offering various products worldwide including ATMs, ticket dispensers, fare adjustment machines, vending machines, and payment terminals for kiosks and other retail outlets. Leveraging its own global network, JCM continuously offers new technologies and products with high added value in response to the needs of customers all over the world.

Japanese Amusement Equipment Market

Applying currency processing technology to make Japan's amusement industry more efficient

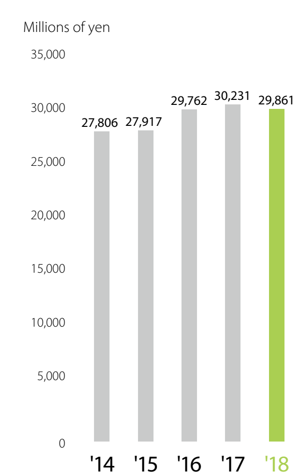
The technologies that JCM has accumulated through operations in the gaming market have also gained a foothold in Japan's amusement market, especially for *pachinko* (a Japanese-style gambling pinball machine) and slot machine parlors. These businesses require sophisticated technologies for validating and sorting banknotes and coins, and for supplying balls and tokens. In that context, JCM provides technologies and products in anticipation of the needs of operators, ranging from systems on the customer floor to back office equipment, as well as flawless services for improving their environments.

Japan Cash Machine Co., Ltd. and Subsidiaries
Years ended March 31, 2018, 2017, 2016, 2015 and 2014

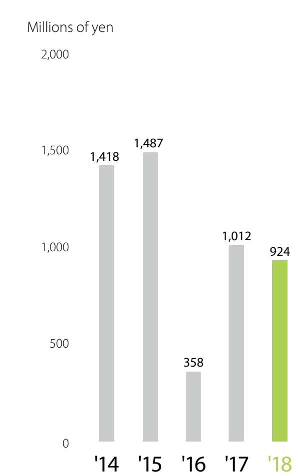
	Millions of Yen					Thousands of US Dollars (Note)
	2018	2017	2016	2015	2014	2018
For the year:						
Net sales:						
Domestic	¥ 10,696	¥ 10,411	¥ 9,491	¥ 10,899	¥ 10,549	$ 100,611
Overseas	19,165	19,820	20,271	17,018	17,257	180,275
Total	29,861	30,231	29,762	27,917	27,806	280,886
Gross profit	11,476	11,940	11,754	10,371	9,861	107,948
Operating income	1,372	1,752	1,498	1,285	1,762	12,905
Net income attributable to owners of parent	924	1,012	358	1,487	1,418	8,692
Net cash provided by operating activities	3,461	612	1,759	1,801	2,098	32,556
Net cash used in investing activities	(694)	(294)	(243)	(6,991)	(545)	(6,528)
Net cash provided by (used in) financing activities	(940)	(1,688)	(1,414)	5,181	(626)	(8,842)
Cash and cash equivalents at end of year	8,889	7,147	8,795	8,814	8,489	83,614
At the year-end:						
Current assets	¥ 27,618	¥ 26,125	¥ 26,121	¥ 26,993	¥ 26,935	$ 259,787
Total assets	40,575	39,756	40,429	42,512	33,683	381,667
Current liabilities	6,957	10,117	10,441	12,465	5,957	65,441
Net assets	32,874	28,938	29,252	29,428	27,223	309,228
Return on equity (%)	3.0	3.5	1.2	5.2	5.5	
	Yen					US Dollars (Note)
Per share data:						
Net income–basic	¥ 31.58	¥ 37.71	¥ 13.27	¥ 55.11	¥ 52.58	$ 0.30
Net income–diluted	31.57	37.69	13.27	–	–	0.30
Net assets	1,108.57	1,080.96	1,084.29	1,090.80	1,009.07	10.43
Cash dividends	17.00	17.00	17.00	19.00	16.00	0.16
Number of employees	672	675	618	619	576	

Note: The U.S. dollar amounts in this report have been translated from the corresponding yen amounts, for convenience only, at ¥106.31 = U.S. $1.00, the rate of exchange prevailing on March 31, 2018.

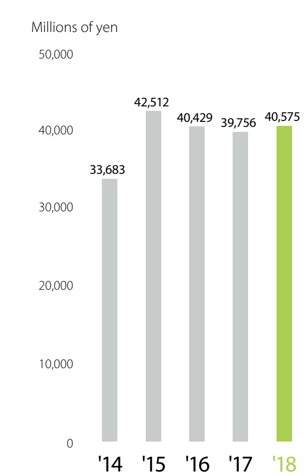
Net sales



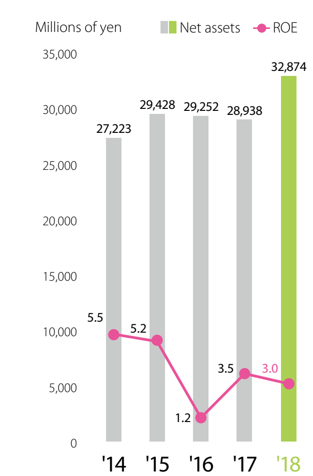
Net income



Total assets



Net assets and ROE



It is our great pleasure to present the JCM Annual Report 2018

(covering the period from April 1, 2017 to March 31, 2018)

We are sincerely grateful for your passionate interest and support.

The fiscal year ended March 31, 2018 raised issues regarding the maintenance and expansion of market shares for existing businesses, one of the Company's priorities for the year. For example, the impact of a recession in customer demand in the market for domestic equipment for the amusement industry led to decreases in both sales and profit. However, in terms of accelerating growth in new businesses, the commercial (banking, retail and transportation) business showed positive signs during the year, pointing toward steady growth.

To continually pursue greater results, the Company plans to combine all of its efforts will work hard toward accomplishing all goals outlined in the new medium-term management plan, Rolling Plan III, announced in November 2017.

We are grateful for and look forward to continued support and encouragement from all of our shareholders.

June 2018

Yojiro Kamihigashi
President

Building Business Foundations That Can Withstand Changes in the New Era

Q Please summarize the results for the period under review (the 65th fiscal year).

A The Company saw decreases in sales and profit due to declines in the main businesses.

Broken down by segment, the international and domestic commercial business, on which we are focusing as a new major source of revenue, performed favorably on strong demand in Europe and Asia, including Japan. However, net sales fell year on year in our core businesses due to several factors. Above all, tightening industry controls reduced the propensity for capital investment at *pachinko* halls, creating a tough business environment for equipment for the amusement industry in Japan. Additionally, in North America, the global gaming business felt the effects of fewer casino hall grand openings and reopenings. Profit also fell year on year along with net sales. The Company booked a loss due to the withdrawal from the amusement business (amusement arcade management) and recorded the expenses needed to restructure its equipment for the amusement industry business as an extraordinary loss, which contributed to the drop in profit.

Q Please explain the initiatives based on the new medium-term management plan, Rolling Plan III, for the fiscal year ending March 31, 2019 (the 66th fiscal year).

A Our top-priority issues are strengthening our earning capacity and rebuilding our revenue base.

We have made strengthening our earning capacity and rebuilding our revenue base, while keeping close watch on medium- to long-term market environments, one of the basic policies of our new medium-term management plan, Rolling Plan III.

Explaining initiatives for the fiscal year ending March 31, 2019 by segment, in the global gaming business we are working to expand sales of existing products as well as new products (system products for casinos and large LED displays), in response to the recovering appetite for capital investment in casino halls due to US corporate tax cuts. Meanwhile, results are rising steadily in the commercial business as we begin full-scale sales promotions for new products launched in the fiscal year ended March 31, 2018 and have secured orders in emerging nations' transportation markets for bill recycling units in subway ticket machines. However, the market for equipment for the amusement industry business shrank more than expected, and we are working continuously to build systems that will allow us to secure revenue, even under tough circumstances, with restructuring initiatives that we began in the fiscal year ended March 31, 2018. These initiatives include reorganizing sales offices and efficiently relocating personnel.

Regarding our response to issues at integrated resorts (IRs), which include potential casinos in Japan, we are preparing for the near future. The Company is keeping a close eye on the implementation of legislative bills in Japan and we are also strengthening relationships with domestic and international private companies and municipalities, focusing on primary overseas clients.

Furthermore, we are discussing future business models and technological developments in response to progression to a cashless society and new technological innovations. However, the Company intends to first secure a firm foothold in its existing businesses and then work toward improving the capacity to develop progressive technology, while responding steadily to diverse customer demands.

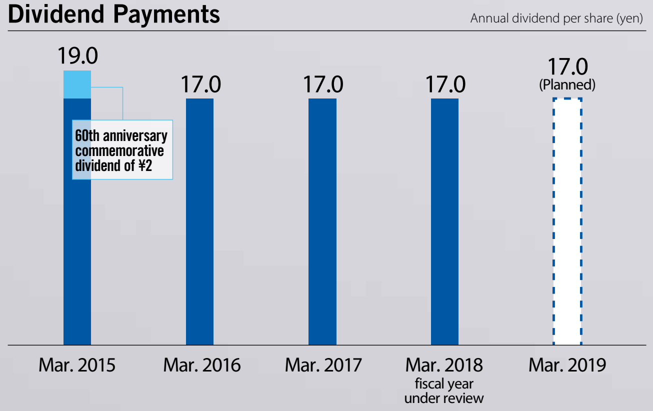
In pursuit of the goals set in the medium-term management plan, the Group will exercise all of its abilities when tackling these challenges

Q Finally, please explain your policy of returning profits.

A A stable dividend payment is a fundamental standard of ours, and we are working to return profits to our shareholders.

Stable dividend payments are a fundamental standard, and we seek to actively return profits obtained through successful growth strategies to all of our shareholders. Specifically, we decide on total dividend payouts for each period while considering the ratio of dividends to net assets and aiming for consolidated dividend payout ratios of 30% or more as a standard. Taking into account profit conditions for the period under review, we set our year-end dividend payment at ¥8.5 per share, which, when combined with the interim-term dividend payment, brings dividend payments for the year to ¥17 per share. We also plan to pay ¥17 per share for the fiscal year ending March 31, 2019.

Dividend Payments



The Group positioned the period from the fiscal year ending March 31, 2019 to the fiscal year ending March 31, 2021 as an important period to build a bridge toward a new growth path starting in fiscal year ending March 31, 2022 and beyond. As part of this effort, Rolling Plan II, the medium-term management plan, was thoroughly reviewed.

