

# FUYO LEASE

Fuyo Lease Group Integrated Report

2018

# Corporate Slogan

## Go where no one has gone before

**We believe.**  
**Leasing is not just about lending things.**  
**It's about lending inspiration, intelligence and a sense of wonder.**

**We believe.**  
**We embrace challenges, because they are the fountain of new business.**

**We believe.**  
**Meeting expectations is our duty. Exceeding them is our profession.**

**We believe.**  
**Succeeding is easy when times are good, but true partners are there even in the hard times.**

**We act.**  
**To open up new business opportunities in this country, we will take the first bold step.**

**We will expand the frontier of leasing.**

**We are Fuyo Lease.**

Our corporate slogan, "Go where no one has gone before," embodies the Fuyo Lease Group's mission of sincerely responding to customers' needs and providing them with solutions that exceed their expectations, as well as our commitment to pioneering new business frontiers.

## Management Philosophy

- We support corporate activities through our leasing business with view to contributing to development of the society.
- We maintain customer's first philosophy, providing best services.
- We aim to earn high marks from shareholders and markets while pursuing creativity and innovation.
- We create a challenging and rewarding workplace where employees think and act on their own.

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### Editorial Policy

#### Purpose of this report

Since FY 2018, Fuyo Lease Group has integrated its CSR Report and Annual Report into an Integrated Report. This report is designed to provide information on our financial and non-financial activities in an integrated manner to help the readers assess the Group's value comprehensively. We also aim to showcase the foundation of all our activities for value creation which will help stakeholders better understand our future corporate values.

#### Reporting period

Fiscal year 2017 (April 2017 - March 2018)  
\*The report also includes some information pertaining to fiscal 2018.

#### Scope of reporting

Fuyo General Lease Co.,Ltd., its 46 consolidated subsidiaries and 4 affiliate companies

#### Reference guidelines

International Integrated Reporting Framework Ver. 1.0 released by the International Integrated Reporting Council (IIRC)

#### Date of issuance

November, 2018

#### Note on forward-looking statements

This report contains forward-looking statements, such as future plans and strategies, that are based on currently available information. These expectations and projections are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. These uncertainties include, but are not limited to social and economic conditions, market demand and competition, laws and regulations, interest rates, and currency exchange rates.

## Message from the President



Our goal is to  
“go where no one has gone before”  
through continuously expanding the frontiers  
by creating simultaneously  
social and corporate value.

President & Chief Executive Officer  
Yasunori Tsujita

### Expanding Frontiers

We are now in the second year of “Frontier Expansion 2021,” our five-year Medium-term Management Plan launched in April 2017. As the name implies, “Frontier Expansion 2021” aims to expand our business operations into untapped markets. Although it is not always easy to

venture into new business fields in this ever-changing world, we will continue to leverage our unique strengths in order to live up to our corporate slogan: “Go where no one has gone before.”

### Fiscal Year 2017 Review

During FY 2017 Japan’s economy remained on a gradual recovery track as corporate earnings and the nation’s job market improved. Overall, the global economy also grew steadily, despite concerns about US trade policies and geopolitical risks.

While domestic lease transaction volume in FY 2017 (ending March 31, 2018) decreased 2.9% year-on-year to total ¥4,875.9 billion (according to data released by

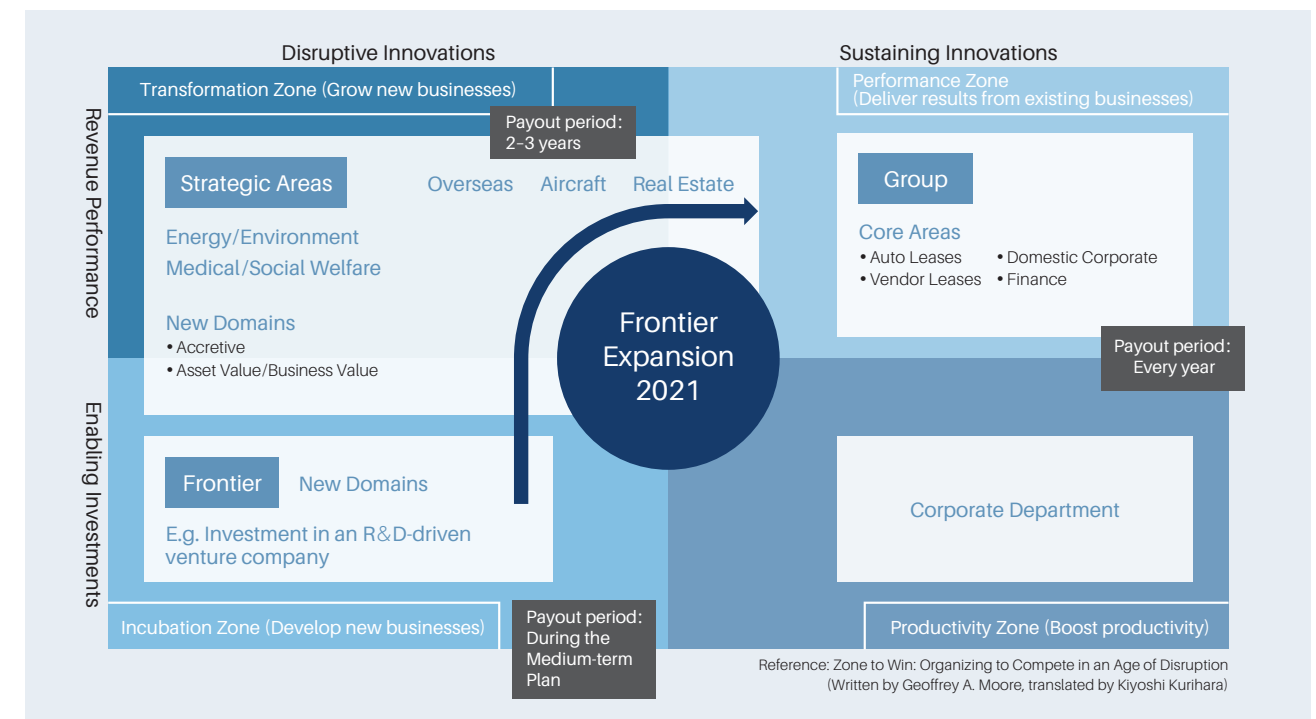
the Japan Leasing Association), the Fuyo Lease Group saw profits hit record highs, due partly to the termination and expiration of large-scale leases in addition to the accumulation of operating assets such as real estate leases. “Frontier Expansion 2021” got off to a good start with total revenues increasing 16.4% year-on-year to reach ¥590.2 billion, operating profit up 13.9% to total ¥32.6 billion, and ordinary profit up 12.2% to total ¥35.2 billion.

## Concentrating Management Resources and Enhancing Corporate Value

In order to select Strategic Areas and concentrate on them as we look toward the future, we have introduced the concept of zone management. Zone management entails segmenting business operations into four zones that are managed individually. More specifically, we have plugged our operations into an Incubation Zone where the objective is to create new business options, a Transformation Zone where the objective is to expand our incubated businesses, a Performance Zone where the objective is to deliver results in existing businesses, and a Productivity Zone where the objective is to increase productivity. This helps

us to identify the areas that generate stable profit and the areas where we should concentrate our management resources to step things up.

We also use return on assets (ROA) as a key metric to identify businesses we should consider withdrawing from if the ROA underperforms. Specifically, in FY 2017, we enhanced operating efficiency by consolidating all small vendor leasing programs, for which we lacked adequate resources, into Sharp Finance Corporation, our subsidiary with vendor leasing know-how.



**We will quickly identify the needs of an ever-changing world and business environment, and use our business operations to provide solutions for problems facing society to simultaneously create social and corporate value.**

The Fuyo Lease Group works continuously to build new business models in response to changes in the social environment with the aim of achieving sustainable growth. We believe this requires identifying social issues and cultivating future markets where we can find solutions. We are putting this idea into practice in two of our Strategic Areas specified in “Frontier Expansion 2021,” i.e., Energy/Environment and Medical/Social Welfare businesses, based on the concept of Creating Shared Value (CSV), which involves creating corporate value in a way that also creates value for society. Our strength lies in the ability to help solve pressing social problems, such as climate

change and a declining birthrate coupled with an aging population, in various ways by leveraging our products and financial services.

After realizing that our business activities resonate with the principles of the United Nations Global Compact, we gladly expressed our support by becoming a signatory in January 2018. We believe that supporting the Ten Principles of the UN Global Compact and putting them into practice will lead directly to the growth of our company.



