TIME & ECOLOGY AMANO

Summary Financial Statements (Consolidated) for Fiscal Year 2017 (Year Ended March 31, 2018) (Japan GAAP)

April 25, 2018

Company name: Amano Corporation Listed on: TSE
Securities code: 6436 URL http://www.amano.co.jp/
Representative: Hiroyuki Tsuda, President & Representative Director
Inquiries: Kunihiro Ihara, Director & Operating Officer
General Manager, Corporate Planning
Phone: +81 (45) 439-1591

Scheduled date for Ordinary General Meeting of Shareholders: June 28, 2018
Scheduled date for filing of securities report: June 28, 2018
Scheduled date for start of dividend payments: June 29, 2018
Supplementary explanation materials prepared for financial results: Yes
Briefing held on financial results: Yes (for institutional investors and analysts)

(Amounts less than 1 million yen are rounded down)

1. Business results for fiscal year 2017 (April 1, 2017 to March 31, 2018)

(1) Operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent company	
	Millions of yen	(% change)	Millions of yen	(% change)	Millions of yen	(% change)	Millions of yen	(% change)
FY 2017 (year ended March 2018)	124,405	3.6	14,350	9.0	15,060	9.1	10,019	8.6
FY 2016 (year ended March 2017)	120,124	0.5	13,165	1.7	13,806	1.0	9,223	9.7

Note: Comprehensive income FY 2017 (year ended March 2018): 11,041 million yen (26.0%)
FY 2016 (year ended March 2017): 8,765 million yen (29.0%)

	Net income per share	Diluted net income per share	Ratio of net income to equity capital	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
FY 2017 (year ended March 2018)	132.12	—	9.8	10.6	11.5
FY 2016 (year ended March 2017)	120.79	—	9.5	10.0	11.0

Reference: Equity in earnings of affiliates FY 2017 (year ended March 2018): 108 million yen
FY 2016 (year ended March 2017): 71 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY 2017 (year ended March 2018)	145,446	105,634	72.3	1,381.90
FY 2016 (year ended March 2017)	137,888	99,421	71.8	1,301.29

Reference: Equity capital As of March 31, 2018: 105,091 million yen As of March 31, 2017: 98,963 million yen

(3) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2017 (year ended March 2018)	16,750	(6,500)	(5,392)	40,231
FY 2016 (year ended March 2017)	13,734	(4,684)	(6,256)	35,270

2. Dividends

	Annual dividends					Total dividend amount (Year)	Payout ratio (Consolidated)	Ratio of dividend to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2016 (year ended March 2017)	—	23.00	—	29.00	52.00	3,966	43.0	4.1
FY 2017 (year ended March 2018)	—	23.00	—	34.00	57.00	4,334	43.3	4.2
FY 2018 (year ending March 2019) (est.)	—	25.00	—	32.00	57.00		44.2	

3. Forecast earnings for fiscal year 2018 (April 1, 2018 to March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	61,000	5.2	5,900	4.8	6,200	3.6	3,300	(19.0)	43.39
Full year	130,000	4.5	15,000	4.5	15,700	4.2	9,800	(2.2)	128.87

Notes

(1) Significant changes among subsidiaries during the fiscal year under review : None
(i.e. changes among specific subsidiaries resulting in a change in the scope of consolidation)

(2) Changes to accounting policy, changes to accounting forecasts, and restatements
[1] Changes arising from revision of accounting standards : None
[2] Changes to accounting policy other than those in [1] above : None
[3] Changes to accounting forecasts : None
[4] Restatements : None

(3) Number of shares issued and outstanding (common stock)

[1] Number of shares issued and outstanding at the end of the period (including treasury stock)	As of March 31, 2018	76,657,829 shares	As of March 31, 2017	76,657,829 shares
[2] Number of shares of treasury stock at the end of the period	As of March 31, 2018	923,903 shares	As of March 31, 2017	607,651 shares
[3] Average number of shares outstanding	As of March 31, 2018	75,839,732 shares	As of March 31, 2017	76,364,626 shares

Note: The number of shares of treasury stock which is excluded from the calculation of the number of shares of treasury stock at the end of the period and the average number of shares outstanding (over the fiscal year under review up to March 31, 2018) for the fiscal year 2017 includes 314,300 shares of stock of Amano Corporation which are held as trust property of the Directors' Compensation BIP Trust and the Employee Stock Ownership Plan (J-ESOP).

Reference: Non-consolidated results

1. Business results for fiscal year 2017 (April 1, 2017 to March 31, 2018)

(1) Operating results (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2017 (year ended March 2018)	71,754	1.0	9,810	14.7	11,629	13.8	8,456	15.5
FY 2016 (year ended March 2017)	71,059	4.0	8,550	8.1	10,222	9.9	7,319	20.4

	Net income per share	Diluted net income per share
	Yen	Yen
FY 2017 (year ended March 2018)	111.51	—
FY 2016 (year ended March 2017)	95.85	—

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY 2017 (year ended March 2018)	123,126	99,973	81.2	1,314.60
FY 2016 (year ended March 2017)	118,215	96,011	81.2	1,262.47

Reference: Equity capital As of March 31, 2018: 99,973 million yen As of March 31, 2017: 96,011 million yen

2. Forecast earnings for fiscal year 2018 (April 1, 2018 to March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	33,400	1.4	3,700	(2.6)	4,800	(4.0)	2,600	(30.5)	34.19
Full year	74,000	3.1	10,300	5.0	12,000	3.2	7,800	(7.8)	102.57

Note: Summary Financial Statements are not subject to auditing by a certified public accountant or auditing firm.

Note: Explanation concerning appropriate use of the earnings forecast, and other matters to note

Caution regarding forward-looking statements

Earnings forecasts and other forward-looking statements contained in this document are based on information available at the time of this document's preparation and on certain assumptions that are deemed to be reasonable. A variety of factors could cause actual results to differ significantly from the forecasts. For notes on the use of the earnings forecasts and assumptions used for the forecasts, please see Attachment, page 2: "1. General Business Results."

Obtaining supplementary financial results materials and information on the scheduled financial results briefing

Supplementary financial results materials are disclosed via TDnet on the same day as the date of this document. Also, a financial results briefing for institutional investors and analysts is scheduled for Friday, April 27, 2018. The financial results materials to be distributed at this briefing are due to be published on the Amano Corporation website immediately following the meeting.

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1. General Business Results

(1) General Business Results for This Fiscal Year

During the consolidated fiscal year under review, the U.S. economy remained steady and the Chinese economy continued to improve, despite the uncertainties regarding the future prospects of geopolitical risks and political and economic trends in the U.S. and Europe. In this situation, the Japanese economy remained on a recovery trend, as the employment environment and capital investment remained solid and exports increased against the backdrop of robust corporate performances.

Amid this business environment, the Amano Group set forth the management concept of "The 2nd Stage Towards a 100-year Company—Innovative Creation of Value for Sustainable Growth" in the new medium-term management plan launched in April 2017, aiming at achieving growth in Japan, North America, Europe and Asia, respectively. The Amano Group has also been striving to strengthen management practices through cost reduction activities and Amano's work style reform methodology.

As a result of the above, during the fiscal year under review, the Company recorded sales of ¥124,405 million, up by 3.6% year-on-year. Operating profit increased by 9.0% to ¥14,350 million, ordinary profit went up by 9.1% to ¥15,060 million, and net income, which is attributable to parent company shareholders, increased by 8.6% to ¥10,019 million, resulting in increases in both sales and profit.

The following is a breakdown of sales by business division.

Sales by business division (Millions of yen)

Category	FY 2016 (April 1, 2016– March 31, 2017)		FY 2017 (April 1, 2017– March 31, 2018)		Change	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	%
Time Information System business:						
Information Systems	24,789	20.6	26,759	21.5	1,970	7.9
Time Management Products	3,818	3.2	3,751	3.0	(66)	(1.7)
Parking Systems	58,402	48.6	60,757	48.8	2,354	4.0
Subtotal	87,010	72.4	91,268	73.3	4,257	4.9
Environment System business:						
Environmental Systems	21,712	18.1	21,993	17.7	281	1.3
Clean Systems	11,401	9.5	11,143	9.0	(257)	(2.3)
Subtotal	33,113	27.6	33,136	26.7	23	0.1
Total	120,124	100.0	124,405	100.0	4,281	3.6

Time Information System business

- Information Systems: Time & attendance (T&A), payroll, human-resource management, access control, and cafeteria systems
- Time Management Products: Time recorders and time stamps
- Parking Systems: Parking and bicycle-parking space management systems, and commissioned parking lot management service

Sales in this business division totaled ¥91,268 million, representing an increase of ¥4,257 million (4.9%) year-on-year. The following is a breakdown of sales by business division.

• Information Systems

In this business division, against the backdrop of the "work style reform" promoted by the Japanese government, attention is turning to the future trends of companies' efforts to address long working hours, improve productivity and make full use of diverse human resources.

In response to these market conditions, the Company, being "Amano—active in the area of HR (Human Resources)," added access control and security to the list of its "3-in-1" proposal, comprising time & attendance (T&A), payroll, and human-resource management, thus striving to bolster its activities to provide total solutions from system ownership to system use.