Overview of Rolling Plan III, new medium-term management plan

Basic Policy

Improve the earnings structure and management culture to enhance our corporate value

1. Strengthen the Group's global governance system
2. Enhance profitability and rebuild the earnings structure
3. Strengthen competitiveness by enhancing the ability and speed of our business promotion and execution
4. Create a business foundation that can cope with changes in the new era after fiscal year ending March 31, 2022 as a long-term vision

Priority Measures

1. Expand new businesses

» Build up sales channels: Expand market, regions and the customer base by strengthening our global commercial function centered on Asia.

» Create new markets by developing new products: Enhance our development capacity and expedite contributions to sales through new product launches with our new R&D division, which places importance on marketing.

2. Improve the profitability of existing businesses

» Revamp a consistent earnings structure and management culture, mainly in the sales development, production, quality control, and maintenance divisions.

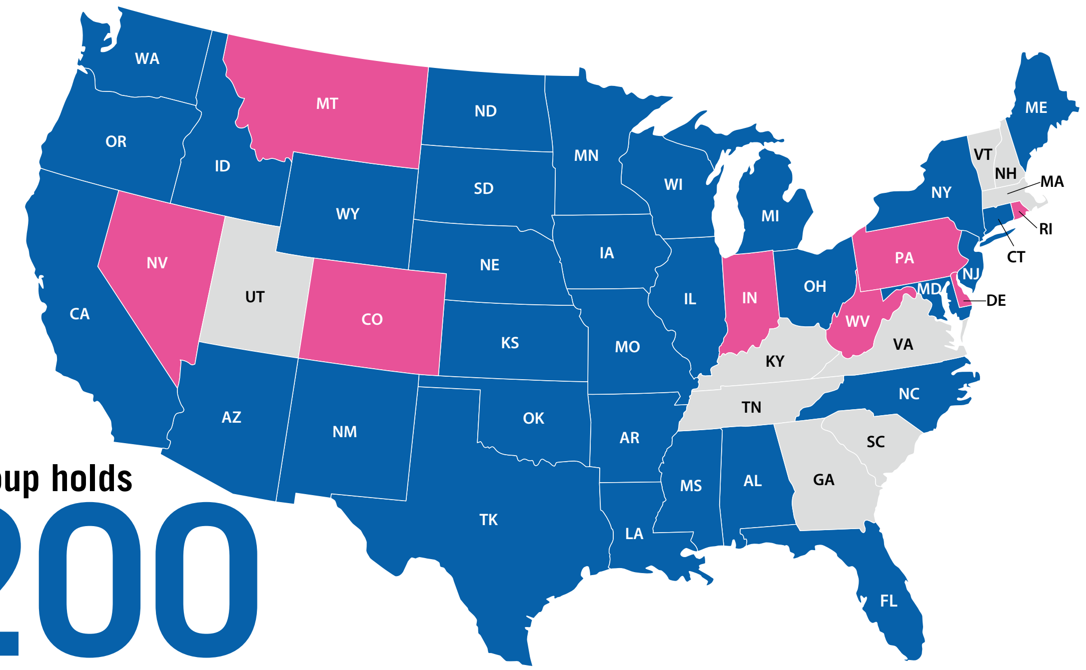
3. Create a fourth business department

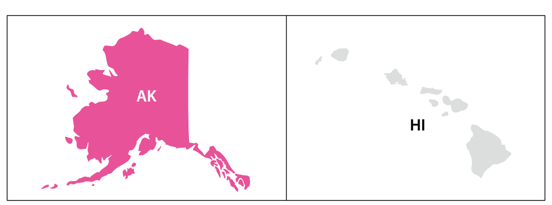
4. Optimize management resources, including M&As, primarily through restructuring all operating departments

Numerical Targets

	Results Fiscal year ended March 31, 2018	Final Year Targets Fiscal year ending March 31, 2021
Net sales	¥29,861 million	¥33,500 million
Operating income	¥ 1,372 million	¥ 2,000 million
Net income attributable to owners of parent	¥ 924 million	¥ 1,300 million
Operating income margin	4.6%	6.0%
ROE	3.0%	4.0%

Acquisition of Gaming Licenses





The JCM Group holds

OVER **200**

gaming licenses in the United States

- Jurisdictions where the JCM Group has a gaming license
- Gaming jurisdictions where the JCM Group does not do business directly or does business that does not require a license
- Jurisdictions where gaming is not authorized

US Gaming Regulations

In casinos and the gaming industry, strict legal regulations are imposed on casino management and the manufacture and sales of gaming machines to ensure that persons unconnected with criminal organizations operate honestly using bona fide gaming machines and components. These legal regulations not only require that authorization be obtained from the appropriate authority to sell bill validation units fitted to gaming machines, but in most US states and jurisdictions bill validation units are also regarded as a type of gaming machine, and their testing, approval and sale requires the same authorization as that for gaming machines themselves. For this reason, the JCM Group has not only swiftly obtained authorization for sales of bill validation units when this is required, but also responded in a timely fashion when the regulations governing slot machines and other gaming machines change, even if bill validation units are not themselves subject to regulation. The JCM Group has never been denied a license, nor has one ever been suspended or revoked.

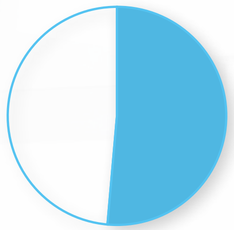
When obtaining gaming licenses, not only the JCM Group itself but also individual directors undergo rigorous screening. At present, the JCM Group holds over 200 gaming licenses in the United States, as well as gaming licenses in Canada, Puerto Rico and Macau. In the future, the JCM Group will not only renew existing licenses but also obtain the new ones required for manufacturing and sales of products where market potential and revenue justify the costs of such new or renewal processes.

Global Gaming

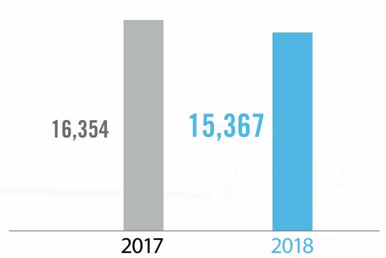

iVIZION
GEN2 Universal

Net sales
¥15,367million
Down 6.0% YoY

Net sales composition
51.5%



Net sales (Millions of yen)



Net sales for this segment fell despite an increase in replacement demand in Europe. This increase in demand was connected to standard revisions in Germany concerning specification changes to gaming machines that are planned for November 2018. The fall in net sales was partly due to a decrease in demand for bill validator units in North America.

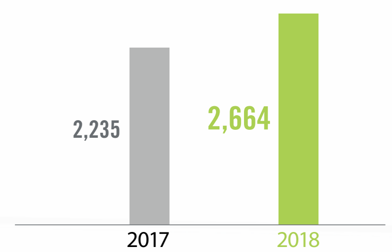
Domestic Commercial


CE-i6
CRU-06

Net sales
¥2,664million
Up 19.2% YoY

Net sales composition
8.9%

Net sales (Millions of yen)



Net sales for this segment increased partly due to favorable sales for money-handling machine units and bill recycling units for original equipment manufacturers.

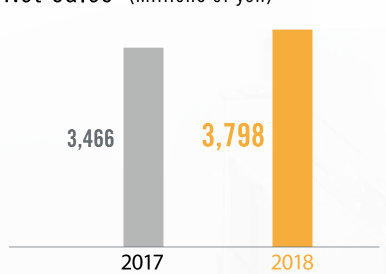
Overseas Commercial


TBV-FSH
iPRO-RC

Net sales
¥3,798million
Up 9.6% YoY

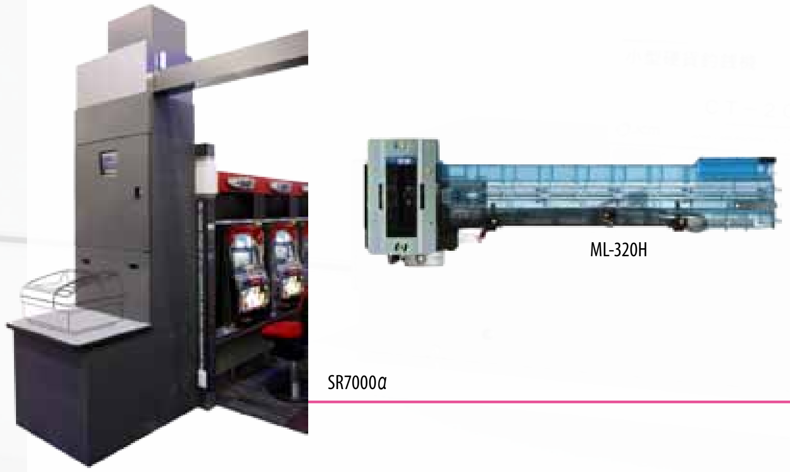
Net sales composition
12.7%

Net sales (Millions of yen)



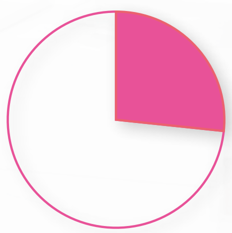
Net sales for this segment increased despite a decrease in bill validator unit sales for North American financial markets. This result was partly due to favorable bill recycling unit sales in Europe.

Equipment for Amusement Industry

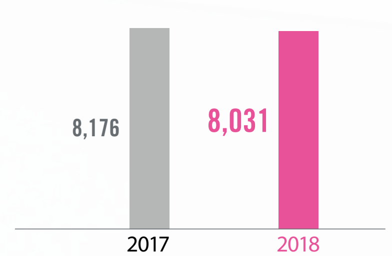

ML-320H
SR7000α

Net sales
¥8,031million
Down 1.8% YoY

Net sales composition
26.9%



Net sales (Millions of yen)



Net sales for this segment fell partly because the Company could not capitalize on acquisitions of other companies' businesses conducted during the previous fiscal year. This inability to capitalize was due to general stagnation in market conditions caused by industry trends and strengthened regulations in recent years.