## Our strategies for Energy/Environment, as well as Medical/Social Welfare businesses, aim at achieving sustainable growth, while solving the social issues facing Japan.

As the need to reduce greenhouse gas (GHG) emissions is being addressed across the globe, Japan has been exposed to the negative externalities of nuclear power, which has resulted in calls for an urgent energy shift. The Fuyo Lease Group is actively working to reduce indirect GHG emissions through its financial services, such as project financing for renewable energy power companies, as well as through product offerings, including rental and leasing of energy efficient equipment. Furthermore, the Fuyo Lease Group directly contributes to the reduction of GHG emissions by growing its solar power business.

The Fuyo Lease Group operates solar power business in 30 locations across Japan, aiming to increase operating assets to ¥34 billion (i.e., to double in comparison to the end of FY 2016) by the end of FY 2021, while maintaining an ROA of 6.0%. The Fuyo Lease Group is steadily improving the financial results, for example, by launching the largest solar power plant in our portfolio in FY 2017. To further demonstrate our commitment to the set policies, we joined RE100, a business initiative which aims to source 100% renewable energy to power business activities, a first for a comprehensive leasing company in Japan. We anticipate more opportunities to collaborate with our stakeholders including customers.

In the Medical/Social Welfare business, we are implementing the “dot-line-plane strategy” for healthcare and nursing care services. It has become common practice to lease or rent expensive medical equipment, and more and more companies are entering the market. The crowded

playing field has forced some leasing companies to throw in the towel. There is no way to provide value or earn an appropriate profit in this kind of competitive environment with individual, isolated services alone (i.e. dots). The only way out of this quagmire is to find a way to connect the dots so they form lines, and then turn those lines into planes so we can enhance our services, while forging a strong foundation for the Medical/Social Welfare business in line with “Pursue Group Synergies,” one of the Three Strategic Axes under “Frontier Expansion 2021.” Some of the initiatives we are working on include providing equipment and system lessees with facility relocation know-how, as well as selling and buying used equipment.

As part of this strategy, in January 2017, we acquired a controlling stake in Accretive Co., Ltd., which specializes in factoring medical service fees, etc., and in April 2018, we acquired FUJITA Co., Ltd., a reseller of used medical equipment. Our initiatives are completely in synch with the principles and practices of the Integrated Community Care System promoted by the Ministry of Health, Labor and Welfare, and should not only boost our bottom line, but also help solve problems facing Japan, including its rapidly aging population.

The Healthcare Advisory Office, set up in August 2018, enabled us to offer solutions that integrate a wide range of products and services available across our corporate group. We will continue to work hard to create group-wide synergies in the Medical/Social Welfare business.

## We aim to bring out the best in each of our employees.

Typically for a non-manufacturing company, our greatest asset is people. We firmly believe that providing employees with an environment where they can concentrate on their jobs and do their best within the limited amount of time they have is a shortcut to helping them reach their full potential, and is essential for maximizing the company’s performance. When implementing work-style reforms, we engage employees in the discussion in order to gain better understanding of their perspective. One example of these reforms is the introduction of staggered hours that led to a gradual reduction of actual hours worked.

We believe that securing personnel with outstanding expertise is a prerequisite for the sustainable growth of our business operations. Besides, we must ensure that we maintain a diverse array of resources so that we can better respond to an increasing social diversity and give our people the kind of expertise that will enable us to stay ahead of the pack. That is why we are building a talent pool that enables us to assign the right person to the right job regardless of their sex, age, or nationality. In FY 2017, we established the Diversity Promotion Office to pick up the pace of recruitment, employment, and empowerment of employees from across the entire spectrum.

## We nurture a corporate culture where each employee has a sense of ownership, and that makes us competitive.

All employees must join hands to continually take on new challenges if we are to sharpen our competitive edge in this tough operating environment. We formulated “Frontier Expansion 2021” using a bottom-up approach that involved all our employees. We use ROA, not ROE, as a performance indicator because we want to raise each employee’s awareness of performance improvement by directing their attention towards profitability of the company relative to operating assets through efficiency. In order to ensure that the

shared values instilled through these practices take root throughout the organization, we create a number of opportunities to talk directly with employees, such as financial presentations for employees and meetings with staff at our different locations across the globe. As the president of the company, I will continue to keep the lines of communication open in order to drive home the idea of “staying flexible and taking on impossible challenges to expand operations,” which is part of our mission statement.

## Toward long-term profit distribution to shareholders and sustainable growth

In the light of our current financial standing and key performance indicators, we paid dividends for FY 2017 (ending March 31, 2018) at a payout ratio of 20.1% and project that the dividend for FY 2018 (ending March 31, 2019) will be 156 yen, up 10 yen year-on-year, with a payout ratio of 20.5%. We will work to return profits to shareholders by continuing to pay stable dividends on a long-term basis, while strengthening our operating foundation and financial health, through enhancing shareholders’ equity, as we move ahead with business strategies, such as M&A, designed to achieve growth.

We are committed to going beyond our stakeholders’ expectations as we work to expand our business horizons with the focus on leasing and financing, while adapting to changes in society. We will continue to devote ourselves to becoming a company that continues to offer value through a multifaceted approach.

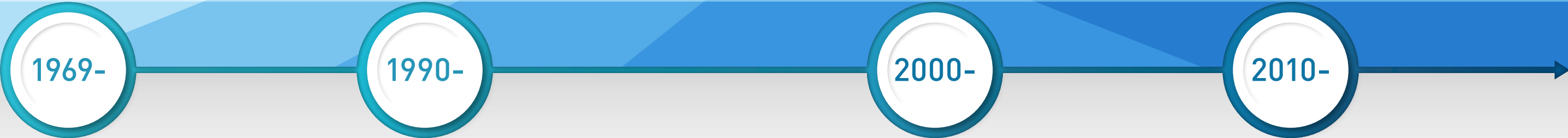




# Overview and History of Fuyo Lease Group

The Fuyo Lease Group seeks direct feedback from customers and is fully committed to customer support in order to resolve management issues, including those related to capital expenditure and improving work efficiency, as well as making customers' dreams come true.

Company name	Fuyo General Lease Co., Ltd.
Headquarters	3-3-23, Kanda-Misaki-cho, Chiyoda-ku, Tokyo 101-8380, Japan
Established	May 1, 1969
Paid-in capital	¥10,532 million (Number of shares outstanding: 30,288,000 shares)
Shares listed on	First Section of the Tokyo Stock Exchange (ticker: 8424)
Number of employees	Consolidated: 1,715    Non-consolidated: 689 (as of March 31, 2018)
Sales operation	Domestic: Head office sales department and 16 regional sales offices Overseas: 7 branches altogether from the 6 subsidiaries
Line of business	<ul style="list-style-type: none"> <li>• Leasing and installment sales of IT equipment, office equipment, industrial machinery/machine tools, commercial/service equipment, medical devices, transportation equipment (ships, aircrafts, automobiles, etc.), civil engineering and construction machinery, etc.</li> <li>• Commercial loans and other financial services</li> <li>• Leasing of real estates</li> <li>• Consultative services, etc.</li> </ul>



- 1969
  - Established with a capital of 100 million yen
- 1973
  - Established FGL Service Co., Ltd.
- 1987
  - Established Fuyo Auto Lease Co., Ltd.
  - Established Yokogawa Rental & Lease Co., Ltd., a joint venture with Yokogawa Electric Corporation

- 1994
  - Established Aqua Art Co., Ltd.
- 1995
  - Established Fuyo Network Service Co., Ltd.
- 1996
  - Established Fuyo Lease Sales Co., Ltd.
- 1999
  - Established Nihon Credit Lease Corporation, a joint venture with NICHIIIGAKKAN CO., LTD.

- 2001
  - Merged with YTB Leasing Company, Limited
- 2002
  - Merged with Yasuda Lease Co., Ltd.
  - Succeeded lease and financial business spun off from Fuyo General Development Co., Ltd.
- 2004
  - Listed on the First Section of the Tokyo Stock Exchange
- 2008
  - Made Sharp Finance Co., Ltd., a consolidated subsidiary

- 2012
  - Conducted an absorption-type merger of subsidiary Japan Mortgage Co., Ltd.
- 2014
  - Acquired Aircraft Leasing and Management Limited as a consolidated subsidiary
- 2017
  - Made Accretive Co., Ltd. a consolidated subsidiary
- 2018
  - Made MAICA, which owns TDF (Canada), an equity-method affiliate.
  - Made FUJITA Co., Ltd. a consolidated subsidiary

FGL Service Co., Ltd.