Domestic sales for the current term were as follows. For Amano, on an unconsolidated basis, hardware sales decreased by ¥90 million (2.1%), software sales increased by ¥1,222 million (21.5%), and sales generated by maintenance contracts and supplies services increased by ¥65 million (1.6%) year-on-year. The decrease in hardware sales was due to a rebound from large orders in the previous term, while the robust software sales was attributable to increased orders for "TimePro-NX," which is a new piece of software for small and medium businesses and "TimePro-VG" for medium and large businesses. Sales of cloud services developed by Amano Business Solutions Corporation increased, owing to its continuous robust performance.

Overall overseas sales increased by ¥802 million (8.5%) year-on-year as the sales of both Accu-Time Systems, Inc. in North America and Horoquartz S.A. in Europe increased.

As a result of the above, sales in this business division totaled ¥26,759 million, representing an increase of 7.9% year-on-year.

• Time Management Products
Although there is a constant demand for standard devices, this business division continues to respond to the current trend toward lower prices. In the meantime, amid the reforms to ways of working in Japan, a constant level of demand for the Company's products is being maintained due to their ease of introduction.

In this market environment, the Company has been working on expanding its customer base through the "User-club" (a fee-based service for members), as well as concentrating on expanding sales of time recorders equipped with aggregation software compatible with PCs, which offers improved usability and functionality.

Overall domestic sales for this fiscal year increased by ¥16 million (0.5%) year-on-year, as sales of time recorders increased.

Overall overseas sales decreased by ¥152 million (15.2%) year-on-year, as sales in North America and Asia fell while sales in Europe were flat.

As a result of the above, sales in this business division totaled ¥3,751 million, representing a decrease of 1.7% year-on-year.

• Parking Systems
To respond to the increasingly diverse needs of parking lot management in Japan, the Parking Systems business division has been working on improving the efficiency and reducing the cost of parking lot management, increasing the level of convenience for parking lot users, ensuring safety and security in parking lots, and integration with the Internet.

In response to these market conditions, the Company further strengthened its cooperation with major parking lot management firms and, at the same time, concentrated on offering various services to small to medium-sized parking lot management firms through its parking lot data centers. The Company has also worked to improve the functionality and usability of its system equipment and made efforts to expand into new markets, such as bicycle parking systems, security-gate systems and toll road systems, as well as strengthening proposals for improving parking lot management efficiency and making new proposals for enhancing parking lot services to users.

During the current term for Amano, on an unconsolidated basis, domestic parking equipment sales increased by ¥210 million (1.1%) year-on-year due to increases in renewal orders and orders for security gates, and domestic sales generated by maintenance contracts and supplies services decreased by ¥113 million (1.2%) year-on-year. Amano Management Service Corporation's commissioned parking lot management business has been steadily expanding with increased sales, and the number of parking spaces under management increased by 46,000 (12.0%) from the end of the previous fiscal year.

Overall overseas sales increased by ¥1,551 million (8.5%) year-on-year due to an increase in sales in the Asian region as the commissioned parking lot management business in Korea, Hong Kong, and Malaysia grew with the steady expansion, while sales of Amano McGann, Inc. decreased in North America.

As a result of the above, sales in this business division totaled ¥60,757 million, representing an increase of 4.0% year-on-year.

Environment System business

• Environmental Systems:	Standard dust collectors, large dust collection systems, pneumatic powder conveyance systems, high-temperature hazardous-gas removal systems, and deodorization systems
• Clean Systems:	Cleaning equipment, dry-care cleaning systems, cleaning management services, and electrolytic water generators

The sales in this business totaled ¥33,136 million, up by ¥23 million (0.1%) year-on-year. The following is a breakdown of sales by business division.

• Environmental Systems

In Environmental Systems, companies' capital investment has remained solid in Japan, and the overseas business environment is on a recovery trend owing to a picking up of the China's economy, etc.

In this market environment, the Company's domestic strategy focused on capitalizing the demand for its standard equipment by strengthening proposals, mainly targeting automobile-related companies, while seeking to win additional orders from customers in the pharmaceutical, foods and cosmetics markets. Meanwhile, the Company enhanced cooperation with its overseas Group companies, reinforced its platforms for engineering, sales and services. Furthermore, the Company endeavored to achieve greater cost competitiveness by expanding its local procurement, while observing the investment trend of Japanese companies operating overseas.

During the current term for Amano, on an unconsolidated basis, domestic sales of standard equipment increased by ¥393 million (5.3%), sales of large-scale systems decreased by ¥1,318 million (19.6%) and sales generated by maintenance contracts and supplies services increased by ¥386 million (8.2%) year-on-year.

Overall overseas sales increased by ¥931 million (32.3%), owing to robust sales in Mexico and signs of recovery of sales in Asia as the China's economy is picking up.

As a result of the above, sales of this business division totaled ¥21,993 million, representing an increase of 1.3% year-on-year..

• Clean Systems

In Clean Systems, while the trend of companies trying to reduce cleaning costs continues domestically amid a shortage of sanitary workers in the building maintenance industry, needs for proposals that lead to higher cleaning efficiency and improved quality have been increasing.

In response to these market conditions, we strengthened our proposal, addressing cleaning issues companies are facing, through implementation of new cleaning techniques using cleaning robots and the launch of the new EG series automatic floor scrubbers, which further increased safety levels and improved usability.

For this fiscal year, even though Amano's domestic sales of new products on an unconsolidated basis fared well, overall domestic sales of cleaning equipment decreased by ¥10 million (0.5%) and domestic sales generated by maintenance contracts and supplies services declined by ¥88 million (3.5%) year-on-year.

Overall overseas sales decreased by ¥101 million (1.8%) year-on-year, despite the solid performance of the wooden floor sanding equipment business in North America.

As a result of the above, sales of this business division totaled ¥11,143 million, representing a decrease of 2.3% year-on-year.

Reference information

Information by area

(Millions of yen)

	Net sales				Operating profit or loss			
	FY 2016 (year ended March 2017)	FY 2017 (year ended March 2018)	Change	Percentage change (%)	FY 2016 (year ended March 2017)	FY 2017 (year ended March 2018)	Change	Percentage change (%)
Japan	84,315	85,539	1,223	1.5	14,408	16,362	1,953	13.6
Other Asia	12,021	14,494	2,472	20.6	896	1,180	283	31.7
North America	18,858	18,085	(772)	(4.1)	852	(102)	(955)	—
Europe	7,383	8,432	1,048	14.2	490	695	205	41.9
Total	122,579	126,552	3,973	3.2	16,648	18,136	1,487	8.9
Eliminations/ Corporate	(2,455)	(2,146)	—	—	(3,483)	(3,785)	—	—
Consolidated	120,124	124,405	4,281	3.6	13,165	14,350	1,185	9.0

Notes: 1. The national and regional demarcations are based on the degree of geographical proximity.
2. Major countries and territories included in areas other than Japan:
(1) Other Asia: Singapore, Thailand, Malaysia, Indonesia, South Korea, China, and Philippines
(2) North America: United States, Canada, and Mexico
(3) Europe: France, Belgium, and Spain

Overseas sales

(Millions of yen)

	Overseas sales				Proportion of consolidated net sales accounted for by overseas sales (%)		
	FY 2016 (year ended March 2017)	FY 2017 (year ended March 2018)	Change	Percentage change (%)	FY 2016 (year ended March 2017)	FY 2017 (year ended March 2018)	Change
Other Asia	12,404	14,446	2,041	16.5	10.3	11.6	1.3
North America	17,141	16,469	(671)	(3.9)	14.3	13.2	(1.1)
Europe	7,357	8,196	838	11.4	6.1	6.6	0.5
Other regions	1,184	1,673	488	41.2	1.0	1.4	0.4
Total	38,088	40,785	2,696	7.1	31.7	32.8	1.1
Consolidated net sales	120,124	124,405					

Notes: 1. The national and regional demarcations are based on the degree of geographical proximity.
2. Major countries and territories included in areas other than Japan:
(1) Other Asia: Singapore, Thailand, Malaysia, Indonesia, South Korea, China, and Philippines
(2) North America: United States and Canada
(3) Europe: France, Belgium, and Spain
(4) Other regions: Central and South America
3. Overseas sales comprise sales by the Company and its consolidated subsidiaries to countries and regions other than Japan.

(2) General Financial Condition for This Fiscal Year

Assets

Total assets as of March 31, 2018 amounted to ¥145,446 million, up by ¥7,557 million from the previous fiscal year-end. Current assets increased by ¥6,264 million year-on-year. This was mainly due to increases of ¥5,584 million in cash and bank deposits and ¥706 million in other current assets. Fixed assets increased by ¥1,293 million year-on-year. This was primarily attributable to increases of ¥291 million in tangible fixed assets and ¥1,124 million in investments and other assets due to an increase in investment securities, despite a decrease of ¥122 million in intangible fixed assets.

Liabilities

Total liabilities as of March 31, 2018 amounted to ¥39,812 million, up by ¥1,344 million year-on-year. Current liabilities increased by ¥2,136 million year-on-year. This was mainly due to increases of ¥890 million in accrued income taxes and ¥1,616 million in other current liabilities following an increase in accrued expenses. Fixed liabilities decreased by ¥791 million year-on-year. This was primarily attributable to decreases of ¥469 million in long-term borrowings and ¥364 million in lease obligations.