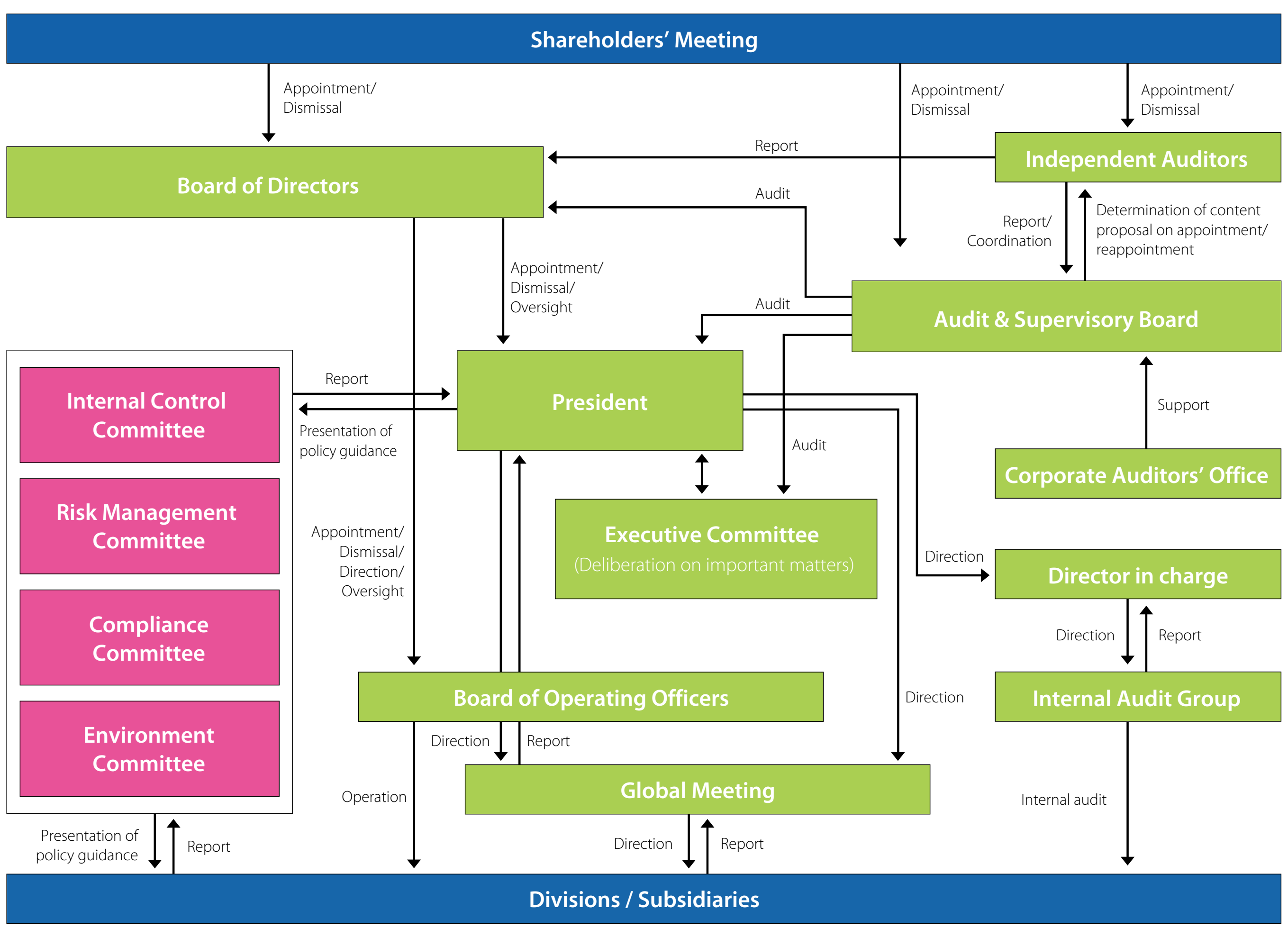
We regard the development of relationships of trust with all stakeholders as an important management priority and an essential foundation for sustainable corporate growth. We are continually working to strengthen our bonds of trust with stakeholders by enhancing our internal control systems, by ensuring that management decisions are transparent and in keeping with the public importance of our products, and by building structures to support a timely response to changes in the business environment.

By keeping the membership of our Board of Directors to the minimum number required, we ensure timely and appropriate decision-making by reducing the time required for members to reach appropriate decisions on matters put before the Board. We have also introduced an operating officer system to provide a clear demarcation between management and supervisory roles and business execution.

The Audit & Supervisory Board members make an extremely important contribution to the reinforcement of corporate governance. By holding regular meetings between the representative director and the Audit & Supervisory Board members, we have created a mechanism that fosters better mutual understanding.

The Internal Audit Group strengthens and enhances internal control structures by developing and maintaining systems to support detailed scrutiny of the administration of those structures. It also works to improve the transparency of financial reporting by restructuring operational processes and improving checking systems.

These measures to strengthen corporate governance are not limited to the parent company but are applied across the entire JCM Group, including overseas companies.



As of June 27, 2018

Directors

Chairperson	Koichiro Kamihigashi
President and Representative Director	Yojiro Kamihigashi
Executive Director	Hisashi Maki
Directors	Tsuyoshi Takagaki
	Yasuhiko Yoshimura
	Yoshihiro Iuchi
Outside Directors	Brian Andrew Smith
	Koji Yoshikawa

Audit & Supervisory Board Members

Outside Audit & Supervisory Board Member (full-time)	Mitsuhiro Ueno
Audit & Supervisory Board Member (full-time)	Shigeru Yamazawa
Outside Audit & Supervisory Board Members	Hideyuki Koizumi
	Hiroshi Morimoto

Operating Officers

Senior Operating Officers	Michimasa Teraoka
	Haruaki Nakao
	Norihito Nakatani
	Takatomo Imai
Operating Officers	Ichiro Iwai
	Makoto Hasegawa
	Takayuki Takeda
	Masaru Shikata

Consolidated Balance Sheet

Japan Cash Machine Co., Ltd. and Subsidiaries
March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Assets			
Current assets:			
Cash and deposits (Notes 5, 8 and 18)	¥ 8,909	¥ 7,167	$ 83,802
Trade receivables (Note 18):			
Notes	1,177	1,632	11,071
Accounts	5,196	4,382	48,876
	6,373	6,014	59,947
Securities (Notes 6 and 18)	91	23	856
Inventories (Note 7)	11,159	11,386	104,967
Deferred income taxes (Note 14)	436	761	4,101
Prepaid expenses and other current assets	845	986	7,948
Less allowance for doubtful accounts	(195)	(212)	(1,834)
Total current assets	27,618	26,125	259,787
Property, plant and equipment, at cost (Note 20):			
Land	1,809	1,835	17,016
Buildings and structures	3,765	3,933	35,415
Machinery, equipment and vehicles	541	536	5,089
Leased assets	9	457	85
Other	6,037	5,996	56,787
	12,161	12,757	114,392
Less accumulated depreciation	(7,194)	(7,766)	(67,670)
Property, plant and equipment, net	4,967	4,991	46,722
Investments and other assets:			
Investments in securities (Notes 6 and 18)	1,258	972	11,834
Intangible assets	130	129	1,223
Goodwill (Note 20)	2,052	2,292	19,302
Technical-based assets	301	391	2,831
Customer-related assets	3,012	3,374	28,332
Trademark	404	451	3,800
Asset for retirement benefits (Note 10)	538	494	5,061
Deferred income taxes (Note 14)	–	5	–
Other assets	350	588	3,292
Less allowance for doubtful accounts	(55)	(56)	(517)
Total investments and other assets	7,990	8,640	75,158
Total assets (Note 20)	¥ 40,575	¥ 39,756	$ 381,667

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Liabilities and Net Assets			
Current liabilities:			
Trade payables (Notes 8 and 18):			
Notes	¥ 9	¥ 5	$ 85
Accounts	3,283	3,157	30,881
	3,292	3,162	30,966
Lease obligations (Note 9)	29	75	273
Short-term loans payable (Note 18)	–	3,703	–
Accrued income taxes (Note 14)	776	225	7,299
Accrued bonuses for employees	391	382	3,678
Accrued bonuses for directors and corporate auditors	12	21	113
Deferred income taxes (Note 14)	21	14	198
Provision for business structure improvement	134	–	1,260
Other current liabilities	2,302	2,535	21,654
Total current liabilities	6,957	10,117	65,441
Long-term liabilities:			
Lease obligations (Note 9)	14	104	132
Deferred income taxes (Note 14)	466	324	4,383
Other long-term liabilities	264	273	2,483
Total long-term liabilities	744	701	6,998
Contingent liabilities (Note 11)			
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized – 118,000,000 shares			
Issued – 29,662,851 shares in 2018 and 2017	2,217	2,217	20,854
Capital surplus	2,759	2,069	25,952
Retained earnings (Note 23)	27,515	27,070	258,819
Less treasury stock, at cost:			
21,056 shares in 2018 and 2,920,750 shares in 2017	(19)	(2,630)	(179)
Total shareholders' equity	32,472	28,726	305,446
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	444	204	4,177
Translation adjustments	(56)	(23)	(527)
Total accumulated other comprehensive income	388	181	3,650
Share subscription rights (Notes 12 and 23)	14	31	132
Total net assets	32,874	28,938	309,228
Total liabilities and net assets	¥ 40,575	¥ 39,756	$ 381,667

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Net sales (Note 20)	¥ 29,861	¥ 30,231	$ 280,886
Cost of sales (Notes 7 and 13)	18,426	18,348	173,323
Gross profit on sales	11,435	11,883	107,563
Realized gross profit on installment sales	53	58	498
Deferred gross profit on installment sales	(12)	(1)	(113)
Gross profit	11,476	11,940	107,948
Selling, general and administrative expenses (Note 13)	10,104	10,188	95,043
Operating income (Note 20)	1,372	1,752	12,905
Other income:			
Interest income	6	8	56
Dividend income	17	14	160
Gain on sales of investments in securities (Note 6)	4	–	38
Settlement received	2,241	–	21,080
Gain on reversal of provision for loss on dissolution of employees' pension fund	–	67	–
Gain on bargain purchase	–	314	–
Other	44	110	414
	2,312	513	21,748
Other expenses:			
Interest expense	30	41	282
Foreign exchange losses, net	255	327	2,399
Loss on sales or disposal of property and equipment, net	8	5	75
Loss on impairment of fixed assets (Note 22)	14	13	132
Loss on litigation	484	–	4,553
Loss on liquidation of business	235	–	2,211
Business structure improvement expenses	134	–	1,260
Loss on devaluation of golf club membership	–	1	–
Provision of allowance for doubtful accounts	–	1	–
Other	2	23	18
	1,162	411	10,930
Income before income taxes	2,522	1,854	23,723
Income taxes (Note 14):			
Current	1,260	984	11,852
Deferred	338	(142)	3,179
	1,598	842	15,031
Net income	924	1,012	8,692
Net income attributable to:			
Owners of parent	¥ 924	¥ 1,012	$ 8,692