At the headquarters of Fuyo Lease, FGL Service handles the various administrative functions of the Fuyo Lease Group and the non-life insurance agency business.

Aqua Art Co., Ltd.

Aqua Art operates a rental business for tropical fish tanks, which replicate the natural environment. Aquariums with tropical fish and aquatic plants are offered under a comprehensive maintenance system.

Fuyo Auto Lease Co., Ltd.

Fuyo Auto Lease streamlines complicated operations relating to customers' vehicles and provides total support for rationalizing management.

Fuyo Network Service Co., Ltd.

Fuyo Network Service sells ICT equipment and software, offers technical services, including kitting and making various settings, builds network servers, and erases data, as well as reselling second-hand PCs.

Yokogawa Rental & Lease Co., Ltd.

Yokogawa Rental & Lease offers multi-vendor rental services for measuring instruments and IT equipment. It always responds quickly to the diverse needs of customers with an inventory of cutting-edge equipment ranking at the top level in the industry.

Fuyo Lease Sales Co., Ltd.

Fuyo Lease Sales handles all of the clerical tasks for leased assets after their leases expire, as well as sales of used assets. It also buys and sells customer-owned used assets.

Nihon Credit Lease Corporation

Nihon Credit Lease leases nursing care equipment, such as wheelchairs and electric beds.

Accretive Co., Ltd.

Accretive provides highly convenient services, such as the consignment of business operations, focusing mainly on factoring business for medical and nursing care receivables.

Sharp Finance Co., Ltd.

As a good partner of sales companies, Sharp Finance offers financial services solutions, which include leasing items for sales promotions.

TDF Group Inc.

Based in Canada, TDF rents, leases, and sells pickup trucks in North America.

Aircraft Leasing and Management Limited (ALM)

ALM provides comprehensive services related to aircraft including marketing for aircraft leasing, aircraft management, sales of aircraft after leases expire, and advisory services.

FUJITA Co., Ltd.

Fujita has expertise and experience in the one-stop contract business, which ranges from demolition and removal to purchase and sales of large second-hand medical equipment. In addition, it also sells the latest equipment such as MRI, CT, and ultrasonic equipment, as well as second-hand medical equipment.

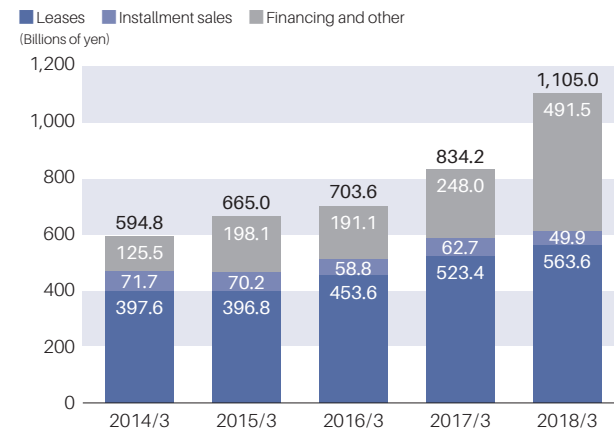
# Our Business

	Description of Business Operations in Each Segment	Segment Overview	Activities during the Last Fiscal Year	Strengths of Fuyo General Lease																								
Leasing and Installment Sales	<p>In addition to our core business focused on leasing information technology and office equipment, industrial machine tools, and others, we lease real estate, transportation equipment, and medical equipment (plus sales of assets after expiration or termination of their leases), as well as offer installment sales of commercial equipment, manufacturing equipment, hospital equipment and other equipment across the globe.</p> <p><b>Leasing</b></p> <p>We provide finance leases where we buy machinery or equipment the client needs and rent it to them for a relatively long term at a fixed rate in addition to the operating lease where the asset is leased at a rate calculated on the basis of the value of the asset minus the residual estimated value at the end of the lease.</p> <p><b>Installment sales</b></p> <p>An installment sale is an arrangement where we buy machinery or equipment on behalf of our clients who will pay us back in installments over an extended period of time. We offer installment sales when the client wants to acquire an asset that is not suitable for leasing due to tax reasons or simply when the client wants to own an asset.</p>	<table><thead><tr><th>Fiscal Year</th><th>Executed contract volume (Billions of yen)</th><th>Operating assets (Billions of yen)</th><th>Gross profit (Billions of yen)</th></tr></thead><tbody><tr><td>2014/3</td><td>469.3</td><td>1,275.7</td><td>35.4</td></tr><tr><td>2015/3</td><td>467.0</td><td>1,311.4</td><td>34.9</td></tr><tr><td>2016/3</td><td>512.4</td><td>1,372.9</td><td>38.0</td></tr><tr><td>2017/3</td><td>586.1</td><td>1,497.7</td><td>40.4</td></tr><tr><td>2018/3</td><td>613.5</td><td>1,589.5</td><td>43.6</td></tr></tbody></table>	Fiscal Year	Executed contract volume (Billions of yen)	Operating assets (Billions of yen)	Gross profit (Billions of yen)	2014/3	469.3	1,275.7	35.4	2015/3	467.0	1,311.4	34.9	2016/3	512.4	1,372.9	38.0	2017/3	586.1	1,497.7	40.4	2018/3	613.5	1,589.5	43.6	<ul style="list-style-type: none"><li>Real Estate: Operating assets increased sharply year on year because we launched large contracts in collaboration with leading developers and companies operating multiple stores.</li><li>Medical/Social Welfare: We worked together with our partners on joint initiatives that focused on business alliances and investments, including building leases for welfare and nursing care facilities.</li><li>Aircraft: We made leasing arrangements for aircraft of our own and executed our first engine operating lease, steadily expanding the scope of the business.</li><li>Overseas: We obtained excellent non-Japanese assets by acquiring local companies, such as a Canadian pickup truck rental and leasing company, which became an equity-method affiliate.</li><li>Core Areas: In regards to Domestic Corporate business, we have achieved multifaceted business transactions in real estate and overseas business as a result of our proposal to introduce a wide-array of solutions addressing customer needs. Our Vendor Leases business also enjoyed growth as a result of the expansion of partnerships with major dealers. In our Auto Leases business, joint efforts with Group companies and business partners pumped up the value of contracts signed, which has resulted in a year on year increase in the number of vehicles in our inventory.</li></ul>	<ul style="list-style-type: none"><li>Real Estate: First in the industry to offer real estate leases, outstanding product development capability, and a broad real estate leasing customer base.</li><li>Medical/Social Welfare: A proven track record of providing leases for elderly homes in collaboration with partner companies, despite the greater difficulties these types of facilities pose in comparison to leases for commercial facilities, as well as one-stop services provided through our group-wide businesses.</li><li>Aircraft: Aircraft expertise gained while expanding operations to become the first in the industry to make inroads into Ireland, the primary aircraft market, in 1999, and from acquiring UK-based ALM in 2014.</li><li>Overseas: Extensive customer base built on the Mizuho Group's network, as well as a steady track record of operating businesses in the US and Hong Kong for approximately 30 years.</li><li>Core Areas: Customer base dominated by large corporations built on the Mizuho Group's network and high capability to make proposals to address customer needs. Our vender leasing business has a high market share and firm business relations with business partners.</li></ul>
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Financing	<p>We offer a wide range of financing programs tailored to our clients' needs, including various types of loans and factoring options, in order to help fulfill their capital needs.</p> <p><b>Financing programs</b></p> <p>If a client is looking to invest in equipment or liquidate, acquire, or develop real estate, we offer financing programs, such as nonrecourse loans, to help fulfill their capital needs.</p> <p><b>Factoring</b></p> <p>We buy our clients' receivable accounts to help them meet their immediate cash needs and improve their cash flow.</p>	<table><thead><tr><th>Fiscal Year</th><th>Executed contract volume (Billions of yen)</th><th>Operating assets (Billions of yen)</th><th>Gross profit (Billions of yen)</th></tr></thead><tbody><tr><td>2014/3</td><td>121.4</td><td>317.8</td><td>5.8</td></tr><tr><td>2015/3</td><td>191.8</td><td>404.1</td><td>6.7</td></tr><tr><td>2016/3</td><td>184.0</td><td>472.6</td><td>5.6</td></tr><tr><td>2017/3</td><td>247.8</td><td>528.7</td><td>7.9</td></tr><tr><td>2018/3</td><td>487.9</td><td>559.6</td><td>10.1</td></tr></tbody></table>	Fiscal Year	Executed contract volume (Billions of yen)	Operating assets (Billions of yen)	Gross profit (Billions of yen)	2014/3	121.4	317.8	5.8	2015/3	191.8	404.1	6.7	2016/3	184.0	472.6	5.6	2017/3	247.8	528.7	7.9	2018/3	487.9	559.6	10.1	<p><b>Financing programs</b></p> <ul style="list-style-type: none"><li>The accumulation of non-recourse financing and the steady growth of investments (e.g. investment funds) led to an increase in the operating assets of our financing business.</li></ul> <p><b>Factoring</b></p> <ul style="list-style-type: none"><li>The volume of executed contracts has soared since we made Accretive a consolidated subsidiary in January 2017. We are expanding the frontiers of our operations through its factoring service for medical receivables as well as other services.</li><li>Accretive leveraged our network to forge partnerships with financial institutions and signed new contracts mainly with regional banks, which resulted in an increase in transactions with medical and nursing care institutions.</li></ul>	<p><b>Financing programs</b></p> <ul style="list-style-type: none"><li>Ability to provide services tailored to customers' needs by leveraging various financing programs, including not only conventional corporate loans but also fund investments and business-related investments as well as investments and lending positioned as balance sheet solutions.</li></ul> <p><b>Factoring</b></p> <ul style="list-style-type: none"><li>Delivering unique factoring services, which integrate our financial and outsourcing businesses in addition to factoring services specialized for medical and nursing-care institutions in cooperation with our business alliance partners.</li></ul>
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Other	<p>We also work in the areas of energy and the environment, in addition to serving as an anonymous association in various business ventures.</p> <p><b>Solar power generation</b></p> <p>Since launching the solar power generation business in 2012, we have opened numerous large-scale solar power plants throughout Japan that continuously supply renewable energy.</p> <p><b>Japanese operating lease</b></p> <p>Our aircraft operating lease (rental) business offers great opportunities for investors. We employ the expertise we have gained over the years to work for our clients with a wide range of solutions designed to meet their exact needs, including everything from anonymous associations to aircraft ownership options.</p> <p>In addition to aircrafts, we also offer investment opportunities in ships, marine containers, and more.</p>	<table><thead><tr><th>Fiscal Year</th><th>Executed contract volume (Billions of yen)</th><th>Operating assets (Billions of yen)</th><th>Gross profit (Billions of yen)</th></tr></thead><tbody><tr><td>2014/3</td><td>4.0</td><td>5.7</td><td>5.9</td></tr><tr><td>2015/3</td><td>6.3</td><td>11.6</td><td>7.0</td></tr><tr><td>2016/3</td><td>7.1</td><td>18.0</td><td>7.5</td></tr><tr><td>2017/3</td><td>0.2</td><td>17.2</td><td>6.9</td></tr><tr><td>2018/3</td><td>3.6</td><td>19.7</td><td>6.7</td></tr></tbody></table>	Fiscal Year	Executed contract volume (Billions of yen)	Operating assets (Billions of yen)	Gross profit (Billions of yen)	2014/3	4.0	5.7	5.9	2015/3	6.3	11.6	7.0	2016/3	7.1	18.0	7.5	2017/3	0.2	17.2	6.9	2018/3	3.6	19.7	6.7	<p><b>Solar power generation</b></p> <ul style="list-style-type: none"><li>Our new solar power plant went into operation in fiscal 2017, which means we are now operating 30 solar power plants across Japan and generating 102 MW of electricity.</li><li>We are looking forward to launching our largest solar project in Fukushima, and are currently making arrangements to start construction in the summer of 2018.</li></ul> <p><b>Japanese operating lease</b></p> <ul style="list-style-type: none"><li>The substantial customer demand enabled us to execute the origination and distribution of new leasing arrangements in a constant manner.</li></ul> <p><b>Capital turnover business</b></p> <ul style="list-style-type: none"><li>Capital turnover business, which seeks to improve capital efficiency through the liquidation of Fuyo Lease's operating assets, launched a specialized unit to arrange liquidation projects and deliver sales presentations to investors mainly from financial institutions.</li></ul>	<p><b>Solar power generation</b></p> <ul style="list-style-type: none"><li>Operational performance record with 30 solar power plants in Japan (as of end of March 2018). Our organizational structure, which allows us to provide one-stop services for customers from the development of the plants to its operation.</li></ul> <p><b>Japanese operating lease</b></p> <ul style="list-style-type: none"><li>Know-how gained from years of project arrangement experiences. Good relationships with investors and stable customer base.</li></ul> <p><b>Capital turnover business</b></p> <ul style="list-style-type: none"><li>Ability to structure securitized products using various methods and schemes including the securitization of lease receivables. Broad customer base consisting mainly of financial institutions.</li></ul>
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# Financial Highlights