Net Assets

Total net assets as of March 31, 2018 amounted to ¥105,634 million, up by ¥6,213 million from the previous fiscal year-end. This was primarily attributable to increases of ¥5,232 million in shareholders' equity resulting from the recording of net income attributable to owners of the parent company and ¥895 million in accumulated other comprehensive income following an increase in translation adjustments, among other factors.

(3) General Cash Flows for This Fiscal Year

Consolidated cash and cash equivalents increased by ¥4,961 million from the previous fiscal year-end to a total of ¥40,231 million as of March 31, 2018. The status of each type of cash flow at year-end and the underlying factors are as follows.

Cash flow from operating activities

Net cash provided by operating activities totaled ¥16,750 million. This was attributable primarily to income before income taxes amounting to ¥15,280 million, and depreciation and amortization amounting to ¥5,063 million, despite income taxes payments amounting to ¥4,141 million.

Cash flow from investing activities

Net cash used in investing activities totaled −¥6,500 million. This was mainly because, despite the recording of ¥8,771 million in proceeds from withdrawal of time deposits and ¥2,150 million in proceeds from redemption of securities, the Company recorded expenditures amounting to ¥9,179 million in time deposits, ¥3,107 million to purchase tangible fixed assets, ¥2,385 million to purchase intangible fixed assets, and ¥2,000 million yen to purchase securities.

Cash flow from financing activities

Net cash used in financing activities amounted to −¥5,392 million. This was chiefly due to the recording of expenditures amounting to ¥3,954 million in payment of dividends, ¥1,547 million in repayment of finance lease obligations, and ¥832 million in purchase of treasury stock, despite the recording of ¥1,331 million yen in proceeds from sale and leaseback.

Reference: Trend of cash flow indicators

	As of Mar. 31, 2014	As of Mar. 31, 2015	As of Mar. 31, 2016	As of Mar. 31, 2017	As of Mar. 31, 2018
Equity ratio (%)	67.6	69.8	69.5	71.8	72.3
Fair value equity ratio (%)	66.5	83.7	99.4	122.6	150.1
Ratio of cash flow to interest-bearing liabilities (%)	37.3	52.2	25.5	16.0	11.2
Interest coverage ratio	219.7	122.9	292.2	447.8	483.5

Notes: Equity ratio: Equity capital/Total assets
Fair value equity ratio: Gross market capitalization/Total assets
Ratio of cash flow to interest-bearing liabilities: Interest-bearing liabilities/Cash flow from operating activities
Interest coverage ratio: Cash flow from operating activities/Interest payments

Assumptions:

* All indicators are calculated on the basis of consolidated financial values.
* Gross market capitalization is calculated by multiplying the closing price of the Company's shares at the year-end by the number of shares of common stock issued and outstanding at the year-end (less treasury stock).
* The term "cash flow from operating activities" refers to cash flow from operating activities posted under the consolidated statements of cash flows. The term "interest-bearing liabilities" refers to those liabilities stated in the consolidated balance sheets on which interest is paid. Interest payments equate with the interest paid recorded in the consolidated statements of cash flows

(4) Future Outlook

In the next fiscal year ending March 31, 2019, overseas, there will be growing uncertainty about the future of political and economic trends due to geopolitical risks and the destabilization of trade policies, mainly in the U.S. In this situation, the Japanese economy will likely remain on a recovery trend as capital investment will remain strong due to Olympic Games-related demand and the growth in corporate earnings, while exports will continue to increase.

Amid this business environment, Amano Corporation and its Group companies will set "The 2nd Stage Towards a 100-year Company-Innovative Creation of Value for Sustainable Growth" as its management concept and work to address key issues in the new medium-term management plan described in "3. Business Policies" on page 10 with a view to maximizing the corporate value of Amano Corporation.

The following business results are projected for the next fiscal year ending March 31, 2019: net sales of ¥130,000 million, operating profit of ¥15,000 million, ordinary profit of ¥15,700 million, and net income attributable to parent company shareholders of ¥9,800 million. These projections assume currency exchange rates of ¥105 to the US dollar and ¥130 to the euro.

(5) Basic Policy on Distribution of Profits and Payment of Dividends for This Fiscal Year and the Next

Amano places great importance on its policy of paying dividends to shareholders. Its fundamental policy to return profits to shareholders is to make appropriate results-based distributions and to buy back treasury stock, as it deems necessary. The Company aims to maintain a dividend payout ratio of at least 40% on a consolidated basis and a dividend on equity ratio of at least 2.5%.

In line with this policy, taking into account our current-year operations results, we plan to pay a year-end dividend of ¥34 per share. As a result, the annual per-share dividend for this fiscal year will be ¥57 (including ¥23 per share paid as the interim dividend), an increase of ¥5 compared with the previous fiscal year. This corresponds to a dividend payout ratio of 43.3% and a 4.2% ratio of dividends to net assets on a consolidated basis.

With regard to the dividend for the next fiscal year, in line with our Basic Policy on Distribution of Profits and in view of our Outlook for Fiscal Year Ending March 31, 2019, we aim to pay an annual per-share dividend of ¥57 (with an interim dividend of ¥25 and a year-end dividend of ¥32).

Retained earnings will be earmarked to fund effective investment aimed at the fundamental enhancement of the Company's capacity to conduct its business operations. This will include the expansion and strengthening of existing business fields, strategic investment in growth fields, and spending on research and development, as well as the rationalization of production plants and equipment for the purpose of reducing costs and further improving product quality.

(6) Operating and Other Risk Factors

Matters relating to the qualitative information contained in these summary financial statements and relating to the consolidated financial statements that could be envisaged as having a possible material impact on investors are described below.

Every effort are made to identify factors that may now or in the future pose a risk to the undertaking of business by the Amano Group, and these risk factors are then eliminated or otherwise managed in the course of business.

Forward-looking statements are current as of the date of the release of these financial results (April 25, 2018).

(i) Impact on earnings due to changes in the business environment

The Amano Group uses the unique technologies and know-how it has accumulated to provide customers with high-quality products, services and solutions, thereby gaining large market shares in each sphere of business in Japan, North America, Europe, and Asia, and developing its business globally.

In the year ended March 31, 2018, the Time Information System business accounted for 73.3% of total sales, and the Environment System business accounted for 26.7%. Before the deduction of unallocated expenses, the Time Information System business contributed 71.5% to operating profit, while the Environment System business contributed 28.5%. In terms of weighted average sales over the last five years, the Time Information System business accounted for 72.8% of total sales and 73.2% of operating profit.

One future risk factor is that if market expansion is forecast for a business activity within the Time Information System business segment (which accounts for a large proportion of the Group's business) for such reasons as a significant change in the demand structure or the creation of a new market, entities in other industries or other powerful competitors may be tempted to enter the market. In such an event, if a competitor were to enter with innovative products or solutions that surpass Amano's, the Amano Group's market advantage would decline, which may have a material impact on its business performance.

(ii) Fluctuations in exchange rates

The Group engages in business activities on a global scale and has production and sales bases overseas. In view of this, the Group's business results may be impacted by fluctuations in exchange rates when the proceeds for overseas transactions are converted into yen.

(iii) Information security

In the course of providing system solutions and developing cloud business services (e.g., ASP, SaaS, and hosting services), the Amano Group handles confidential information, such as personal information concerning, or provided by, customers. In view of this, the Company has strengthened and thoroughly implemented security control measures based on the Information Security Management Rules. Specifically, the Company has implemented measures to protect confidential information (e.g., encrypting hard disk drives and external media) as well as provided periodic staff training through e-learning. Furthermore, the Company obtained the Privacy Mark certification in February 2014 and has implemented all possible measures to ensure information security, including supervision of service providers and thorough compliance with internal rules. Nevertheless, the occurrence of an unforeseen situation that results in loss or leakage of confidential or personal information as described above could have an adverse material impact on the Group's business performance due to factors such as loss of confidence.

(iv) Natural disasters

Natural disasters (e.g., large-scale earthquakes, windstorms, or floods) may damage human lives or property. The Amano Group continues to take necessary measures at ordinary times comprising: 1) imposition of requirement for employees to carry a disaster emergency contact card at all times; 2) development of emergency contact networks and personnel safety check system; 3) relocation of file servers to external data centers; 4) development of a preparedness for setting up the disaster management headquarters at the time an emergency occurs. However, in the event of a natural disaster, the Group may temporarily lose the ability to continue to perform its operating activities due to damage to its sales business sites and production bases, or to employees experiencing difficulties in carrying out their duties.