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Net income	¥ 924	¥ 1,012	$ 8,692
Other comprehensive income (Note 16):			
Net unrealized holding gain on securities	240	135	2,258
Translation adjustments	(33)	(731)	(311)
Total other comprehensive income	207	(596)	1,947
Comprehensive income	¥ 1,131	¥ 416	$ 10,639
Total comprehensive income attributable to:			
Owners of parent	¥ 1,131	¥ 416	$ 10,639

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2018

		Millions of yen								
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost (Note 12)	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Share subscription rights (Note 12)	Total net assets
Balance at April 1, 2016	29,662,851	¥ 2,217	¥ 2,069	¥ 26,515	¥ (2,330)	¥ 28,471	¥ 69	¥ 708	¥ 4	¥ 29,252
Net income attributable to owners of parent for the year	–	–	–	1,012	–	1,012	–	–	–	1,012
Cash dividends	–	–	–	(457)	–	(457)	–	–	–	(457)
Increase in treasury stock	–	–	–	–	(300)	(300)	–	–	–	(300)
Other changes	–	–	–	–	–	–	135	(731)	27	(569)
Balance at March 31, 2017	29,662,851	¥ 2,217	¥ 2,069	¥ 27,070	¥ (2,630)	¥ 28,726	¥ 204	¥ (23)	¥ 31	¥ 28,938
Net income attributable to owners of parent for the year	–	–	–	924	–	924	–	–	–	924
Cash dividends	–	–	–	(479)	–	(479)	–	–	–	(479)
Increase in treasury stock	–	–	–	–	(0)	(0)	–	–	–	(0)
Decrease in treasury stock	–	–	690	–	2,611	3,301	–	–	–	3,301
Other changes	–	–	–	–	–	–	240	(33)	(17)	190
Balance at March 31, 2018	29,662,851	¥ 2,217	¥ 2,759	¥ 27,515	¥ (19)	¥ 32,472	¥ 444	¥ (56)	¥ 14	¥ 32,874

	Thousands of U.S. dollars (Note 4)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost (Note 12)	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Share subscription rights (Note 12)	Total net assets
Balance at April 1, 2017	$ 20,854	$ 19,462	$ 254,633	$ (24,739)	$ 270,210	$ 1,919	$ (216)	$ 292	$ 272,205
Net income attributable to owners of parent for the year	–	–	8,692	–	8,692	–	–	–	8,692
Cash dividends	–	–	(4,506)	–	(4,506)	–	–	–	(4,506)
Increase in treasury stock	–	–	–	(0)	(0)	–	–	–	(0)
Decrease in treasury stock		6,490		24,560	31,050	–	–	–	31,050
Other changes	–	–	–	–	–	2,258	(311)	(160)	1,787
Balance at March 31, 2018	$ 20,584	$ 25,952	$ 258,819	$ (179)	$ 305,446	$ 4,177	$ (527)	$ 132	$ 309,228

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

Japan Cash Machine Co., Ltd. and Subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Operating activities:			
Income before income taxes	¥ 2,522	¥ 1,854	$ 23,723
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	951	926	8,946
Amortization of goodwill	190	186	1,787
Gain on bargain purchase	–	(314)	–
Provision for allowances and accruals	73	44	687
Interest and dividend income	(23)	(22)	(216)
Interest expense	30	41	282
Foreign exchange gain, net	214	233	2,013
Gain on sales of investments in securities	(4)	–	(38)
Loss on sales or disposal of property, plant and equipment, net	8	5	75
Settlement received	(2,241)	–	(21,080)
Litigation expenses	484	–	4,553
Loss on liquidation of business	235	–	2,211
Business structure improvement expenses	134	–	1,260
Loss on impairment of fixed assets	14	13	132
Loss on devaluation of golf membership	–	1	–
Other	–	(26)	–
Changes in operating assets and liabilities:			
Trade receivables	(401)	254	(3,772)
Inventories	276	(1,833)	2,596
Trade payables	145	(40)	1,364
Consumption taxes	(108)	98	(1,016)
Other operating assets and liabilities	(115)	330	(1,082)
Subtotal	2,384	1,750	22,425
Interest and dividends received	23	23	216
Interest paid	(30)	(41)	(282)
Settlement package received	2,241	–	21,080
Litigation expenses paid	(484)	–	(4,553)
Income taxes paid	(673)	(1,120)	(6,330)
Net cash provided by operating activities	3,461	612	32,556
Investing activities:			
Purchases of property and equipment	¥ (678)	¥ (432)	$ (6,377)
Proceeds from sales of property and equipment	9	1	85
Net decrease in securities	0	0	0
Purchases of investments in securities	(2)	(114)	(19)
Proceeds from sales of investments in securities (Note 6)	13	–	122
Purchases of other assets	(36)	(83)	(339)
Proceeds from transfer of business	–	306	–
Other	0	28	0
Net cash used in investing activities	(694)	(294)	(6,528)
Financing activities:			
Increase in short-term bank loans	–	1,000	–
Repayment of short-term loans payable	(3,655)	(1,855)	(34,381)
Proceeds from lease transactions	2	3	19
Repayment of lease obligations	(88)	(99)	(828)
Purchases of treasury stock	–	(300)	–
Proceeds from issuance of share subscription rights	–	21	–
Proceeds from disposal of treasury shares from exercise of subscription rights	3,279	–	30,844
Cash dividends paid	(478)	(458)	(4,496)
Net cash used in financing activities	(940)	(1,688)	(8,842)
Effect of exchange rate changes on cash and cash equivalents	(85)	(278)	(800)
Net increase (decrease) in cash and cash equivalents	1,742	(1,648)	16,386
Cash and cash equivalents at beginning of year	7,147	8,795	67,228
Cash and cash equivalents at end of year (Note 5)	¥ 8,889	¥ 7,147	$ 83,614

The accompanying notes are an integral part of these statements.

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of Japan Cash Machine Co., Ltd. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change the financial position or the results of operations as presented in the original consolidated financial statements.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany items have been eliminated in consolidation.

The overseas subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant transactions which took place during the period between the year end of these overseas subsidiaries and that of the Company.

(b) Foreign Currency Translation

Foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on the transactions is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

Financial statements of overseas subsidiaries

The financial statements of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the revenue and expense accounts are translated at the average exchange rates in effect during the fiscal year and the components of net assets are translated at their historical rates. Differences resulting from translating the financial statements of the overseas subsidiaries are not included in the determination of net income, but are presented as translation adjustments in a component of accumulated other comprehensive income in the accompanying consolidated balance sheet.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks which can be withdrawal at any time and short-term investments with maturities of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at the lower of cost or net selling value, cost being determined by the first-in, first-out method. Inventories of the overseas subsidiaries are stated at the lower of cost or market, the cost of inventories at JCM American Corporation being determined by the first-in, first-out method, and the cost of inventories at JCM Europe GmbH. and JCM Gold (HK) Ltd. being determined by the moving-average method.

(e) Securities

Securities are classified into two categories: held-to-maturity debt securities, and other securities. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(f) Derivatives and Hedging Activities

Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

The Company evaluates effectiveness of its hedging activities by comparing cumulative changes in fair value of the hedged items with the corresponding changes in the hedging instruments.

(g) Property, Plant and Equipment (except for leased assets)

Property, plant and equipment is stated on the basis of cost. The Company and its domestic subsidiaries calculate depreciation by the declining-balance method based on the estimated useful lives of the respective assets and the respective residual value determined by the Company and its domestic subsidiaries, except for buildings (exclusive of any structures attached to the buildings) acquired on or after April 1, 1998 and structures attached to the buildings and other structures acquired on or after April 1, 2016 which are depreciated by the straight-line method. The overseas subsidiaries calculate depreciation principally by the straight-line method over the estimated useful lives of the respective assets.

The principal useful lives of property, plant and equipment are 3 to 50 years for buildings and structures and 4 to 12 years for machinery, equipment and vehicles.

(h) Intangible Assets (except for leased assets)

Intangible assets are amortized by the straight-line method over the estimated useful lives of the respective assets. Expenditures relating to computer software developed for internal use are charged to income when incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, a period of 5 years. Computer software to be sold is amortized by the straight-line method over its expected sellable period of 3 years.

(i) Research and Development Costs

Research and development costs are charged to income when incurred.

(j) Leased assets

Capitalized leased assets are depreciated by the straight-line method based over the lease term with no residual value.

(k) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries provide allowances for doubtful receivables based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

The allowance for doubtful accounts of the overseas subsidiaries was principally provided at the estimated amount of their probable bad debts.

(l) Accrued Bonuses for Employees

The Company and its domestic subsidiaries provide accrued bonuses for employees at the estimated amount of bonuses to be paid to the employees in the following year. Its overseas subsidiaries do not provide accrued bonuses for employees.

(m) Accrued Bonuses for Directors and Corporate Auditors

The Company and its domestic subsidiaries provide accrued bonuses for directors and corporate auditors at the estimated amount of bonuses to be paid to the directors and corporate auditors in the following year. Its overseas subsidiaries do not provide accrued bonuses for directors and corporate auditors.

(n) Provision for business structure improvement

Provision for business structure improvement is provided at a reasonably estimated amount for possible restructuring costs to be incurred in the future.

(o) Retirement Benefits

Retirement benefits are provided based on the amount of the retirement benefit obligation reduced by the plan assets at fair value as of the balance sheet date.

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 gain or loss and prior service cost are credited or charged to income as incurred.

(p) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of benefit (14 years).

(q) Revenue Recognition of Installment Sales

The Company and certain subsidiaries recognize both sales and costs of sales in the period of the installment sales and defer the related gross profit to the periods in which they collect the related cash.

(r) Income Taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred income taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

(s) Distribution of Retained Earnings

Distribution of retained earnings with respect to a given financial period is made by resolution of the Board of Directors at a meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distribution (please refer to Note 23).