## Executed contract volume

**1,105.0** billion yen  
(+32.5% year on year)



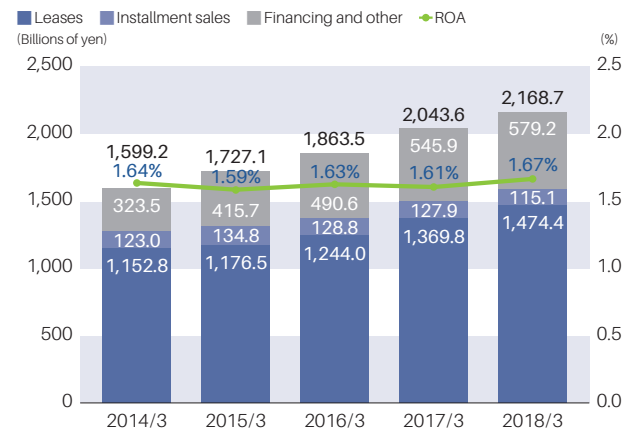
The executed contract volume soared 32.5% year on year to top one trillion yen for the first time, due largely to contracts signed by Accretive.

## Operating assets

**2,168.7** billion yen  
(+6.1% from the end of previous FY)

## ROA

**1.67%**  
(+0.06 points from the end of previous FY)



Operating assets rose 6.1% from the end of the previous fiscal year to total 2,168.7 billion yen, while ROA increased 0.06 points from the previous fiscal year end to reach 1.67%. This uptick was the result of steadily implemented strategies aimed at accumulating high-quality assets to improve ROA.

## Total assets

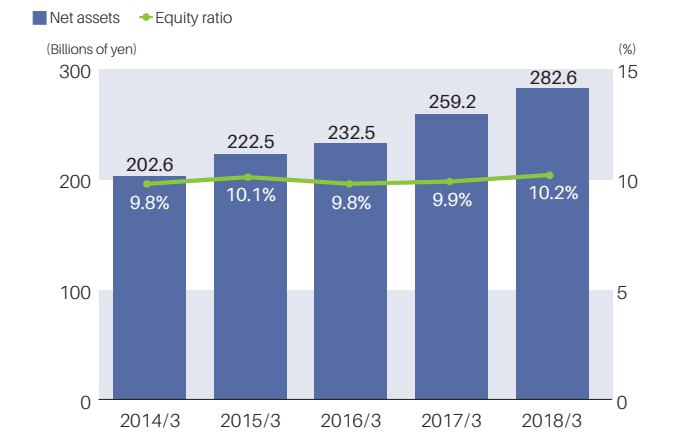
**2,430.8** billion yen  
(+5.7% from the end of previous FY)



Due to an increase in operating assets, total assets rose 5.7% from the end of the previous fiscal year to reach 2,430.8 billion yen.

## Net assets

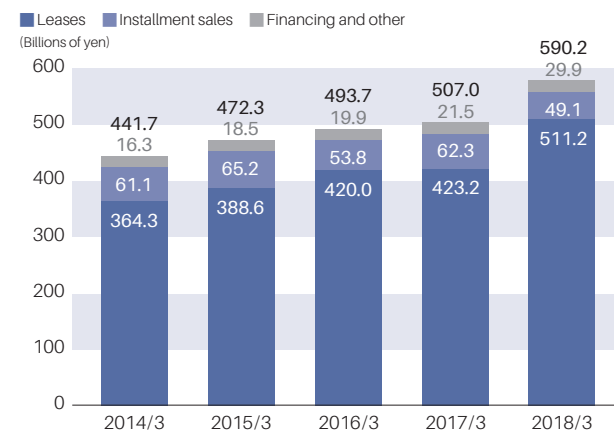
**282.6** billion yen  
(+9.0% from the end of previous FY)



The equity ratio rose 0.3 point from the previous fiscal due to an increase of the operating assets with an aim to improve ROA.