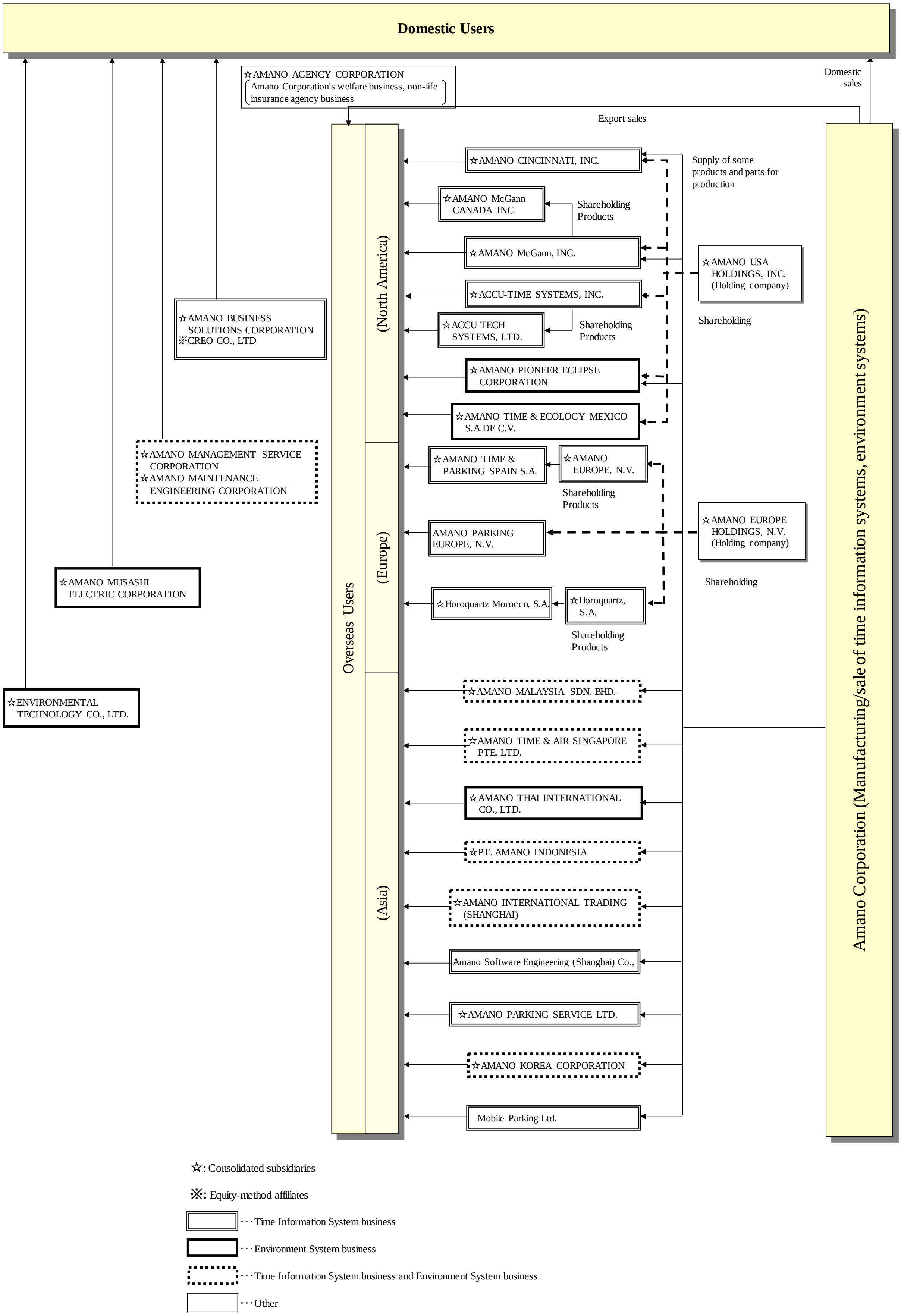
(v) Overseas business development

The Amano Group has been developing its business globally in Japan, North America, Europe, and Asia. Therefore, there is a possibility that a situation may arise in which business operations are disrupted due to the application of unique laws, ordinances, or regulations or social disorder due to political disturbances, war, or terrorism, etc. in countries or regions where the Group conducts business, which may adversely impact the Group's business performance.

2. Status of the Corporate Group

The following chart sets out the Group's business activities.

The business segments shown in the chart are based on the principal business activities of the subsidiaries and affiliate.



3. Business Policies

(1) Basic Management Policy

Amano's management philosophy is to create new values and contribute to the realization of a safe, comfortable and a wholesome society in the fields of "People & Time" and "People & Environment."

Under this management philosophy and based on an optimal governance structure that responds to changes in the business environment, we will strive to maximize corporate value by ensuring sustained growth through the creation of new businesses and markets with a medium-to-long term global perspective, in addition to expanding our existing businesses. Furthermore, we will aim to become a company that has the trust and high regard of all the stakeholders including customers, business partner companies, shareholders, employees and the local community by constantly returning a fair profit earned through business activities.

(2) Medium- to Long-term Corporate Management Strategies and Issues to Address

Amano launched the 7th Medium-term Business Plan for the three years from April 2017 to March 2020. An outline of the plan is set out below.

[1] Basic policies

Under the 7th Medium-term Business Plan, with the Group's management concept of "The 2nd Stage Towards a 100-year Company-Innovative Creation of Value for Sustainable Growth," we will address four key issues towards achieving the goal of "enhancing our corporate value" while emphasizing compliance and further strengthening corporate governance as a foundation.

(1) Regional Growth Strategies: Promote growth strategy for each of the four regions (Japan, North America, Europe and Asia).
(2) Reinforcement Management Foundation: Reinforce management practices based on productivity improvement by continuing cost reduction activities and a work style reform.
(3) Create Innovation: Aim to be the clear niche leader and build the sixth and seventh core businesses.
(4) Improve Brand Value: Promote the enhancement of the value of Amano brands through efforts to address the key issues described above.

The target of the new medium-term business plan is the achievement of the "triple 11."
(1) Operating profit ratio: 11% or more
(2) ROE: 11% or more
(3) The ratio of consolidated net sales to non-consolidated net sales: 11% growth

Measures and issues for each region under these basic policies are as follows:

1. Japanese market

In the Japanese market, we will reinforce ties among domestic Group companies and also with other companies outside the Group and strengthen our capacity to provide holistic solutions (which cover hardware, software, and services) across all business fields both qualitatively and quantitatively. We will also promote the strategic "3-in-1 activity" to increase our customer base by cultivating and further attracting existing customers and aim to be the clear niche leader on a medium- to long-term basis in each business field.

The Information Systems business is witnessing tangible demand for time & attendance management systems, which enables proper employee work management. Amid the implementation of the Japanese government guidance to eradicate long working hours (overworking) and to improve productivity, corporate measures to establish a framework to manage appropriate work hours have become the subject of attention. In addition, against the backdrop of the revision to the Labor Standards Act, which aims to facilitate diverse ways of working, it is expected that demand for system upgrades along with systems utilizing cloud services and smart devices will increase.

In response to this market environment, we will enhance our customer base by providing a one-stop service covering hardware, software and cloud services. For the small-to-medium sized enterprise market, we will further strengthen the marketing of TimePro-NX, a software package launched last year that provides holistic solutions for time & attendance, human resource management and payroll. For the medium-to-large enterprise market, we will collaborate with CREO CO., LTD., to provide software for time & attendance, human resource management, payroll and accounting, and in addition, we will strengthen consulting activities to become an "HR solutions vendor" in order to expand our business domains.

The Parking Systems business is witnessing continuing growth in the nation's parking lot market owing to the real estate market becoming buoyant in advance of the 2020 Tokyo Olympics. In addition to the need for parking lot management cost reduction, ensuring safety and security in parking lots, consideration for the environment and the improvement of user convenience, the need to propose solutions for new operational methods such as web-based or cashless use of parking lots has been increasing.

Given this market environment, we will further strengthen partnerships with major parking lot management companies and provide various services through our parking lot data center for small- and medium-sized parking lot management companies while improving the functions and operability of system equipment. In order to respond to transitions in the market including the increased demand for parking reservations and the migration towards a sharing economy, we will aim to become a "total parking solutions vendor." In addition, we will continue to strengthen and expand our efforts for facilities such as bicycle parking lots, security gates and toll roads in order to expand our business.

In Environmental Systems, capital investment by companies in Japan, especially automobile-related firms, remained solid, and capital investment by Japanese companies operating overseas, including in the U.S., was strong, while the Chinese economy continued to improve.

Given this market environment, in Japan we will aim to increase the quantity of sales of standard equipment by rolling out new products and expand business domains including the pharmaceutical, food, and cosmetics markets, which are less affected by business sentiments. We will also work to strengthen our engineering capabilities and comprehensive sales, including that of peripheral equipment, by partnering with industrial equipment manufacturers and aim to become an "M2M partial solutions vendor."

In the Clean Systems, while the trend of companies trying to reduce cleaning costs continues, amid the aging of sanitation workers and an increase in the number of inexperienced workers, the need to improve safety and operability of cleaning equipment has been increasing. At the same time, the need to maintain building aesthetics at a low cost has also been increasing.

In response to these market conditions, we will expand the robotic cleaning devices market (robotic scrubbers, robotic vacuum cleaners), the factory market with new model scrubbers as well as a business producing an income stream by increasing maintenance contracts and order intakes for supply goods, thus bolstering our customer base in Japan. With the aim of becoming a "robotic solutions vendor," which focuses on cleaning robotic devices, we will also promote comprehensive proposals, including those for commissioned cleaning services and aesthetic maintenance.