3. Accounting Standards Issued but Not Yet Effective

Accounting Standard and Implementation Guidance on Revenue Recognition

(1) Overview

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30). The International Accounting Standards Board (hereinafter referred to as the "IASB") and the Financial Accounting Standards Board (hereinafter referred to as the "FASB") in the United States co-developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on fact that IFRS 15 is applied from fiscal years starting on or after January 1, 2018 and Topic 606 is applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting in practices, etc. common in Japan.

(2) Scheduled date of adoption

The timing of adoption is currently under consideration.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standard and the implementation guidance on its consolidated financial statements.

4. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥106.31= U.S.$1.00, the approximate rate of exchange in effect on March 31, 2018. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Cash and Deposits

A reconciliation between cash and deposits in the accompanying consolidated balance sheets as of March 31, 2018 and 2017 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended March 31, 2018 and 2017 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥ 8,909	¥ 7,167	$ 83,802
Time deposits over a period of 3 months	(20)	(20)	(188)
Cash and cash equivalents	¥ 8,889	¥ 7,147	$ 83,614

6. Securities and Investments in Securities

Securities and investments in securities classified as held-to-maturity debt securities at March 31, 2018 and 2017 were as follows:

	Millions of yen		
	2018		
	Carrying value	Fair value	Unrealized gain (loss)
Held-to-maturity debt securities whose fair value does not exceed their carrying value:			
Corporate bonds	¥ –	¥ –	¥ –
Other	91	91	–
Total	¥ 91	¥ 91	¥ –

	Millions of yen		
	2017		
	Carrying value	Fair value	Unrealized gain (loss)
Held-to-maturity debt securities whose fair value does not exceed their carrying value:			
Corporate bonds	¥ 9	¥ 9	¥ –
Other	93	93	–
Total	¥ 102	¥ 102	¥ –

	Thousands of U.S. dollars		
	2018		
	Carrying value	Fair value	Unrealized gain (loss)
Held-to-maturity debt securities whose fair value does not exceed their carrying value:			
Corporate bonds	$ –	$ –	$ –
Other	856	856	–
Total	$ 856	$ 856	$ –

Securities and investments in securities classified as other securities at March 31, 2018 and 2017 were as follows:

	Millions of yen		
	2018		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 1,170	¥ 544	¥ 626
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	62	73	(11)
Total	¥ 1,232	¥ 617	¥ 615

	Millions of yen		
	2017		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 865	¥ 614	¥ 251
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	–	–	–
Total	¥ 865	¥ 614	¥ 251

	Thousands of U.S. dollars		
	2018		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Other securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 11,006	$ 5,117	$ 5,889
Other securities whose carrying value does not exceed their acquisition costs:			
Equity securities	583	686	(103)
Total	$ 11,589	$ 5,803	$ 5,786

The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Proceeds from sales:			
Equity securities	¥ 5	¥ –	$ 47
Gross realized gain:			
Equity securities	¥ 4	¥ –	$ 38

For the years ended March 31, 2018 and 2017, the Group did not recognize any loss on devaluation of other securities.

7. Inventories

Inventories at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished goods	¥ 7,644	¥ 8,040	$ 71,903
Work in process	558	639	5,249
Raw materials and supplies	2,957	2,707	27,815
	¥ 11,159	¥ 11,386	$ 104,967

Loss on devaluation of inventories included in cost of sales for the years ended March 31, 2018 and 2017 amounted to ¥109 million ($1,025 thousand) and ¥261 million, respectively.

8. Pledged Assets

The assets pledged as collateral of trade payables of ¥2 million ($19 thousand) as of March 31, 2018 and ¥4 million as of March 31, 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥ 20	¥ 20	$ 188

9. Lease Obligations

Lease obligations at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lease obligations due from 2018 through 2022	¥ 43	¥ 179	$ 405
Less current portion	(29)	(75)	(273)
	¥ 14	¥ 104	$ 132

The aggregate annual maturities of lease obligations subsequent to March 31, 2018 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 29	$ 273
2019	10	95
2020	2	19
2021	1	9
2022	1	9
	¥ 43	$ 405

10. Retirement Benefits

The Company and certain domestic subsidiaries have funded defined benefit plans and defined contribution plans for employees. Under these defined benefit plans, lump-sum or annuity payments are made, the amounts of which are determined by reference to lengths of service, qualifications and positions of the employees. Overseas subsidiaries have no retirement benefit plans.

Certain domestic subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount of the liability for the pension fund reserve required under the funding policy as of the most recent valuation date (the "Simplified Method").

Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligation at beginning of year	¥ 902	¥ 811	$ 8,484
Service cost	91	77	856
Interest cost	2	8	19
Actuarial gain	5	46	47
Retirement benefit paid	(42)	(40)	(395)
Retirement benefit obligation at end of year	¥ 958	¥ 902	$ 9,011

The changes in plan assets during the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥ 1,396	¥ 1,321	$ 13,131
Expected return on plan assets	5	14	47
Actuarial gain (loss)	39	(3)	367
Contributions paid by the Company and domestic subsidiaries	98	104	922
Retirement benefit paid	(42)	(40)	(395)
Plan assets at end of year	¥ 1,496	¥ 1,396	$ 14,072

The following table sets forth funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ (958)	¥ (902)	$ (9,011)
Plan assets at fair value	1,496	1,396	14,072
Net asset for retirement benefits in the balance sheet	¥ 538	¥ 494	$ 5,061

The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 90	¥ 76	$ 847
Interest cost	3	8	28
Expected return on plan assets	(5)	(14)	(47)
Amortization of actuarial differences	(34)	49	(320)
Retirement benefit expenses	¥ 54	¥ 119	$ 508

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 is as follows:

	2018	2017
Debt securities	42%	50%
Equity securities	28	24
General accounts at insurance companies	17	18
Other	13	8
Total	100%	100%

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

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

	2018	2017
Discount rate	0.2%	0.3%
Expected rate of return on plan assets	1.0%	1.0%

Defined contribution pension plans

Contributions by the Company and certain domestic subsidiaries to the defined contribution pension plans for the years ended March 31, 2018 and 2017 amounted to ¥28 million ($263 thousand) and ¥27 million, respectively.

11. Contingent Liabilities

At March 31, 2018, the Company and certain subsidiaries were contingently liable as guarantors of accounts payable and lease obligations of third parties in the amount of ¥125 million ($1,176 thousand).

12. Shareholders' Equity

The Company Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The Company's capital reserve included in capital surplus at March 31, 2018 and 2017 amounted to ¥2,064 million ($19,415 thousand). In addition, the Company's legal reserve included in retained earnings at March 31, 2018 and 2017 amounted to ¥274 million ($2,577 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital.

Treasury stock

Movements in treasury stock for the years ended March 31, 2018 and 2017 are summarized as follows:

	Number of shares			
	2018			
	April 1, 2017	Increase	Decrease	March 31, 2018
Treasury stock	2,920,750	306(*1)	2,900,000(*2)	21,056

	Number of shares			
	2017			
	April 1, 2016	Increase	Decrease	March 31, 2017
Treasury stock	2,684,803	235,947(*3)	–	2,920,750

(*1) Increase due to purchase of shares of less than one voting unit: 306 shares
(*2) Decrease due to exercise of share subscription rights: 2,900,000 shares
(*3) Increase due to purchase of treasury stock by resolution of the Board of Directors: 235,800 shares
Increase due to purchase of shares of less than one voting unit: 147 shares

Share subscription rights

Movements in share subscription rights for the year ended March 31, 2018 are summarized as follows:

Classification	Breakdown	Type	Number of shares subject to share subscription rights: April 1, 2017	Increase	Decrease	March 31, 2018
Parent company	Share subscription rights as stock options	Common stock	–	–	–	–
	The Second share subscription rights	Common stock	2,900,000	–	2,900,000	–
	Total		2,900,000	–	2,900,000	–

Classification	Breakdown	Type	2018: Millions of yen	Thousands of U.S. dollars
Parent company	Share subscription rights as stock options	Common stock	¥ 14	$ 132
	The second Share subscription rights	Common stock	¥ –	$ –
	Total		¥ 14	$ 132

Stock Options

The Company has a stock option plan for its directors. Stock option expense included in selling, general and administrative expenses amounted to ¥5 million ($47 thousand) and ¥5 million for the years ended March 31, 2018 and 2017, respectively.

The stock option plan of the Company as of March 31, 2018 is summarized as follows:

	The 2016 plan
Individuals covered by the plan	5 Directors
Class of stock and number of options granted (*1)	Common stock: 14,700 shares
Grant date	September 4, 2015
Vesting conditions	(*2)
Eligible service period	From September 4, 2015 to the date of the 65th annual general meeting of shareholders
Exercise period	From September 5, 2015 to September 4, 2045

(*1) Number of options granted converted to number of shares.
The number of shares corresponding to the stock acquisition rights (hereinafter referred to as "authorized number of shares") shall be 100 shares per unit.

However, in the event that the Company carries out a share split (including gratis allotment of the Company's common stock) or share consolidation after the date of allotting stock acquisition rights (hereinafter referred to as "the allotment date"), the authorized number of shares for stock acquisition rights which have not yet been exercised as of the date of such share split or share consolidation shall be adjusted based on the following formula:

Authorized number of shares after adjustment = Authorized number of shares before adjustment x Ratio of split or consolidation

Furthermore, aside from the cases above, in the event that the authorized number of shares must be adjusted for any unavoidable reason, the Company may make adjustments to the authorized number of shares as deemed necessary with the approval of the Company's Board of Directors.

In addition, any fractions less than one share resulting from such adjustments above shall be rounded down.