## Total revenue

**590.2** billion yen  
(+16.4% year on year)



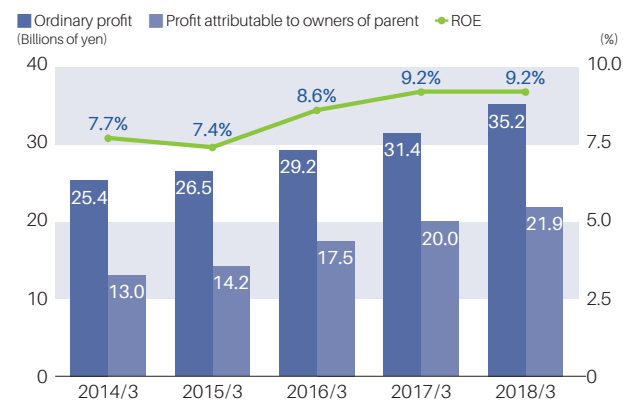
Total revenue soared 16.4% year on year to reach 590.2 billion yen due to growing sales driven by bridge financing contracts, as we acquired a number of operating assets, such as real estate leases.

## Ordinary profit

**35.2** billion yen  
(+12.2% year on year)

## Profit attributable to owners of parent

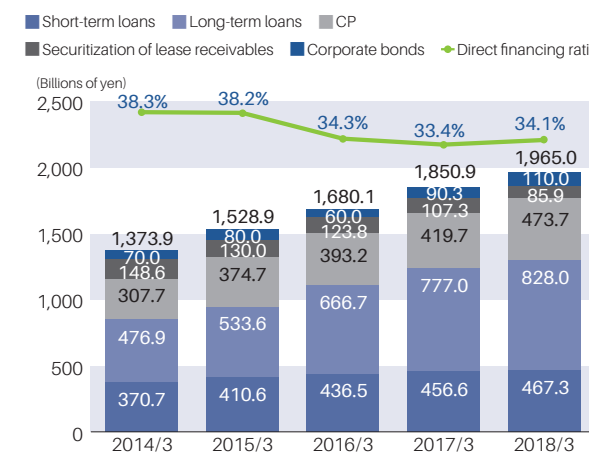
**21.9** billion yen  
(+9.9% year on year)



Ordinary profit increased 12.2% year on year, hitting a record high for the first time since the fiscal year ended March, 31, 2012, and profit attributable to owners of parent also hit a record high for the second year in a row due to higher total profits as a result of growing lease revenues, consolidation of Accretive, and other factors.

## Funding balance

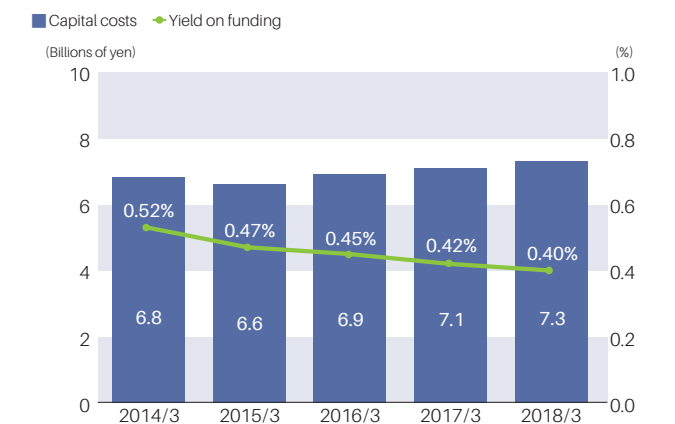
**1,965.0** billion yen  
(+6.2% from the end of previous FY)



Due to an increase in operating assets, the funding balance rose 6.2% from the end of the previous fiscal year.

## Capital costs and yield on funding\*

**7.3** billion yen  
(+3.0% year on year)



\* Formula for calculating yield on funding:  
(Capital cost - non-operating interest income + non-operating interest expense + bond issuance cost) / average fund balance × 100%  
Yield on funding continued to decline and an increase in the capital cost remained 3.0%.

# Medium-term Management Plan (FY2017-FY2021)

## Vision

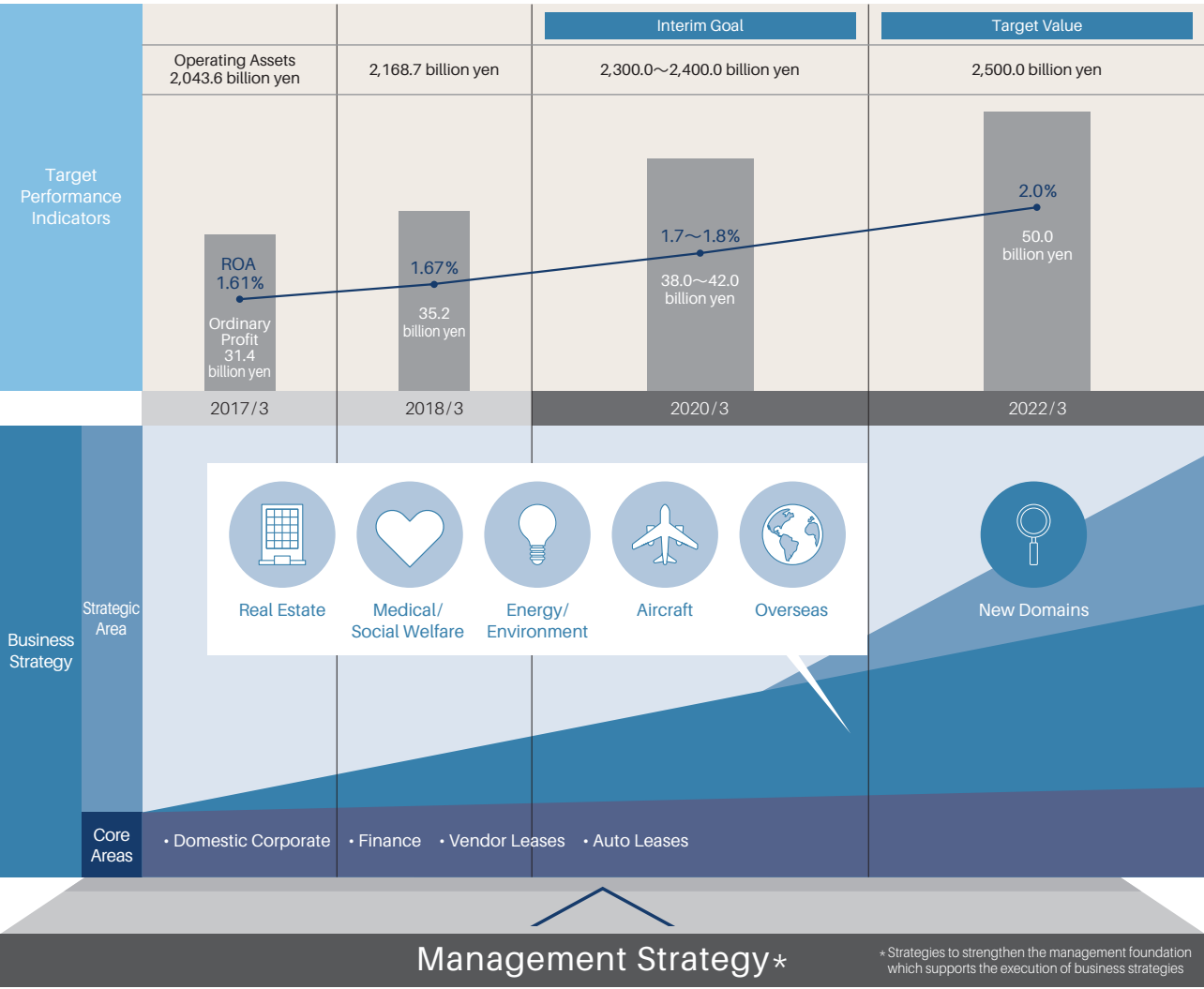
### Frontier Expansion 2021: “Go where no one has gone before”

Aiming to be a corporate group that moves into uncharted business and continues to expand the frontier

The Fuyo Lease Group aims to achieve strong sustainable growth amid the significantly changing business environment surrounding the domestic leasing business by fulfilling the corporate slogan of “Go where no one has

gone before,” and by untiring challenges of new business fields and business models in order to expand the frontier of our business portfolio.

## Overview of Strategies and Goals



## Key Performance Indicators and Progress

We have set performance targets for operating assets, return on assets (ROA), and ordinary profit for the fiscal year ending March 31, 2022, the final year of the current five-year Medium-term Management Plan, in addition to the interim targets set for the fiscal year ending March 31, 2020, the plan's third year. During the fiscal year that ended March 31, 2018, which was the first year of the

plan, we saw both operating assets and ROA increase year on year after acquiring a number of quality assets such as real estate leases. In addition, as ordinary income hit a record high since the fiscal year ending March 31, 2012, our performance is off to a good start. We will continue to move ahead with our business operations with the aim of achieving our set targets.