2. North American market

In the Parking Systems business, we will step up sales of Amano McGann, Inc.'s system equipment and have a new system that target the low-end market gain a foothold at an early stage. In the Information Systems business, we will strive to expand operations by increasing sales of Accu-Time Systems, Inc.'s time and attendance information terminals and by developing cloud services. In the Clean Systems business, we will further expand the business of the wooden floor sanding equipment division of Amano Pioneer Eclipse Corp. and develop new niche areas and channels. In the Environmental Systems business, at Mexican subsidiary established two years ago, we will boost sales of standard equipment to Japanese companies operating in the region, especially automobile-related businesses.

3. European market

In the Information Systems business, we will further enhance our customer base by promoting Horoquartz's workforce management and access control businesses. In the Parking Systems business, we will strive to expand operations by developing a commissioned parking lot management business.

4. Asian market

In the Asian region, we will aim to expand Parking Systems operations by strengthening services in the commissioned parking lot management business and by expanding services into new regions. In the Environmental Systems business, we will strengthen our engineering capabilities as well as sales and service systems for Japanese companies operating in Asia by making use of the ties between our Group companies across Asia and our head office in Japan. We will also expand our local production capabilities in order to enhance cost competitiveness.

Other issues that need to be addressed are listed below:

1. Practical implementation of a work style reform

With the aim of improving productivity of the whole Group, we will continue the efforts to increase productivity by having each employee regulate their biological clock and create a timetable which reflects the prioritization of their job duties. We will publish examples and the results of our company's efforts as an "HR solutions vendor" to the public and incorporate such examples to enhance the product appeal of time & attendance systems.

2. Create innovation

We will aim to become the "clear niche leader" by increasing each business division's No. 1 areas. We will also promote open innovation by acquiring technology and know-how from companies outside our Group through cooperation with venture companies and M&As regardless of our existing technology and know-how in order to build the "sixth and seventh core businesses" as new businesses. In addition, with future market trends in mind, we will promote research and development that is not necessarily limited to our current product or service lineup (to defeat innovation dilemmas) in order to aim for leading-edge business development utilizing AI, IoT, robotic devices and the web.

3. Further improvement of brand value

In order to improve our corporate value, we will strive to gain wider recognition of our company in the overall market by taking advantage of mass media and social media, and aim to further enhance our brands by strongly promoting each business division's brand strategies and by creating synergy effects with our Group companies more than ever before.

[2] Numerical targets

We are aiming to achieve ¥140.0 billion or higher in net sales and ¥16.0 billion or higher in operating profit for the fiscal year ending March 31, 2020, which is the final year of the plan.

Numerical targets

(Millions of yen)

	FY 2017 (ended March 2018) (Results)		FY 2018 (ending March 2019)		FY 2019 (ending March 2020)	
	Amount	YoY (%)	Amount	YoY (%)	Amount	YoY (%)
Net sales	124,405	3.6%	130,000	4.5%	142,000	9.2%
Operating profit	14,350	9.0%	15,000	4.5%	16,000	6.7%
Operating profit ratio (%)	11.5%	—	11.5%	—	11.3%	—
Ordinary profit	15,060	9.1%	15,700	4.2%	16,400	4.5%
Net income attributable to owners of the parent company	10,019	8.6%	9,800	(2.2%)	10,800	10.2%

4. Basic Approach to the Selection of Accounting Standards

We have not determined a specific date for the adoption of IFRS; however, to prepare for the future adoption, we will undertake the preparations and examinations that are presently possible, and at the same time we will continue to collect and study international accounting information.

5. Consolidated Financial Statements and Primary Explanatory Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	FY 2016 (as of March 31, 2017)	FY 2017 (as of March 31, 2018)
Assets		
Current assets		
Cash and bank deposits	38,940	44,525
Notes and accounts receivable—trade	33,710	33,632
Marketable securities	1,435	1,377
Merchandise and finished goods	3,753	3,699
Work in process	477	535
Raw materials and supplies	5,227	5,495
Deferred tax assets	1,889	1,838
Other current assets	2,560	3,267
Allowance for doubtful accounts	(357)	(467)
Total current assets	87,638	93,903
Fixed assets		
Tangible fixed assets		
Buildings and structures	30,166	30,887
Accumulated depreciation	(19,273)	(19,910)
Buildings and structures (net)	10,892	10,977
Machinery and vehicles	6,817	6,976
Accumulated depreciation	(6,021)	(6,052)
Machinery and vehicles (net)	796	923
Tools, furniture and fixtures	12,950	13,907
Accumulated depreciation	(11,383)	(11,779)
Tools, furniture and fixtures (net)	1,566	2,127
Land	7,125	7,135
Lease assets	6,330	6,112
Accumulated depreciation	(3,350)	(3,474)
Lease assets (net)	2,979	2,638
Construction in progress	327	177
Total tangible fixed assets	23,689	23,980
Intangible fixed assets		
Goodwill	3,165	2,895
Software	3,322	4,385
Software in progress	2,989	2,261
Other	3,013	2,824
Total intangible fixed assets	12,490	12,367

(Millions of yen)

	FY 2016 (as of March 31, 2017)	FY 2017 (as of March 31, 2018)
Investments and other assets		
Investment securities	8,033	9,363
Long-term loans receivable	10	10
Claims in bankruptcy and similar claims	415	529
Fixed leasehold deposits	1,142	1,287
Long-term deposits	1,500	1,500
Net defined benefit assets	88	96
Deferred tax assets	1,273	938
Other	2,035	2,011
Allowance for doubtful accounts	(428)	(542)
Total investments and other assets	14,070	15,195
Total fixed assets	50,250	51,543
Total assets	137,888	145,446
Liabilities		
Current liabilities		
Notes and accounts payable—trade	7,629	7,034
Electronically recorded obligations	6,580	6,454
Short-term bank loans	37	169
Lease obligations	1,391	1,296
Accrued income taxes	2,581	3,472
Accrued bonuses	2,204	2,477
Accrued officers' bonuses	90	130
Other current liabilities	11,719	13,335
Total current liabilities	32,234	34,370
Long-term liabilities		
Long-term bank loans	469	-
Long-term accounts payable—other	21	33
Lease obligations	2,954	2,590
Deferred tax liabilities	8	12
Net defined benefit liabilities	2,445	2,446
Asset retirement obligations	31	31
Other long-term liabilities	302	326
Total long-term liabilities	6,233	5,441
Total liabilities	38,467	39,812
Net assets		
Shareholders' equity		
Common stock	18,239	18,239
Capital surplus	19,293	19,293
Retained earnings	65,075	71,140
Treasury stock	(1,059)	(1,892)
Total shareholders' equity	101,548	106,780
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities	1,934	2,225
Foreign currency translation adjustments	(3,533)	(2,997)
Remeasurements of defined benefit plans	(986)	(917)
Total accumulated other comprehensive income	(2,585)	(1,689)
Non-controlling shareholders' interests	458	543
Total net assets	99,421	105,634
Total liabilities and net assets	137,888	145,446

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Net sales	120,124	124,405
Cost of sales	68,180	69,103
Gross profit	51,943	55,302
Selling, general and administrative expenses		
Selling expenses	34,792	36,786
General and administrative expenses	3,985	4,165
Total selling, general and administrative expenses	38,778	40,951
Operating profit	13,165	14,350
Non-operating profit		
Interest income	87	108
Dividend income	150	180
Insurance dividend income	126	133
Insurance income	45	69
Equity in earnings of affiliates	71	108
Other	336	346
Total non-operating profit	818	947
Non-operating expenses		
Interest expenses	30	34
Loss on foreign exchange	89	118
Foreign withholding tax	16	20
Other	39	63
Total non-operating expenses	176	237
Ordinary profit	13,806	15,060
Extraordinary income		
Gain on sale of fixed assets	3	8
Gain on sales of investment securities	100	250
Total extraordinary income	103	259
Extraordinary losses		
Loss on disposal of fixed assets	24	37
Loss on sale of fixed assets	19	1
Loss on liquidation of subsidiaries	35	-
Total extraordinary losses	79	39
Income before income taxes	13,831	15,280
Income taxes	4,490	4,953
Deferred income taxes	26	209
Total income taxes	4,516	5,163
Net income	9,314	10,117
Net income attributable to non-controlling shareholders	90	97
Net income attributable to owners of the parent company	9,223	10,019

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Net income	9,314	10,117
Other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities	484	289
Foreign currency translation adjustments	(1,219)	566
Remeasurements of defined benefit plans	192	68
Share of other comprehensive income of associates accounted for using equity method	(6)	(0)
Total other comprehensive income	(549)	923
Comprehensive income	8,765	11,041
(Breakdown)		
Comprehensive income attributable to owners of the parent Company	8,681	10,915
Comprehensive income attributable to non-controlling shareholders	83	126

(3) Consolidated Statement of Changes in Shareholders' Equity

FY 2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Net assets				
	Shareholders' equity	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	18,239	19,293	59,757	(56)	97,233
Changes during the year					
Dividends from surplus			(3,906)		(3,906)
Net income attributable to owners of the parent company			9,223		9,223
Purchase of treasury stock				(1,002)	(1,002)
Net changes in items other than shareholders' equity					
Total changes during the year	—	—	5,317	(1,002)	4,314
Balance at year end	18,239	19,293	65,075	(1,059)	101,548