(*2) Exercise conditions
(A) During the period specified above, the holders of the stock acquisition rights shall exercise in a lump sum only during the period from the day following the date when they have ceased to be a director until the following 10th day (if the 10th day is a non-business day, the next business day).
(B) The percentage of stock acquisition rights exercisable is conditional on achieving the target stipulated in the Company's mid-term management plan, which is to generate ¥6.3 billion in consolidated cumulative operating income for the three fiscal years from the 63rd (fiscal year ended March 31, 2016) to the 65th (fiscal year ended March 31, 2018) (hereinafter referred to as "cumulative consolidated operating income") as follows:
(a) Cumulative consolidated operating income of more than ¥6.3 billion
100% of the stock acquisition rights allotted to each holder of stock acquisition rights (hereinafter referred to as "stock acquisition rights allotted")
(b) Cumulative consolidated operating income of more than ¥6.0 billion
60% of the stock acquisition rights allotted
(c) Cumulative consolidated operating income of more than ¥5.7 billion
30% of the stock acquisition rights allotted
(d) Cumulative consolidated operating income of less than or equal to ¥5.7 billion
0% of the stock acquisition rights allotted
Any fraction of less than one stock acquisition right resulting from the calculation above shall be rounded down and unexercisable stock acquisition rights shall be forfeited.
(C) The amount of cumulative consolidated operating income shall be determined based on the consolidated statement of income in the Company's consolidated financial statements. In the event that material changes are made to the concept of consolidated operating income due to changes in the adopting accounting standards or any other reasons, the Board of Directors of the Company determines appropriate measurement indicators to be referred alternatively within a reasonable extent.
(D) In the event of the retirement of a director of the Company, the number of exercisable stock acquisition rights shall be determined in accordance with the criteria listed below:
(a) In the event of a director's retirement during the period from the date of allotment to the day before the 63rd Annual General Shareholders' Meeting:
Said director shall not be able to exercise the stock acquisition rights allotted.
(b) In the event of retirement during the period from the date of the 63rd Annual General Shareholders' Meeting to the day before the 64th Annual General Shareholders' Meeting, the number of exercisable options shall be determined in accordance with the criteria listed below:
i. Consolidated operating income for the 63rd fiscal year of more than ¥1.9 billion
100% of the stock acquisition rights allotted
ii. Consolidated operating income for the 63rd fiscal year of more than ¥1.8 billion
60% of the stock acquisition rights allotted
iii. Consolidated operating income for the 63rd fiscal year of more than ¥1.7 billion
30% of the stock acquisition rights allotted
iv. Consolidated operating income for the 63rd fiscal year of less than or equal to ¥1.7 billion
0% of the stock acquisition rights allotted
(c) In the event of the retirement of a director during the period from the date of the 64th Annual General Shareholders' Meeting to the day before the 65th Annual General Shareholders' Meeting, the number of exercisable stock acquisition rights shall be determined in accordance with the criteria listed below:
i. Total consolidated operating income for the 63rd and 64th fiscal year of more than ¥3.9 billion
100% of the stock acquisition rights allotted
ii. Total consolidated operating income for the 63rd and 64th fiscal year of more than ¥3.7 billion
60% of the stock acquisition rights allotted
iii. Total consolidated operating income for the 63rd and 64th fiscal year of more than ¥3.5 billion
30% of the stock acquisition rights allotted
iv. Total consolidated operating income for the 63rd and 64th fiscal year of less than or equal to ¥3.5 billion
0% of the stock acquisition rights allotted
(E) In the event of the death of the holders of the stock acquisition rights, their heirs may exercise the stock acquisition rights only in a lump sum.
(F) Other conditions shall be set forth in a stock acquisition rights allotment agreement to be entered into between the Company and the holders of the stock acquisition rights.

Movements in the number of non-vested and vested stock options for the 2016 plan of the Company during the year ended March 31, 2017 are as follows:

	The 2016 plan
(Non-vested)	(Number of stock options)
Outstanding at April 1, 2017	12,500
Granted	–
Forfeited	–
Vested	–
Outstanding at March 31, 2018	12,500

	The 2016 plan
(Vested)	(Number of stock options)
Outstanding at April 1, 2017	–
Vested	–
Exercised	–
Forfeited	–
Outstanding at March 31, 2018	–

The fair value of the non-vested stock options under the 2016 plan of the Company as of March 31, 2018 is as follows:

	The 2016 plan	
	(Yen)	(U.S dollars)
Exercise price	¥ 1	$ 0
Weighted average fair value per share at the exercise date	–	–
Fair value of stock options as of the grant date	¥ 122,700	$ 1,154

Because it is difficult to reasonably estimate the number of stock options that will be forfeited, the estimation reflects only the actual number of forfeited stock options.

13. Research and Development Costs

Research and development costs included in general and administrative expenses and manufacturing costs for the years ended March 31, 2018 and 2017 amounted to ¥1,810 million ($17,026 thousand) and ¥1,624 million, respectively.

14. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 30.8% for the years ended March 31, 2018 and 2017.

Reconciliations of the statutory tax rates and the effective tax rates for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Statutory tax rates	30.8%	30.8%
Differences of tax rates between the Company and overseas subsidiaries	0.5	1.5
Non-deductible entertainment expenses and others	1.7	2.2
Non-taxable dividends revenues and others	(10.6)	(2.5)
Consolidation adjustment of dividend income from its subsidiaries	11.1	4.4
Valuation allowance	26.5	8.8
Inhabitants' per capita taxes	1.0	1.1
Undistributed profit of overseas subsidiaries	(0.3)	0.5
Income tax refund	(2.4)	–
Income tax credits	(0.2)	(0.7)
Effect of change in statutory tax rate in the U.S.	5.2	–
Other	(0.0)	(0.7)
Effective tax rates	63.3%	45.4%

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. The components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Unrealized profit	¥ 37	¥ 56	$ 348
Retirement benefits payable to directors and corporate auditors	47	47	442
Write-downs of inventories	471	396	4,430
Accrued bonuses for employees	133	138	1,251
Net operating loss carry forwards	275	83	2,587
Business structure improvement expenses	46	–	433
Non-deductible selling and administrative expenses	155	203	1,458
Non-deductible software expenses	169	113	1,590
Foreign tax credit	257	337	2,417
Other	258	300	2,427
Gross deferred tax assets	1,848	1,673	17,383
Valuation allowance	(1,346)	(744)	(12,661)
Total deferred tax assets	¥ 502	¥ 928	$ 4,722
Deferred tax liabilities:			
Unrealized holding gain on securities	(185)	(61)	(1,740)
Undistributed profit of subsidiaries	(21)	(14)	(198)
Asset for retirement benefits	(163)	(151)	(1,533)
Intangible assets acquired in a business combination	(101)	(148)	(950)
Bargain purchase	(58)	(78)	(546)
Other	(25)	(48)	(235)
Total deferred tax liabilities	(553)	(500)	(5,202)
Net deferred tax assets liabilities	¥ (51)	¥ 428	$ (480)

The Tax Cuts and Jobs Act was enacted in the United States on December 22, 2017, effectively lowering the federal corporate income tax rate effective fiscal years beginning on or after January 1, 2018. Due to this tax rate change, deferred tax assets (after deducting deferred tax liabilities) have decreased by ¥133 million ($1,251 thousand) and deferred income taxes have increased by ¥132 million ($1,242 thousand) for the year ended March 31, 2018.

15. Leases

Future minimum lease payments subsequent to March 31, 2018 for operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 59	$ 555
2020 and thereafter	145	1,364
Total	¥ 204	$ 1,919

16. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 367	¥ 181	$ 3,452
Reclassification adjustments for gain realized in the consolidated statement of income	(4)	–	(4)
Before tax effect	363	181	3,414
Tax effect	(123)	(46)	(1,156)
Net unrealized holding gain on securities	240	135	2,258
Translation adjustments:			
Amount arising during the year	(33)	(731)	(311)
Total other comprehensive income	¥ 207	¥ (596)	$ 1,947

17. Amounts per Share

Basic net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during the year ended March 31, 2018 after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options and share subscription rights.

Net assets per share have been computed based on the number of shares of common stock outstanding at the year end.

	Yen		U.S. dollars
	2018	2017	2018
Net income:			
Basic	¥ 31.58	¥ 37.71	$ 0.30
Diluted	31.57	37.69	0.30
Net assets	1,108.57	1,080.96	10.43

The financial data for the computation of basic and diluted net income per share for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income	¥ 924	¥ 1,012	$ 8,692

	(Thousands of shares)	
	2018	2017
Weighted-average number of shares	29,266,954	26,840,413
Increase in common stock	11,345	9,643

There were no dilutive shares not included in the calculation of diluted net income per share for the years ended March 31, 2018 and 2017.

18. Financial Instruments

1. Overview

(1) Policy for financial instruments

The Group raises necessary funds based on the business plan through bank borrowings. The Group manages surplus funds mainly through high-liquidity and low-risk financial instruments.

The Group makes an effort to reduce credit risk arising from notes and accounts receivable in accordance with the credit exposure management rules of the Group. For securities and investments in securities, the Group holds held-to-maturity debt securities and equity securities. The fair values of listed equity securities are monitored every quarter and that of unlisted equity securities are calculated based on a rational valuation method.

In addition, the Group utilizes derivatives within the range of actual transactions in accordance with the internal control rules.

(2) Types of financial instruments and related risk

Trade receivables, notes receivable and accounts receivable, are exposed to credit risk. In addition, trade receivables denominated in foreign currencies and arising from the overseas business are exposed to foreign currency exchange risk. The Group monitors market trends and forward foreign exchange contracts are arranged to hedge the risk, if necessary.

Securities and investments in securities are principally composed of held-to-maturity debt securities and the equity securities of other companies with which the Company has business relationships. They are exposed to market risk. In addition, the Company has also long-term loans receivable from the companies with which the Company has business relationships.

Substantially all trade payables, notes payable and accounts payable, have payment due dates within five months. Some of them denominated in foreign currencies are exposed to foreign currency exchange risk. The Group monitors market trends and forward foreign exchange contracts are arranged to hedge the risk, if necessary.

Lease obligations arising from finance lease transactions are mainly for the purpose of financing investment for facilities, and the contract term is not longer than five years.

Short-term loans payable are funds raised for the acquisition and are exposed to foreign exchange rate and interest rate fluctuation risks. The Group monitors market trends and derivative contracts are arranged to hedge the risk, if necessary.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 2(f).

(3) 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 Company for managing credit risk arising from trade and long-term loan receivables, the credit risk management division periodically monitors credit worthiness of their main customers, monitors due dates and outstanding balances by individual customer and makes effort to identify at an early point and mitigate risks of bad debts from customers who are having financial difficulties. In addition, its consolidated subsidiaries also monitor the condition of accounts receivable and loans receivable under a similar management policy.

For investments in held-to-maturity debt securities, in accordance with the internal policies for asset management, the Group invests in held-to-maturity debt securities with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is not material.

The Group also believes that the credit risk of derivatives is not material as it enters into derivative transactions only with financial institutions which have a sound credit profile.