## Selection and Concentration in Strategic Areas

Frontier Expansion 2021 is comprised of a business strategy centered on the business promotion side and of a management strategy centered on bolstering the management foundation that supports the business strategy.

### Business Strategy

After establishing six Strategic Areas and four Core Areas of focus, we have formulated individual strategies and policies to target the focus Areas.

Strategic Areas	Core Areas
Areas positioned as growth drivers and designated for concentration of management resources	Areas designated for market (customer base) maintenance and expansion through efficient sales operations through activities such as intra-Group collaboration
Real Estate	Domestic Corporate
Medical/Social Welfare	Finance
Energy/Environment	Vendor Leases
Aircraft	Auto Leases
Overseas	
New Domains	

### Management Strategy

The following have been established as strategies to strengthen the management foundation that supports the execution of business strategies.

- ▶ Bolster ability to address new risks in conjunction with the frontier expansion
- ▶ Strengthen corporate functions and boost productivity
- ▶ Enhance the governance system in order to demonstrate Fuyo Lease Group's capabilities

## Three Strategic Axes

Keeping our focus concentrated on the three Strategic Axes of our business and management strategies, we aim to achieve the targets set in Frontier Expansion 2021.

### 1 Selection and Concentration in Strategic Areas

Following a comprehensive evaluation of factors such as future business prospects as well as the Group's strengths and business foundation, we have set six fields as strategic business fields that we can expect most promising growth.

#### Results in FY 2017:

In our Real Estate operations, we are steadily building up high-quality assets through winning large contracts and expanding the scope of our activities. In our Energy/Environment operations, we saw our largest solar power plant start its operations in this year. In our Medical/Social Welfare operations, we made progress in collaboration with our partners through business alliances and joint investments. In our Aircraft operations, we focused on building up our fleet while carefully selecting contracts in this increasingly overheated market.

## 2 Challenge the Frontier

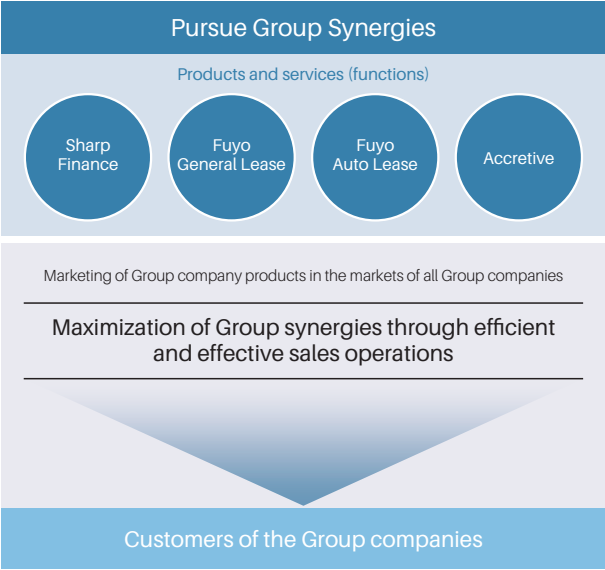
One of our core efforts in terms of entering new businesses and expanding our business domain is to plant new business seeds, cultivate them, and have them bear fruit during the Medium-term Management Plan period. Through businesses focusing on asset value risk-taking, which is a unique area of expertise for us as a leasing company, as well as businesses relying on business value for further expansion of the frontier, we will advance our highly-competitive businesses that go beyond our conventional framework of relying on corporate risk, and build a foundation for improving profit-earning capabilities and achieving sustainable growth.

#### Results in FY 2017:

We leveraged our network to forge partnerships with financial institutions and make further progress with FPS Medical service (Factoring for medical receivables and nursing care receivables). New contracts signed particularly with regional banks, resulted in an increase in transactions with medical and nursing care institutions.

## 3 Pursue Group Synergies

Group companies will do more to utilize the capabilities of other group companies to solve customers' problems or apply their own capabilities on customers of other group companies to ensure effective and efficient sales. In particular, we will drastically boost our business performance by linking the capabilities and the customer bases of Fuyo General Lease, which excels in business with large companies, with Sharp Finance, which is centered on the retail side, and Accretive, which links large companies with small- and medium-sized companies through its factoring platform.



#### Results in FY 2017:

We started full-scale cross-selling of products and services among our group companies, and significantly increased personnel exchange among the companies to further promote cross-selling. This initiative has resulted in good results in our real estate leasing, insurance agency, vendor leasing, and automobile leasing operations.



# Value Creation Story

The Fuyo Lease Group finds risks and opportunities from social changes and issues, and is motivated to solve the issues by providing various solutions. Our group's value creation story is to go beyond our stakeholders' expectations through sustainable value creation drawing on our distinctive resources and strengths.

Consolidated Management Goals	FY 2017 Actual (FY ended Mar. 2018)	FY 2019 Interim Target (FY ending Mar. 2020)	FY 2021 Target (FY ending Mar. 2022)
Operating assets	¥2,168.7 bn	¥2,300.0~2,400.0 bn	¥2,500.0 bn
Ordinary profit	¥35.2 bn	¥38.0~42.0 bn	¥50.0 bn
ROA (Ordinary profit on operating assets)	1.67 %	1.7~1.8 %	2.0 %