	Accumulated other comprehensive income				Non-controlling shareholders' interests	Total net assets
	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the year	1,456	(2,321)	(1,178)	(2,043)	416	95,606
Changes during the year						
Dividends from surplus						(3,906)
Net income attributable to owners of the parent company						9,223
Purchase of treasury stock						(1,002)
Net changes in items other than shareholders' equity	478	(1,212)	192	(541)	42	(499)
Total changes during the year	478	(1,212)	192	(541)	42	3,814
Balance at year end	1,934	(3,533)	(986)	(2,585)	458	99,421

FY 2017 (April 1, 2017–March 31, 2018)

(Millions of yen)

	Net assets				
	Shareholders' equity	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the year	18,239	19,293	65,075	(1,059)	101,548
Changes during the year					
Dividends from surplus			(3,954)		(3,954)
Net income attributable to owners of the parent company			10,019		10,019
Purchase of treasury stock				(832)	(832)
Net changes in items other than shareholders' equity					
Total changes during the year	—	—	6,065	(832)	5,232
Balance at year end	18,239	19,293	71,140	(1,892)	106,780

	Accumulated other comprehensive income				Non-controlling shareholders' interests	Total net assets
	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the year	1,934	(3,533)	(986)	(2,585)	458	99,421
Changes during the year						
Dividends from surplus						(3,954)
Net income attributable to owners of the parent company						10,019
Purchase of treasury stock						(832)
Net changes in items other than shareholders' equity	290	536	68	895	85	980
Total changes during the year	290	536	68	895	85	6,213
Balance at year end	2,225	(2,997)	(917)	(1,689)	543	105,634

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Cash flows from operating activities		
Income before income taxes	13,831	15,280
Depreciation and amortization	4,933	5,063
Amortization of goodwill	684	511
Increase (decrease) in net defined benefit liabilities	(225)	66
Increase (decrease) in allowance for doubtful accounts	81	206
Interest and dividend revenue	(238)	(288)
Equity in (earnings) losses of affiliates	(71)	(108)
Interest expenses	30	34
Foreign currency translation loss (gain)	(27)	4
Loss (gain) on sale of fixed assets	16	(7)
Loss on disposal of fixed assets	24	37
Loss (gain) on sales of investment securities	(100)	(250)
Loss (gain) on liquidation of subsidiaries	35	-
(Increase) decrease in trade notes and accounts receivable	309	290
(Increase) decrease in inventories	(813)	(235)
Increase (decrease) in accounts payable	266	(794)
Increase (decrease) in other current liabilities	205	1,185
Other	37	(446)
Subtotal	18,980	20,550
Receipts from interest and dividends	266	303
Interest paid	(30)	(34)
Income taxes paid	(5,488)	(4,141)
Income taxes refunded	6	73
Net cash provided by operating activities	13,734	16,750

(Millions of yen)

	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Cash flows from investing activities		
Payment for acquisition of securities	(2,000)	(2,000)
Proceeds from redemption of securities	2,300	2,150
Payment for purchase of tangible fixed assets	(3,109)	(3,107)
Proceeds from sale of tangible fixed assets	23	25
Payment for acquisition of intangible fixed assets	(2,464)	(2,385)
Payment for acquisition of investment securities	(108)	(967)
Proceeds from sales of investment securities	400	300
Payment for acquisition of subsidiary shares involving change to the scope of consolidation	(62)	-
Proceeds from liquidation of subsidiaries	-	46
Expenditures for business acquisition	-	(168)
Collection of loans receivable	3	0
Increase in time deposits	(8,601)	(9,179)
Proceeds from withdrawal of time deposits	9,011	8,771
Other	(78)	10
Net cash used in investing activities	(4,684)	(6,500)
Cash flows from financing activities		
Increase in short-term loans payable	-	158
Repayment for short-term bank loans	(1,195)	(506)
Payment for acquisition of treasury stock	(1,002)	(832)
Repayment of finance/lease obligations	(1,713)	(1,547)
Proceeds from sale and leaseback	1,602	1,331
Dividends paid	(3,906)	(3,954)
Payment of dividends to non-controlling shareholders	(41)	(41)
Cash flows from financing activities	(6,256)	(5,392)
Effect of exchange rate changes on cash and cash equivalents	(248)	103
Net increase (decrease) in cash and cash equivalents	2,544	4,961
Cash and cash equivalents at the beginning of the year	32,725	35,270
Cash and cash equivalents at end of period	35,270	40,231

(5) Notes to Consolidated Financial Statements

Notes Regarding the Premise of a Going Concern

None

Important Matters that Constitute the Basis for the Preparation of the Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 26

Names of major consolidated subsidiaries:

Please refer to "2. Status of the Corporate Group" on page 9.

HOROQUARTZ, S.A., a consolidated subsidiary, implemented an absorption-type merger with Horosmart, S.A., a consolidated subsidiary, during the consolidated fiscal year under review.

(2) Names of non-consolidated subsidiaries:

AMANO SOFTWARE ENGINEERING (SHANGHAI) CO., LTD.; Mobile Parking Ltd.; AMANO PARKING EUROPE, N.V. (3 companies)

Reasons for exclusion from the scope of consolidation

Non-consolidated subsidiaries are small in scale, and their combined total assets, sales, net income, and retained earnings (according to the Group's holding in them) would, in every case, have no material impact on the consolidated financial statements.

2. Application of the equity method

Number of affiliated companies to which the equity method is applied: 1
Names of affiliated companies to which the equity method is applied:
CREO CO., LTD.

3. Fiscal years of consolidated subsidiaries

Among consolidated subsidiaries, the fiscal year-end for those overseas is December 31. Their financial statements as of that date are used in the preparation of the consolidated financial statements, and necessary adjustments are made to the consolidated accounts if significant transactions take place between that date and the consolidated balance sheet date.

4. Accounting standards

(1) Valuation standards and methods for significant assets

(i) Securities:

Held-to-maturity bonds:
Amortized cost method applied

Other securities:
Available-for-sale securities with market prices are marked to market as of the balance sheet date. Net unrealized gains or losses on these securities are recorded directly in shareholders' equity, and costs of securities sold are computed using the moving average method.

Available-for-sale securities without market prices are stated at cost based on the moving average method.

(ii) Derivatives:

Marked to market

(iii) Inventories:

In principal, stated at cost based on the periodic average method
(Balance sheet value calculated by write-down method based on reduced profitability)

(2) Depreciation methods for important depreciable assets

(i) Tangible fixed assets (excluding lease assets)

The declining-balance method is used. However, the straight-line method is used for buildings acquired on or after April 1, 1998 (excluding facilities attached to buildings) and for facilities attached to buildings and structures acquired on or after April 1, 2016.

Useful life of key items is deemed to be:

Buildings and other structures:	5–50 years
Machinery, equipment, and vehicles:	7–17 years

(ii) Intangible fixed assets (excluding lease assets)

Straight-line method

Software for sale by the Company is depreciated by the straight-line method based on the estimated period during which it can be sold (3 years), while software for internal use by the Company and its domestic consolidated subsidiaries is depreciated by the straight-line method over its useful life (5 years).

(iii) Lease assets

Lease assets in finance lease transactions not involving transfer of ownership:

Depreciation is calculated by the straight-line method over the lease term for leased assets with no residual value.

(3) Accounting for significant reserves

(i) Allowance for doubtful accounts

To provide against possible losses from doubtful accounts such as receivables and loan allowances, a rate determined by past loss experience is used for general receivables, and allowances for certain doubtful accounts are provided for estimated amounts if they are judged to be uncollectible when the collectability of each of the accounts is individually studied.

(ii) Accrued bonuses

To provide for the payment of employee bonuses, accrued bonuses are provided for as the amount incurred during the current fiscal year based on the estimated amount of bonus payments.

(iii) Accrued officers' bonuses

To provide for the payment of officers' bonuses, accrued officers' bonuses are provided for as the amount incurred during the current fiscal year based on the estimated amount of bonus payments.

(4) Accounting policy for retirement benefits

(i) Attribution method for expected retirement benefits

To calculate retirement benefit obligations, the amount of expected retirement benefits is attributed to the consolidated fiscal year under review on a benefit formula basis.

(ii) Accounting method for actuarial differences and prior service costs

Prior service costs are charged using the straight-line method over a fixed number of years (10 years) that falls within the average remaining service period of the Company employees at the time such costs are incurred.

Actuarial differences are charged to income from the fiscal year following the one in which they arise using the straight-line method over a fixed number of years (10 years) that falls within the average remaining service period of Company employees at the time such costs are incurred in each fiscal year.

(5) Accounting for significant income and expenses

To account for revenue from completed construction work, the percentage-of-completion method is applied to construction contracts where the percentage of construction already completed by the end of the reporting period can be estimated fairly reliably. (The estimation is based on the proportion of direct costs incurred for each work phase as compared with the estimated total cost for the entire contract.) For construction contracts other than those mentioned above, the completed-contract method is applied.