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

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency on a monthly basis and principally enters into forward foreign exchange contracts to hedge such risk.

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 other than those classified as held-to-maturity 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)

The Company manages short-term liquidity risk mainly by maintaining liquidity on hand. In addition, the Company manages liquidity risk by preparing and updating cash flow plans in a timely manner.

d) Supplementary explanation of the estimated fair value of financial instruments

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.

2. Estimated fair value of financial instruments

As of March 31, 2018 and 2017, carrying value, estimated fair value and unrealized loss on financial instruments were as follows:

	Millions of yen		
	2018		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	¥ 8,909	¥ 8,909	¥ –
(2) Trade notes and accounts receivable	6,373	6,346	(27)
(3) Securities and investments in securities:			
Held-to-maturity debt securities	91	91	–
Other securities	1,232	1,232	–
Total assets	¥ 16,605	¥ 16,578	¥ (27)
Liabilities			
(4) Trade notes and accounts payable	¥ 3,292	¥ 3,292	¥ –
(5) Short-term loans payable	–	–	–
Total liabilities	¥ 3,292	¥ 3,292	¥ –

	Millions of yen		
	2017		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	¥ 7,167	¥ 7,167	¥ –
(2) Trade notes and accounts receivable	6,014	5,959	(55)
(3) Securities and investments in securities:			
Held-to-maturity debt securities	102	102	–
Other securities	865	865	–
Total assets	¥ 14,148	¥ 14,093	¥ (55)
Liabilities			
(4) Trade notes and accounts payable	¥ 3,162	¥ 3,162	¥ –
(5) Short-term loans payable	3,703	3,703	–
Total liabilities	¥ 6,865	¥ 6,865	¥ –

	Thousands of U.S. dollars		
	2018		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	$ 83,802	$ 83,802	$ –
(2) Trade notes and accounts receivable	59,947	59,693	(254)
(3) Securities and investments in securities:			
Held-to-maturity debt securities	856	856	–
Other securities	11,589	11,589	–
Total assets	$ 156,194	$ 155,940	$ (254)
Liabilities			
(4) Trade notes and accounts payable	$ 30,966	$ 30,966	$ –
(5) Short-term loans payable	–	–	–
Total liabilities	$ 30,966	$ 30,966	$ –

(Notes)

1. Method to determine the estimated fair value of financial instruments and other matters related to securities

(1) Cash and deposits

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

(2) Trade notes and accounts receivable

These fair values are the present value discounted at an interest rate determined considering their maturity dates and their credit risks by each receivable classified by aging status.

(3) Securities and investments in securities

The fair value of stocks and debt securities is based on quoted market prices.

(4) Trade notes and accounts payable

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

(5) Short-term loans payable

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

2. Financial instruments for which it is extremely difficult to determine the market value at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities	¥ 26	¥ 28	$ 245

Because no quoted market price is available and future cash flow cannot be estimated, it is extremely difficult to determine the fair value; therefore, the above financial instruments are not included in the preceding table.

3. Redemption schedule of monetary claims and securities and investments in securities with maturities subsequent to March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 8,909	¥ –	¥ –	¥ –
Trade notes and accounts receivable	6,181	192	–	–
Securities and investments in securities:				
Held-to-maturity debt securities:				
Government bonds	–	–	–	–
Other	91	–	–	–
Total	¥ 15,181	¥ 192	¥ –	¥ –

	Millions of yen			
	2017			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	¥ 7,167	¥ –	¥ –	¥ –
Trade notes and accounts receivable	5,688	325	–	–
Securities and investments in securities:				
Held-to-maturity debt securities:				
Government bonds	9	–	–	–
Other	23	70	–	–
Total	¥ 12,887	¥ 395	¥ –	¥ –

	Thousands of U.S. dollars			
	2018			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and deposits	$ 83,802	$ –	$ –	$ –
Trade notes and accounts receivable	58,141	1,806	–	–
Securities and investments in securities:				
Held-to-maturity debt securities:				
Government bonds	–	–	–	–
Other	856	–	–	–
Total	$ 142,799	$ 1,806	$ –	$ –

19. Derivative Transactions

There were no derivative contracts outstanding at March 31, 2018 and 2017.

20. Segment Information

Overview of Reportable Segments

The Company's reportable segments are its structural units, for which separate financial information is available, and which are subject to periodic review by the Board of Directors in order to assist decision-making on the allocation of managerial resources and assessment of business performance.

The Group forms comprehensive strategies about each products and services and conducts business activities for each segment.

Therefore, the Company consists of four segments based on business unit and the reportable segments are as follows: "Global gaming", "Overseas commercial", "Domestic commercial", and "Equipment for amusement industry".

Global gaming includes the sales of bill validators, recyclers and printers for casinos and OEM customers.

Overseas commercial includes the sales of bill validators and recycler units for overseas financial, distribution and transportation markets.

Domestic commercial includes the sales of bill recycler units coin dispensers and foreign currency exchange machines for domestic financial, distribution and transportation markets.

Equipment for amusement industry includes the sales of equipment including ball and medal lending machines for pachinko and pachislot (slot-machine pachinko) gaming halls.

Basis for Calculating Sales, Income or Loss, Assets, Liabilities, and Other Items by Reportable Segment

The accounting treatment for each reportable business segment is almost same as that outlined in "Summary of Significant Accounting Policies". Intersegment sales and transfers are recorded at the same prices used in actual market-based transactions.

Information on Sales, Income, Assets, Liabilities, and Other Items by Reportable Segments

	Millions of yen					
	2018					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Net sales:						
External customers	¥ 15,367	¥ 3,798	¥ 2,664	¥ 8,032	¥ –	¥ 29,861
Intersegment sales and transfers	–	–	–	–	–	–
Total	¥ 15,367	¥ 3,798	¥ 2,664	¥ 8,032	¥ –	¥ 29,861
Segment income	¥ 2,912	¥ 626	¥ 281	¥ (490)	¥ (1,957)[*1]	¥ 1,372
Segment assets	¥ 17,678	¥ 3,329	¥ 2,731	¥ 5,911	¥ 10,926[*2]	¥ 40,575
Other items:						
Depreciation and amortization	¥ 527	¥ 99	¥ 27	¥ 119	¥ 179[*3]	¥ 951
Amortization of goodwill	¥ 190	¥ –	¥ –	¥ –	¥ –	¥ 190

	Millions of yen					
	2017					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Net sales:						
External customers	¥ 16,354	¥ 3,466	¥ 2,235	¥ 8,176	¥ –	¥ 30,231
Intersegment sales and transfers	–	–	–	–	–	–
Total	¥ 16,354	¥ 3,466	¥ 2,235	¥ 8,176	¥ –	¥ 30,231
Segment income (loss)	¥ 2,960	¥ 276	¥ 168	¥ 338	¥ (1,990)[*1]	¥ 1,752
Segment assets	¥ 18,979	¥ 2,781	¥ 2,316	¥ 7,336	¥ 8,344[*2]	¥ 39,756
Other items:						
Depreciation and amortization	¥ 507	¥ 65	¥ 73	¥ 139	¥ 142[*3]	¥ 926
Amortization of goodwill	¥ 186	¥ –	¥ –	¥ –	¥ –	¥ 186

	Thousands of U.S. dollars					
	2018					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Net sales:						
External customers	$ 144,549	$ 35,726	$ 25,059	$ 75,552	$ –	$ 280,886
Intersegment sales and transfers	–	–	–	–	–	–
Total	$ 144,549	$ 35,726	$ 25,059	$ 75,552	$ –	$ 280,886
Segment income	$ 27,392	$ 5,888	$ 2,643	$ (4,609)	$ (18,409)[*1]	$ 12,905
Segment assets	$ 166,287	$ 31,314	$ 25,689	$ 55,602	$ 102,775[*2]	$ 381,667
Other items:						
Depreciation and amortization	$ 4,957	$ 931	$ 254	$ 1,120	$ 1,684[*3]	$ 8,946
Amortization of goodwill	$ 1,787	$ –	$ –	$ –	$ –	$ 1,787

(*1) The adjustments of segment income or loss include corporate expenses, which are not allocated to specific segment of ¥1,957 million ($18,409 thousand) and ¥1,990 million for the years ended March 31, 2018 and 2017, respectively.

(*2) The adjustments of segment assets include corporate assets of the Company, which are not allocated to specific segment of ¥10,926 million ($102,775 thousand) and ¥8,344 million for the years ended March 31, 2018 and 2017, respectively.

(*3) The adjustments of depreciation are related to corporate assets of the Company, which are not allocated to specific segment of ¥179 million ($1,684 thousand) and ¥142 million for the years ended March 31, 2018 and 2017, respectively. In addition, such depreciation is included long-term prepaid expenses.

Related information

1. Information by products and services

As sales to external customers in one product or services segment represent of more than 90% of net sales in the consolidated statement of income, the disclosure of the information by products and services was omitted for the years ended March 31, 2018 and 2017.

2. Geographical information

	Millions of yen				
	2018				
	Japan	North America	Europe	Others	Total
Net sales	¥ 10,696	¥ 8,448	¥ 8,687	¥ 2,030	¥ 29,861
Property, plant and equipment	3,490	707	48	722	4,967

	Millions of yen				
	2017				
	Japan	North America	Europe	Others	Total
Net sales	¥ 10,411	¥ 8,760	¥ 8,420	¥ 2,640	¥ 30,231
Property, plant and equipment	3,696	797	27	471	4,991

	Thousands of U.S. dollars				
	2018				
	Japan	North America	Europe	Others	Total
Net sales	$ 100,611	$ 79,466	$ 81,714	$ 19,095	$ 280,886
Property, plant and equipment	32,829	6,650	452	6,791	46,722

3. Information by major customers

As there is no major customer who contributes 10% or more of net sales in the consolidated statement of income, information by major customers is omitted for the years ended March 31, 2018 and 2017.

Information on impairment losses of assets by reportable segment

	Millions of yen					
	2018					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Impairment losses of assets	¥ –	¥ –	¥ –	¥ –	¥ 14	¥ 14

	Thousands of U.S. dollars					
	2018					
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Adjustments	Consolidated
Impairment losses of assets	$ –	$ –	$ –	$ –	$ 132	$ 132

The amount of "Adjustments" is impairment loss on corporate assets not attributable to a specific segment.