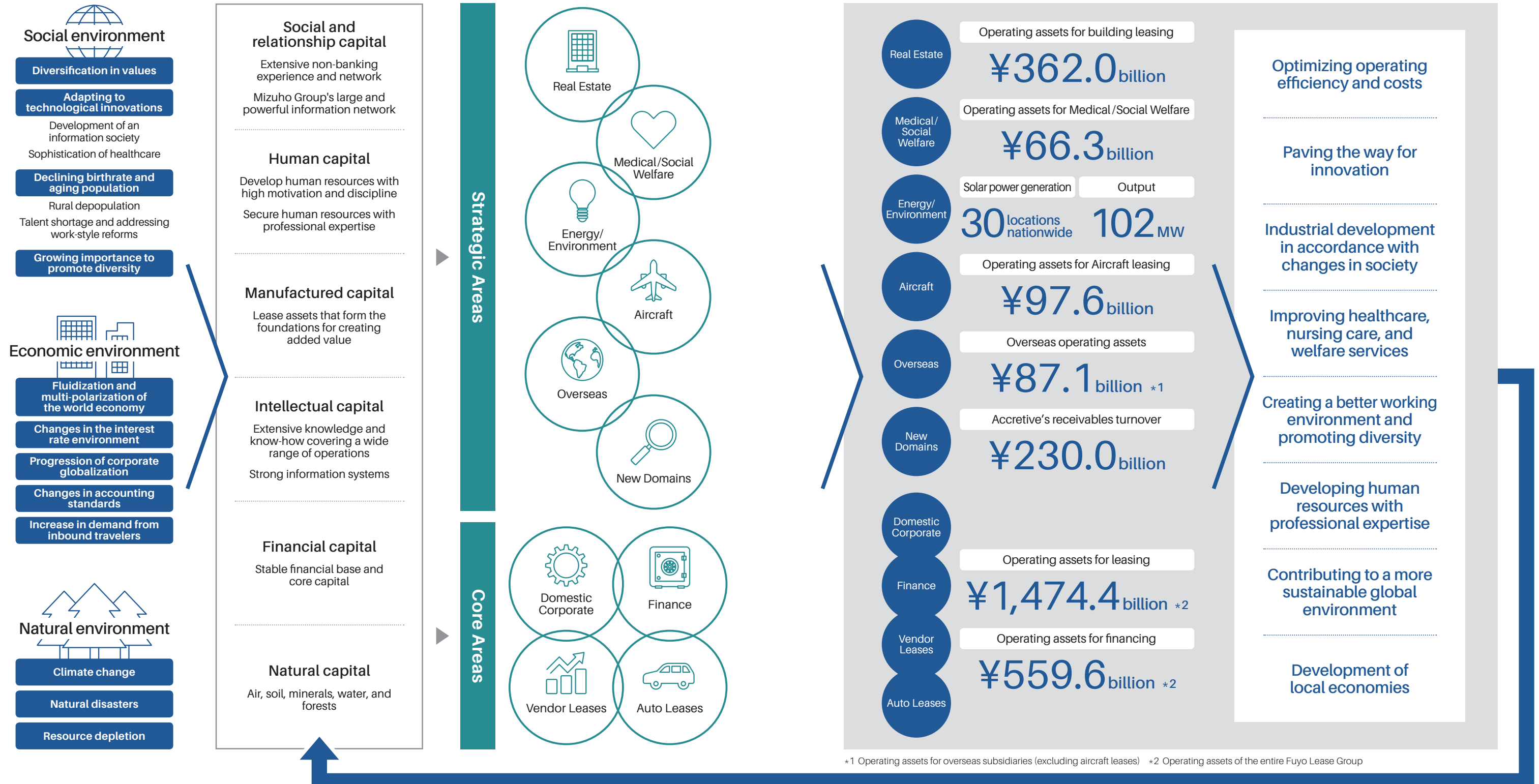
## Changes and Issues in Society

## Resources and Strengths

## Fuyo Lease Group's Core Businesses

## Business Achievements

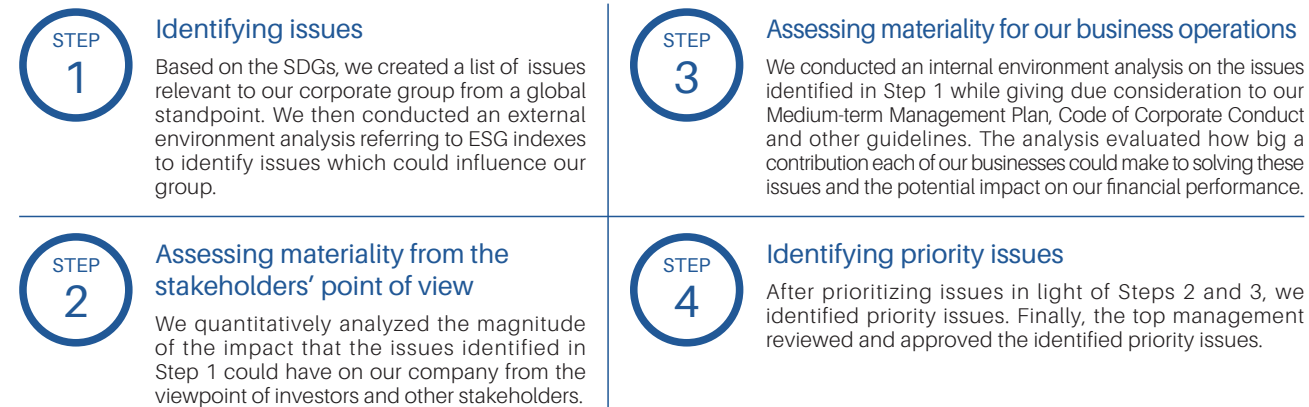
## Contribution to Solutions



# Materiality

In order to realize a sustainable society, the Fuyo Lease Group has identified issues to be solved through the Group's businesses as Material Issues (important issues to be addressed), taking into consideration their impacts on society and stakeholders with reference to the SDGs proposed by the United Nations. We will contribute to creating a prosperous and sustainable society by enhancing shared values between society and companies through our efforts along with identified Materiality.

## Identifying Materiality



## Materiality for Fuyo Lease Group

Following the Materiality identification process shown to the left, we identified Goal 3, 5, 7, 8, 11, 12, and 13 as the most important strategic goals.



## KPIs and Targets of Materiality (Creation of Shared Value through Business Activities)

Material Issues (Materiality)	Relevant SDGs	Themes of Initiatives	KPIs	FY 2017 Results	Targets
Promoting health and wellbeing		<ul style="list-style-type: none"> <li>Expand access to elderly nursing care and social welfare services</li> <li>Support medical institutions with their management</li> <li>Improve access to medical services</li> <li>Promote affordable and high-quality medical devices</li> <li>Promote cutting-edge healthcare technologies</li> </ul>	Operating assets of Medical/ Social Welfare businesses	¥66.3 billion	FY 2021 target: ¥80 billion
Diversity and work-style reform	 	<ul style="list-style-type: none"> <li>Improve work-style to pursue efficiency and productivity</li> <li>Promote work-life balance</li> <li>Empower women in workplaces and develop diverse human resources with strengths</li> </ul>	Rate of taking annual paid leave Improvement of working environment for development of the next generation Number of female managers	68.0% Maintain the Platinum Kurumin certification 32	FY 2021 target: 80% Appointment of 40 female managers by FY 2020
Responding to climate change issues and renewable energy	 	<ul style="list-style-type: none"> <li>Expand supply of renewable energy</li> <li>Support activities on decarbonization</li> <li>Assist activities to promote renewable energy</li> </ul>	Clean energy supply (output) Operating assets of solar power business Proportion of renewable energy to the electricity usage by the Group for its business activities	102MWdc ¥19.7 billion —	FY 2021 target: 200MWdc FY 2021 target: ¥3.4 billion 2030 target: 50% 2050 target: 100%
Achieving economic growth and fulfilling work		<ul style="list-style-type: none"> <li>Support corporate activities through leasing business, contribution to social development</li> <li>Improve management efficiency, overcome labor shortage, and address work-style reforms</li> </ul>	Operating assets Expansion of BPO business	¥2,168.7 billion Assist customers to improve productivity and to shift to high-value added businesses by providing high-quality BPO services.	FY 2021 target: ¥2,500 billion
Developing safe and livable cities and providing transportation		<ul style="list-style-type: none"> <li>Promote environmentally friendly urban scape and residential space</li> <li>Contribute to expanding the volume of safe and inexpensive transportation</li> </ul>	Operating assets of real estate leases Operating assets of aircraft leases Number of aircraft owned by the Group	¥362 billion ¥97.6 billion 24	FY 2021 target: ¥480 billion FY 2021 target: ¥280 billion FY 2021 target: 70
Contributing to the creation of a circular society		<ul style="list-style-type: none"> <li>Promote 3Rs (reduce, reuse, and recycle) for leased assets after the end of their lease period</li> </ul>	Number of used leased items sold* Reduce industrial waste and ensure proper disposal	70,036 units Reduce waste through effective use of the limited resources, and ensure proper disposal of generated waste.	FY 2021 target: 100,000 units

\* The number of used leased items sold from warehouses of Fuyo Lease Sales (Tokyo 3R Center, Kansai and Kyushu regions)



Working with Partner Companies to Protect the Environment



Saiseikai Niigata Daini Hospital with our ESCO service

Climate Change Initiatives

Growing greenhouse gas emissions are fueling the impacts of climate change felt across the globe. The 2015 signing of the Paris Agreement, an international framework for reducing greenhouse gas emissions and supporting other climate change related actions beyond 2020, as well as other similar initiatives, have spurred countries around the world to combat climate change. Japan’s business community is now implementing initiatives to reduce greenhouse gas emissions with the aim of achieving the target set by the Japanese government to cut greenhouse gas emissions by 26% from the 2013 level by 2030.

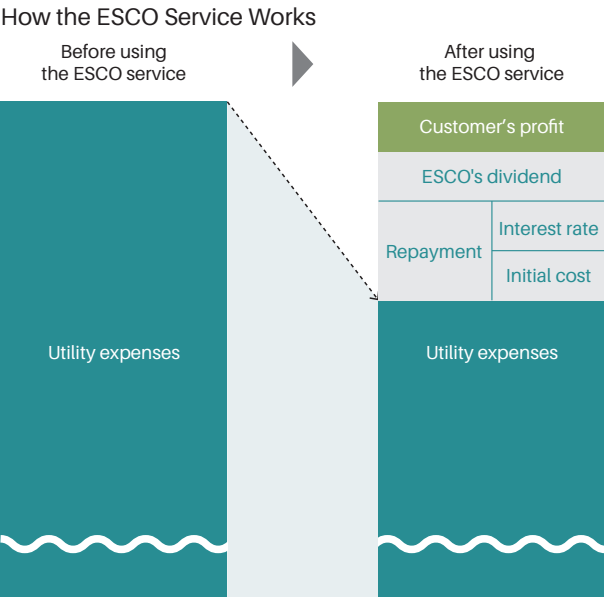
Fuyo Lease recognizes that climate change is a critical issue and has positioned Energy/Environment as key Strategic Areas in its Medium-term Management Plan as it works to contribute to the solutions this problem through its business operations. One such business operation is the ESCO service where we work with various partners to provide services that leverage our financial strength, and ability to propose solutions and assess their credibility. Use of renewable energy, as well as environmentally-friendly products and services, have become more important than ever since the Great East Japan Earthquake. Our ESCO service helps customers save energy, while cutting greenhouse gas emissions.