(6) Home currency conversion of significant foreign-currency assets and liabilities

Monetary debts and credits denominated in foreign currencies are converted into yen at the spot exchange rate on the final day of the consolidated accounting period; any resulting conversion differences are treated as either gains or losses. The assets and liabilities of overseas consolidated subsidiaries, etc. are converted into yen at the spot exchange rate on the final day of their accounting periods, while income and expenses are calculated on an average exchange rate basis during the period. Any differences are included in net assets as foreign currency translation adjustments and minority interests.

(7) Amortization method of goodwill and the amortization period

Goodwill is amortized using the straight-line method over the period for which the investment is deemed to be in effect. However, if the amount of goodwill to be amortized is minor, it is amortized in its entirety during its duration.

(8) Scope of funds included in the consolidated statements of cash flows

These funds include cash on hand, demand deposits, and short-term investments maturing or redeemable within three months after acquisition that are highly liquid, readily convertible into cash, and exposed to low price-fluctuation risk.

(9) Other significant matters in the preparation of the consolidated financial statements

Accounting for consumption taxes

National and local consumption taxes are accounted for based on the tax-exclusion method.

Additional Information

Directors' Compensation BIP Trust and Employee Stock Ownership Plan (J-ESOP)

In Amano Corporation and some of its subsidiaries, for the purpose of enhancing the motivation to contribute to the improvement of medium- to long-term business performance and to increase corporate value, the Directors' Compensation BIP Trust system for directors (excluding external directors and expatriates) and operating officers (excluding expatriates), as well as the Employee Stock Ownership Plan (J-ESOP) system for employees who meet the prescribed requirements have been introduced.

[1] Outline of the system

Under the system, a trust is established with money contributed by Amano Corporation as a source, stocks of Amano Corporation are acquired by the trust, and the stocks are provided to eligible persons.

Under the Directors' Compensation BIP Trust, in accordance with the stock distribution rules and based on points granted according to the attainment level of numerical targets related to their positions and management indicators, stocks of Amano Corporation are provided by the trust to directors and operating officers.

Under the Employee Stock Ownership Plan (J-ESOP), in accordance with the stock distribution rules and based on points granted according to their positions and operating performance, stocks of Amano Corporation are provided by the trust to employees who meet the prescribed requirements.

[2] Stocks of Amano Corporation that remain in the trust

Stocks of Amano Corporation that remain in the trust are recorded as treasury stock in the net assets section with the book value of the trust (excluding incidental expenses).

Book value of the treasury stock and the number of shares

Current fiscal year ¥827 million, 314,300 shares

Segment information

1. Outline of Reporting Segments

The reporting segments are defined as those business units which constitute the Company and from which separate financial information can be obtained. The reporting segments are periodically reviewed by the Company's highest decision-making body to determine the allocation of management resources and evaluate financial results.

The Company maintains several business units at its head office, separated into product and service types. The role of these business units is to formulate and implement domestic business strategies for similar types of products and services. In overseas business, meanwhile, local subsidiaries in each region develop strategies in their respective business fields in cooperation with the relevant business unit at the head office and carry out business activities in accordance with such strategy.

Based on the above, the Company divides its business into two segments, from which separate financial information can be obtained on a consolidated basis: the Time Information System business and the Environment System business. The operating results of these two segments are periodically reviewed by the Company's highest decision-making body to determine the allocation of management resources and evaluate financial results.

As described above, the Company's reporting segments consist of the Time Information System business and the Environment System business.

The Time Information System business and the Environment System business manufacture and sell the following products:

Business segment	Sales category	Principal products
Time Information System business	Information Systems	Time & attendance (T&A) systems, payroll systems, human-resource management systems, cafeteria systems, access control systems, proximity IC card solutions, system time recorders, T&A/human-resource and payroll ASP services, time distribution and authentication services
	Time management equipment	PC-interface time recorders, computerized time recorders, standard electronic time recorders, electronic time stamps, numbering machines, patrol recorders
	Parking Systems	Automatic fee settlement systems, access control systems, parking lot management systems, bicycle parking systems, automatic time registers, parking tower management systems, Internet-based parking guidance systems, commissioned parking lot management business
Environment System business	Environmental Systems	Industrial vacuum cleaners, standard dust collectors, oil mist collectors, fume collectors, large dust collection systems, deodorization systems, high-temperature hazardous-gas removal systems, pneumatic powder conveyance systems, environmental equipment monitoring/maintenance support systems, electrolytic water cleaning systems, alkaline electrolytic water industrial cleaning systems
	Clean Systems	Commercial vacuum cleaners, road and industrial sweepers, automatic floor scrubbers, high-speed burnishers, dry-care cleaning systems, carpet cleaning system, chemical products, supplies and accessories

2. Methodology for Determining Net Sales, Profit/Loss, Assets, Liabilities, and Other Line Item Amounts by Reporting Segment

The accounting methods used by the reporting business segments are the same as those described in the Basis for the Presentation of the Consolidated Financial Statements section.

Profits for the reporting segments are reported at the operating profit level.

Intersegment internal earnings and transfers are based on prevailing market prices.

3. Information by Reporting Segment Regarding Net Sales, Profit/Loss, Assets, Liabilities, and Other Line Item Amounts

FY 2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Reporting segments			Adjustments (Note 1)	Amounts reported in consolidated financial statements (Note 2)
	Time Information System business	Environment System business	Total		
Net sales					
To customers	87,010	33,113	120,124	—	120,124
Intersegment	—	—	—	—	—
Total	87,010	33,113	120,124	—	120,124
Segment profit (loss)	11,890	4,893	16,784	(3,618)	13,165
Segment assets	62,616	27,275	89,892	47,996	137,888
Other items					
Depreciation and amortization	3,865	513	4,379	554	4,933
Investments in affiliates accounted for using the equity method	1,607	—	1,607	—	1,607
Increases in tangible and intangible fixed assets	4,438	481	4,919	668	5,587

Notes: 1. Details of the adjustments are as follows.
(1) The −¥3,618 million adjustment in segment profit indicates company-wide expenses not allocated to the reporting segments. Company-wide expenses consist mainly of general and administrative expenses that do not belong to any of the reporting segments.
(2) The ¥47,996 million adjustment in segment assets indicates company-wide assets not allocated to the reporting segments. Company-wide assets consist mainly of assets and others associated with the administration function that do not belong to any of the reporting segments.
2. Segment profit is reconciled with operating profit in the consolidated statement of income.

FY 2017 (April 1, 2017–March 31, 2018)

(Millions of yen)

	Reporting segments			Adjustments (Note 1)	Amounts reported in consolidated financial statements (Note 2)
	Time Information System business	Environment System business	Total		
Net sales					
To customers	91,268	33,136	124,405	—	124,405
Intersegment	—	—	—	—	—
Total	91,268	33,136	124,405	—	124,405
Segment profit (loss)	13,044	5,189	18,234	(3,884)	14,350
Segment assets	69,041	27,422	96,464	48,982	145,446
Other items					
Depreciation and amortization	3,980	509	4,489	573	5,063
Investments in affiliates accounted for using the equity method	1,681	—	1,681	—	1,681
Increases in tangible and intangible fixed assets	4,537	466	5,004	655	5,659

Notes: 1. Details of the adjustments are as follows.
(1) The −¥3,884 million adjustment in segment profit indicates company-wide expenses not allocated to the reporting segments. Company-wide expenses consist mainly of general and administrative expenses that do not belong to any of the reporting segments.
(2) The ¥48,982 million adjustment in segment assets indicates company-wide assets not allocated to the reporting segments. Company-wide assets consist mainly of assets and others associated with the administration function that do not belong to any of the reporting segments.
2. Segment profit is reconciled with operating profit in the consolidated statement of income.

Per-share Data

	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Net assets per share (Yen)	1,301.29	1,381.90
Net income per share (Yen)	120.79	132.12

Note: 1. Details for the diluted net income per share are not stated, because there are no potential shares.
2. The net income per share is calculated on the following basis.

Item	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Net income per share		
Net income (Millions of yen)	9,223	10,019
Amount not attributed to common stockholders (Millions of yen)	—	—
Net income for common stock attributable to owners of the parent company (Millions of yen)	9,223	10,019
Average number of shares of common stock outstanding (Shares)	76,364,626	75,839,732

3. The net assets per share are calculated on the following basis.

Item	FY 2016 (as of March 31, 2017)	FY 2017 (as of March 31, 2018)
Total net assets (Millions of yen)	99,421	105,634
Amount to be deducted from total net assets (Millions of yen)	458	543
(of which, non-controlling shareholders' interests) (Millions of yen)	(458)	(543)
Net assets at the end of year attributable to common stock (Millions of yen)	98,963	105,091
Number of shares of common stock outstanding at year end used to calculate net assets per share (Shares)	76,050,178	76,048,226

Significant Subsequent Events

On February 1, 2018, the Board of Directors of Amano Corporation approved the acquisition of a valet parking business through its American subsidiary, Amano McGann, Inc. (hereinafter referred to as "AMI") from Service Tracking Systems, Inc. (hereinafter referred to as "STS"), a California-based company, and the acquisition of the business was completed on February 2, 2018.

(1) Purpose of Business Acquisition
STS pioneered the market for parking fee maintenance systems, which are AMI's mainstay product, and the valet parking business. Through the acquisition of STS's business, which has the top share in its market, we are seeking further growth in the North American parking business through STS's products, services, and customer base.