Information on amortization of goodwill and balance by reportable segment

The following table presents amortization and the balance of goodwill as of and for the years ended March 31, 2018 and 2017.

	Millions of yen				
	2018				
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Consolidated
Amortization of goodwill	¥ 190	¥ –	¥ –	¥ –	¥ 190
Balance as of March 31, 2018	2,052	–	–	–	2,052

	Millions of yen				
	2017				
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Consolidated
Amortization of goodwill	¥ 186	¥ –	¥ –	¥ –	¥ 186
Balance as of March 31, 2017	2,292	–	–	–	2,292

	Thousands of U.S. dollars				
	2018				
	Global gaming	Overseas commercial	Domestic commercial	Equipment for amusement industry	Consolidated
Amortization of goodwill	$ 1,787	$ –	$ –	$ –	$ 1,787
Balance as of March 31, 2018	19,302	–	–	–	19,302

21. Business Combination

Transaction under common control

1. Summary of the transaction

(1) Name and description of businesses

Sales of currency handling equipment for domestic market.

(2) Purpose of the business combination

On April 1, 2013, the JCM Group (the "Group") conducted a company split to consolidate the sales businesses in Japan, and JCM Systems., Ltd., a consolidated subsidiary of the Company, succeeded to the Commercial Businesses.

Since then, the Group has focused its business resources on exploiting Commercial markets as a new major source of earnings. However, the management team has found it necessary to review the Group's operational system to improve the efficiency of organizational management, considering a launch of products to be sold both in Japan and overseas, close cooperation between the Company's development division and Commercial business division, and other business development in the future. Therefore, the Company has decided to succeed to the Commercial Businesses through a company split.

The succession will not only enable the Company to operate its Commercial Business in Japan and overseas under one roof, but also will enable JCM Systems to concentrate its business resources on the amusement equipment business in Japan. Then, the Group will endeavor to raise the efficiency and profitability of both businesses.

(3) Date of the business combination

April 1, 2017

(4) Legal form of the business combination

The Company split is an absorption-type company split in which the Company is the succeeding company and JCM Systems is the splitting company.

(5) Name of the controlling entity after the business combination

Japan Cash Machine Co., Ltd.

2. Overview of accounting treatment

Based on the Accounting Standard for Business Combinations and the Guidance on Accounting Standard for Business Divestitures, the Company has treated the transaction as a transaction under common control.

22. Loss on Impairment of Fixed Assets

The following table presents loss on impairment of fixed assets for the year ended March 31, 2018.

			Millions of yen	Thousands of U.S. dollars
Asset group	Location	Impaired assets	2018	
Idle assets	Nagano-shi, Nagano	Land	¥ 4	$ 38
Idle assets	Nasu-cho, Tochigi	Land	¥ 5	$ 47
Idle assets	Oshima-cho, Tokyo	Land	¥ 5	$ 47

Background on recognition of impairment losses

Impairment losses were recognized on idle assets that will not be used in the future, and the book value of the assets was reduced to the recoverable amount.

Amount of impairment losses

Impairment losses amounted to ¥14 million ($132 thousand) for land.

Method of grouping assets

Assets are grouped on the basis of the smallest asset units that generate cash flows independently of the cash flows from other assets or asset groups. As for idle assets, they are grouped individually.

Method for computing recoverable amounts

The recoverable amounts of the assets were calculated using estimates of the net sales value based on a valuation that is considered to reflect the market price appropriately.

23. Subsequent Events

Distribution of Retained Earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, was approved at a Board of Directors' meeting held on May 24, 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥8.5 = U.S.$0.08 per share)	¥ 252	$ 2,370

The Board of Directors
Japan Cash Machine Co., Ltd.

We have audited the accompanying consolidated financial statements of Japan Cash Machine Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 Japan Cash Machine Co., Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

June 27, 2018
Osaka, Japan

Ernst & Young ShinNihon LLC

As of March 31, 2018

Outline

Name: Japan Cash Machine Co., Ltd.

Established: January 11, 1955

Headquarters:
2-3-15, Nishiwaki, Hirano-ku, Osaka 547-0035, Japan
Tel: +81-6-6703-8400 Fax: +81-6-6707-0348

Tokyo Headquarters:
2-23-2, Higashi-Nihonbashi, Chuo-ku, Tokyo 103-0004, Japan
Tel: +81-3-5962-3730 Fax: +81-3-5962-3736

Plants: Nagahama, Hong Kong, Shenzhen

Laboratories: Osaka, Tokyo, Bangkok

Primary Business Activities:
Manufacture, sales and marketing of money-handling machines (bill acceptors, coin and bill counting and processing machines, OEM terminals for sports and track facilities, and other equipment for the financial industry), and equipment for the amusement industry

Capital (As of March 31, 2018): ¥2,217 million

Principal Banks:
Resona Bank, Limited
Sumitomo Mitsui Banking Corporation
Sumitomo Mitsui Trust Bank, Limited

Fiscal Year-End: March 31

URL: http://www.jcm-hq.co.jp/english/

Investor Email Inquiries: ir@jcm-hq.co.jp

JCM Group Network

»Overseas

A JCM American Corporation
925 Pilot Road, Las Vegas, Nevada, 89119 USA
Tel: +1-702-651-0000
Business: Sales of money-handling machines

B JCM Europe GmbH
Mündelheimer Weg 60, D-40472 Düsseldorf, Germany
Tel: +49-211-530645-0
Business: Sales of money-handling machines

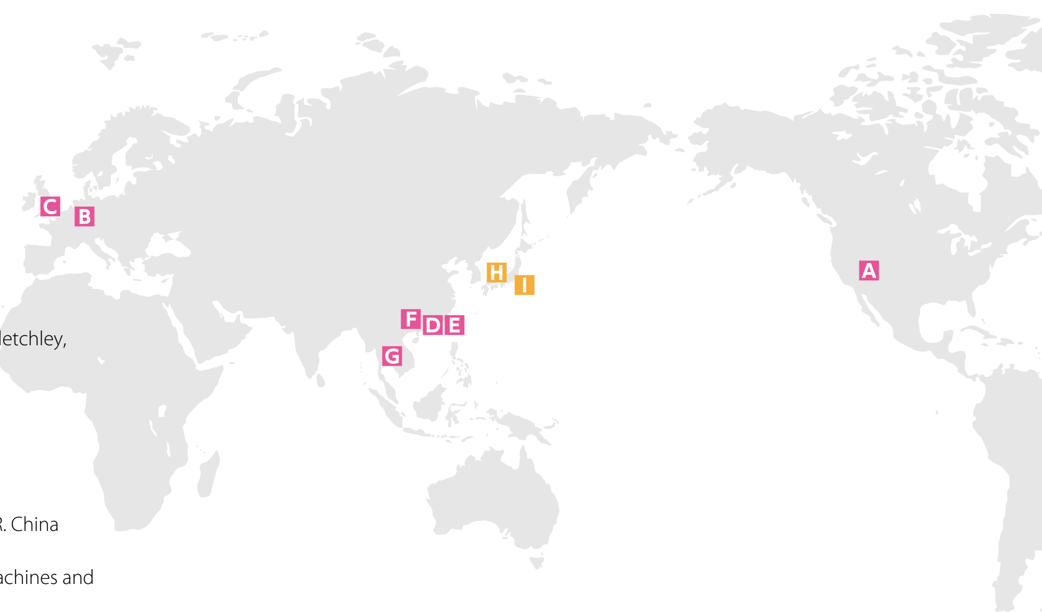
C JCM Europe (UK) Ltd.
Unit B, Denbigh West Business Park, 25 Third Avenue, Bletchley, Milton Keynes, MK1 1DH United Kingdom
Tel: +44 (0)1908 377 331
Business: Sales of money-handling machines

D JCM Gold (H.K.) Ltd.
Unit 1-7, 3F, Favor Industrial Centre,
2-6 Kin Hong St., Kwai Chung N.T., Hong Kong S.A.R., P.R. China
Tel: +852-2429-7187
Business: Manufacture and sales of money-handling machines and electronic cash registers

E Shafty Co., Ltd.
Unit 1-7, 3F, Favor Industrial Centre, 2-6 Kin Hong St., Kwai Chung N.T., Hong Kong S.A.R., P.R. China
Tel: +852-2429-7187
Business: Leasing of real estate to JCM Gold (H.K.) Ltd.

F JCM China Co., Ltd.
806, East Tower, Coastal Building, Haide 3 Road, Nanshan District, Shenzhen, Guangdong, P.R. China
Tel: +86-755-2669-0271
Business: Support for manufacturing and sales of bill validators

G J-Cash Machine (Thailand) Co., Ltd.
46/161 MU 12, Klongkoom, Bungkoom, Bangkok 10230, Thailand
Tel: +66-2363-7509
Business: Software development



»Japan

H JCM Systems Co., Ltd.
2-23-2, Higashi-Nihonbashi, Chuo-ku, Tokyo 103-0004, Japan
Tel: +81-3-5962-3750
Business: Sales, installation, maintenance, checking and repair of amusement equipment

I JCM Meiho Co., Ltd.
3F, Seika Bldg., 2-20-1, Higashi-Ueno, Taito-ku, Tokyo 110-0015, Japan
Tel: +81-3-3833-4891
Business: Sales of *pachinko* (pinball) and related machines

As of March 31, 2018

Share Overview

Total number of shares authorized to be issued	118,000,000
Total number of issued shares	29,662,851
Share unit	100
Number of shareholders	19,624

Major Shareholders

Name	Number of shares held (thousands)	Percentage of outstanding shares (%)
Johto Investment and Development, Inc.	4,661	15.73
Koichiro Kamihigashi	2,707	9.13
Yojiro Kamihigashi	1,458	4.92
Yoshiko Kamihigashi	638	2.15
Resona Bank, Limited	563	1.90
Sumitomo Mitsui Banking Corporation	503	1.70
Totor Engineering Co., Ltd.	416	1.41
Nippon Life Insurance Company	403	1.36
The Master Trust Bank of Japan, Ltd. (Trust Account)	357	1.21
Japan Trustee Services Bank, Ltd. (Trust Account 5)	352	1.19

Note: Apart from the above, the Company holds 21,056 shares as treasury stock. The amount of treasury stock is excluded in calculating the shareholding ratio.

Breakdown by Type of Shareholder