(2) Name of Company Subject to Business Acquisition
Service Tracking Systems, Inc.

(3) Description of Acquired Business
Valet Parking Business

(4) Purchase Price
US$20.5 million
*Approximately ¥2.3 billion (1USD = JPY113.05: as of December 31, 2017)

(5) Business Acquisition Date
February 2, 2018

6. Unconsolidated Financial Statements

(1) Balance Sheets

(Unit: Millions of yen)

	FY 2016 (as of March 31, 2017)	FY 2017 (as of March 31, 2018)
Assets		
Current assets		
Cash and bank deposits	21,671	23,067
Notes receivable—trade	3,101	3,064
Accounts receivable-trade	19,484	19,521
Marketable securities	1,050	1,000
Merchandise and finished goods	1,984	1,857
Work in process	324	335
Raw materials and supplies	2,049	2,160
Deferred tax assets	895	995
Other current assets	912	894
Allowance for doubtful accounts	(3)	(1)
Total current assets	51,471	52,896
Fixed assets		
Tangible fixed assets		
Buildings	8,718	8,783
Structures	244	242
Machinery and equipment	640	751
Vehicles	3	4
Tools, furniture and fixtures	421	377
Land	6,559	6,559
Construction in progress	57	49
Total tangible fixed assets	16,645	16,768
Intangible fixed assets		
Software	2,822	3,865
Software in progress	2,700	1,908
Other	35	35
Total intangible fixed assets	5,559	5,809
Investments and other assets		
Investment securities	6,372	7,625
Shares of subsidiaries and associates	33,818	36,059
Investments in capital of subsidiaries and associates	71	71
Long-term loans receivable from subsidiaries and associates	561	318
Claims in bankruptcy and similar claims	241	241
Fixed leasehold deposits	768	761
Long-term deposits	1,500	1,500
Insurance funds	1,408	1,265
Other	58	66
Allowance for doubtful accounts	(260)	(259)
Total investments and other assets	44,539	47,651
Total fixed assets	66,744	70,229
Total assets	118,215	123,126

(Unit: Millions of yen)

	FY 2016 (as of March 31, 2017)	FY 2017 (as of March 31, 2018)
Liabilities		
Current liabilities		
Notes payable - trade	893	646
Electronically recorded obligations - operating	6,580	6,454
Accounts payable - trade	4,366	4,165
Accounts payable - other	307	154
Accrued expenses	1,790	2,223
Accrued income taxes	1,606	2,219
Accrued consumption taxes	479	546
Advances received	1,052	1,094
Deposits received	272	276
Deposits received from employees	1,695	1,710
Accrued bonuses	1,885	2,130
Accrued officers' bonuses	90	130
Other current liabilities	269	329
Total current liabilities	21,290	22,080
Long-term liabilities		
Provision for retirement benefits	602	589
Deferred tax liabilities	311	482
Total long-term liabilities	913	1,072
Total liabilities	22,204	23,152
Net assets		
Shareholders' equity		
Common stock	18,239	18,239
Capital surplus		
Legal capital surplus	19,292	19,292
Total capital surplus	19,292	19,292
Retained earnings		
Legal retained earnings	2,385	2,385
Other retained earnings		
Reserve for reduction entry of buildings	25	24
General reserve	10,881	10,881
Retained earnings brought forward	44,314	48,817
Total retained earnings	57,606	62,108
Treasury stock	(1,059)	(1,892)
Total shareholders' equity	94,079	97,748
Valuation and translation adjustments		
Net unrealized gains (losses) on available for-sale securities	1,932	2,224
Total valuation and translation adjustments	1,932	2,224
Total net assets	96,011	99,973
Total liabilities and net assets	118,215	123,126

(2) Statements of Income

(Unit: Millions of yen)

	FY 2016 (April 1, 2016– March 31, 2017)	FY 2017 (April 1, 2017– March 31, 2018)
Net sales	71,059	71,754
Cost of sales	41,561	40,774
Gross profit	29,498	30,980
Selling, general and administrative expenses	20,948	21,170
Operating profit	8,550	9,810
Non-operating profit		
Interest and dividend income	978	1,186
Other	780	738
Total non-operating profit	1,758	1,924
Non-operating expenses		
Interest expenses	17	18
Loss on foreign exchange	26	38
Other	42	48
Total non-operating expenses	87	105
Ordinary profit	10,222	11,629
Extraordinary income		
Gain on sales of investment securities	100	250
Other	0	0
Total extraordinary income	100	250
Extraordinary losses		
Loss on disposal of fixed assets	14	2
Loss on sale of fixed assets	19	0
Loss on liquidation of subsidiaries	35	-
Total extraordinary losses	69	2
Income before income taxes	10,253	11,877
Income taxes	2,857	3,493
Deferred income taxes	76	(72)
Total income taxes	2,934	3,421
Net income	7,319	8,456

(3) Statement of Changes in Shareholders' Equity

FY 2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Net assets			
	Shareholders' equity	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at the beginning of the year	18,239	19,292	—	19,292
Changes during the year				
Reversal of reserve for reduction entry of buildings				
Dividends from surplus				
Net income				
Purchase of treasury stock				
Net changes in items other than shareholders' equity				
Total changes during the year	—	—	—	—
Balance at year end	18,239	19,292	—	19,292

	Net assets						
	Retained earnings				Treasury stock	Total shareholders' equity
	Legal retained earnings	Other retained earnings			Total retained earnings		
		Reserve for reduction entry of buildings	General reserve	Retained earnings brought forward			
Balance at the beginning of the year	2,385	26	10,881	40,900	54,193	(56)	91,668
Changes during the year							
Reversal of reserve for reduction entry of buildings		(1)		1	—		—
Dividends from surplus				(3,906)	(3,906)		(3,906)
Net income				7,319	7,319		7,319
Purchase of treasury stock						(1,002)	(1,002)
Net changes in items other than shareholders' equity							
Total changes during the year	—	(1)	—	3,414	3,413	(1,002)	2,410
Balance at year end	2,385	25	10,881	44,314	57,606	(1,059)	94,079

(Millions of yen)

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of the year	1,447	1,447	93,116
Changes during the year			
Reversal of reserve for reduction entry of buildings			—
Dividends from surplus			(3,906)
Net income			7,319
Purchase of treasury stock			(1,002)
Net changes in items other than shareholders' equity	484	484	484
Total changes during the year	484	484	2,894
Balance at year end	1,932	1,932	96,011

FY 2017 (April 1, 2017–March 31, 2018)

(Millions of yen)

	Net assets			
	Shareholders' equity	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at the beginning of the year	18,239	19,292	—	19,292
Changes during the year				
Reversal of reserve for reduction entry of buildings				
Dividends from surplus				
Net income				
Purchase of treasury stock				
Net changes in items other than shareholders' equity				
Total changes during the year	—	—	—	—
Balance at year end	18,239	19,292	—	19,292

	Net assets						
	Retained earnings					Treasury stock	Total shareholders' equity
	Legal retained earnings	Other retained earnings			Total retained earnings		
		Reserve for reduction entry of buildings	General reserve	Retained earnings brought forward			
Balance at the beginning of the year	2,385	25	10,881	44,314	57,606	(1,059)	94,079
Changes during the year							
Reversal of reserve for reduction entry of buildings		(0)		0	—		—
Dividends from surplus				(3,954)	(3,954)		(3,954)
Net income				8,456	8,456		8,456
Purchase of treasury stock						(832)	(832)
Net changes in items other than shareholders' equity							
Total changes during the year	—	(0)	—	4,503	4,502	(832)	3,669
Balance at year end	2,385	24	10,881	48,817	62,108	(1,892)	97,748

(Millions of yen)

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of the year	1,932	1,932	96,011
Changes during the year			
Reversal of reserve for reduction entry of buildings			—
Dividends from surplus			(3,954)
Net income			8,456
Purchase of treasury stock			(832)
Net changes in items other than shareholders' equity	292	292	292
Total changes during the year	292	292	3,961
Balance at year end	2,224	2,224	99,973

7. Breakdown of Unconsolidated Sales by Business Division

(Millions of yen)

Category	FY 2016 (April 1, 2016– March 31, 2017)		FY 2017 (April 1, 2017– March 31, 2018)		Change	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	%
Time Information System business:		%		%		%
Information Systems	13,957	19.6	15,155	21.1	1,197	8.6
Time Management Products	3,073	4.3	3,089	4.3	16	0.5
Parking Systems	30,185	42.5	30,255	42.2	70	0.2
Subtotal	47,216	66.4	48,500	67.6	1,284	2.7
Environment System business:						
Environmental Systems	19,124	27.0	18,635	26.0	(489)	(2.6)
Clean Systems	4,718	6.6	4,618	6.4	(99)	(2.1)
Subtotal	23,843	33.6	23,254	32.4	(588)	(2.5)
Total	71,059	100.0	71,754	100.0	695	1.0
Export sales	2,275	3.2	1,912	2.7	(363)	(16.0)

8. Change of Directors

The change of directors was already officially announced in "Notice: The Changes to Corporate Officers and Personnel" as of March 28, 2018. (https://www.amano.co.jp/English/ir/dl/news/2018/20180328_2.pdf)