The ESCO Service and Role of Fuyo Lease

The ESCO (Energy Service Company) service provides everything needed to improve energy efficiency, including

technology, equipment, and personnel, as well as funding. Because customers pay ESCO service fees out of the actual energy cost savings generated through the service, they can reduce their energy consumption at virtually no expense, and cut costs over the long run. The service also warrants customers from any losses suffered in the event they do not achieve energy cost savings.

As an energy service company, Fuyo Lease provides full support to help customers meet their energy-saving needs through partnerships with companies across a wide range of industries.



Initiatives in FY 2017

Providing the ESCO service to Saiseikai Niigata Daini Hospital

Fuyo Lease, working jointly with Japan Facility Solutions, Inc., have started to provide the ESCO service to Saiseikai Niigata Daini Hospital.

Saiseikai Niigata Daini Hospital is a regional medical care support hospital providing high-quality acute medical care while working closely with other medical facilities in the area. Aiming to provide patients with all the medical services they need locally, the hospital provides expert care in its respective departments and refers patients to other local medical care facilities once their conditions become stable.

The hospital wanted to replace its aging heating system, so they decided to use our ESCO service to not only replace the old heating system but also to integrate the controls of the cold and hot water pipes in the hospital's two buildings and the HVAC pumps. This integration enabled the hospital to maximize its energy savings. The hospital also switched to LED lighting, which led to further energy conservation, as well as the side benefit of enhancing the overall hospital environment, including in its office spaces.

For this ESCO service project, we are aiming to improve energy efficiency with the following targets.

	Target
Primary energy reduction	13,933 GJ/year (Reduction rate: 18.8%)
CO <sub>2</sub> emission reduction	736 t-CO <sub>2</sub> /year (Reduction rate: 17.7%)



Air-cooled heat pump chiller introduced as part of our ESCO service (heat source equipment for ventilation)

VOICE

About three years ago Saiseikai Niigata Daini Hospital was looking for a partner, who could help us not just replace our aging equipment but also to help overhaul the entire facility because the buildings were nearly 20 years old.

While the solutions offered by other companies aiming for solving immediate problems or addressing only certain issues, the ESCO service offered by Fuyo Lease and Japan Facility Solutions was designed to optimize and improve the efficiency of the entire facility over the medium to long term. Their service was also the best plan in terms of cost and that is why we chose the service.

I hope the ESCO energy-saving system will enhance the overall energy efficiency of our buildings and contribute to conserving the environment. The system just went into operation this April and we have not calculated the annual energy cost savings yet, but I have received some great feedback from hospital workers. They say it has made managing equipment easier and that the LED lighting has made the place brighter. I am looking forward to seeing even more positive results.



Social Welfare Organization Saiseikai Imperial Gift Foundation, Inc.  
Saiseikai Niigata Daini Hospital  
Akira Kitsu, Director of Administration





## Improving Community Medical and Nursing-care Services through our Factoring Service for Medical and Nursing-care Receivables



### Issues with Frontline Medical and Nursing-care Services in Japan

With the increasing shortage of doctors in rural areas, concentration of doctors in large hospitals, and a lack of frontline nursing-care staff and facilities due to a super-aging society, among other factors, the environment surrounding medical and nursing-care services is changing radically. Health care on the ground faces a lot of issues, as many small and medium-sized hospitals and nursing-care facilities that support community health care are facing financial difficulties.

Fuyo Lease Group positions “Medical / Social Welfare” as one of the Strategic Areas in its Medium-term Management Plan, and is intensively investing management resources in this field. In 2017, Fuyo converted Accretive Co., Ltd. (hereinafter referred to as Accretive) into a subsidiary and further improved systems for promoting FPS Medical\* for factoring service for medical and nursing care receivables. With this move, we are confident that the Fuyo Lease Group will be able to contribute further to solving various issues related to medical and nursing care services in the field.

\*FPS stands for Flexible Payment Service.

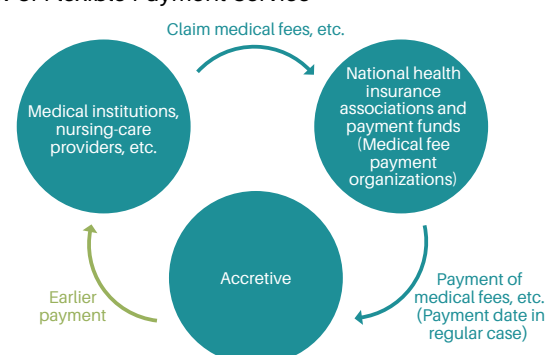
### Roles Played by FPS Medical

FPS Medical is the service enabling medical institutions and nursing-care providers to convert receivables, which Accretive purchases from national health insurance associations, payment funds, and other medical fee payment organizations, into cash before their due dates. Accretive knows the industry inside out and has accumulated the expertise needed to

provide such service. Accretive accommodates diverse needs that are unique to the industry and is capable of offering proposals even for challenging cases that major financial institutions find difficult to handle. For instance, when a medical institution experiences a decline in medical fees received, due to events such as a revision to the payment system for medical fees and the abrupt departure of a doctor, the institution loses its financial stability. Accretive can contribute to improving the institution’s cash flows by providing funds at an early stage.

Funds acquired through FPS Medical can be used as day-to-day working capital and as a financial source for securing personnel, which helps to solve short-term financial problems. In addition to securing short-term funds, Accretive also plays a role in reviving community health-care services by assisting medical institutions to improve their financial conditions so that the institution becomes eligible to receive loans from regional and other banks.

#### Flow of Flexible Payment Service



### Expanding Network through Group Synergies

In addition to providing services in Tokyo and Osaka, which are traditional centers of its business activities, Accretive has launched new business alliances with regional banks, shinkin (credit association) banks, and other local financial institutions across the country through leveraging the customer base of the Fuyo Lease Group. Consequently, Accretive serves customers nationwide, and the number of contracts it handles has more than doubled, with the balance of purchased accounts receivables rising 2,620 million yen (83%) from the end of FY2016. Furthermore, Accretive differentiates the features and applications of its services to clarify its role for customers, in order to avoid competition with financial institutions, thereby building complementary relationships with them.

In addition, Accretive has strengthened its business approach to nursing-care facilities, including intensive-care old people’s homes, as a new field for its services. Many nursing-care facilities face difficulties of retaining staff due to the shortage of care workers, while the number of people seeking residential care is growing. We think it is also possible to offer FPS Medical to improve their cash flow, which eventually enables them to secure personnel.

### Upcoming Activities and our Vision

While expanding FPS Medical by leveraging the customer base of the Fuyo Lease Group, Accretive provides its market with one-stop services that integrate the functions of the Fuyo Lease Group, which include leasing medical devices and purchasing and selling of used medical devices, resulting in increased convenience to the customers.

Besides, Accretive is working to strengthen its management consulting function for medical institutions in coordination with the Healthcare Advisory Office, which was set up in Fuyo Lease in August 2018. In the future, Accretive aims to further enhance the corporate value of the Fuyo Lease Group and solve problems in society by boosting group synergies and establishing FPS Medical as its core business.

### VOICE

We often see customers who are having difficulty in financing day-to-day business activities. When they told us “We were able to pull out of a management crisis thanks to Accretive and can continue to contribute to community health care,” we fully felt the importance of our services. Besides, serving customers in disaster areas in Fukushima, who are experiencing shortages of medical institutions due to relocation, we strongly feel the potential of our services on the issues that these areas are suffering. We are determined to continue supporting as many customers as possible in making their businesses stable through FPS Medical, which will contribute to make our customers smile.

Sales Department, Accretive Co., Ltd.  
(From left) Manager **Yosuke Kosaka**,  
Deputy Managers **Fuki Sadamori**  
and **Mai Hayakawa**





# Business Segments Overview



## Six Strategic Areas Real Estate

We provide unique solutions by leveraging our product development capability and track record of launching industry first real estate leases, such as Space Leases, which reduce the cost burden on tenants who have to pay expensive security deposits when renting space in a building adjacent to a train station or in a shopping center, as well as Building Leases that use fixed-term commercial leasehold contracts.

### Analysis of Current Status

#### Market Environment

- Expectations of more effectively using assets are rising as needs for using idle real estate continue to rise
- More retailers and companies operating multiple stores are looking at prime real estate locations
- An increasing number of redevelopment projects are driving up the need for real estate leases

#### Strengths

- Know-how obtained as a real estate leasing pioneer and a broad range of transactions with real estate leasing customers
- Access to more extensive and more diverse channels for obtaining information on land through alliances with construction companies and others across Japan
- Making proposals using information on land we have obtained enables us to take the initiative in more projects

#### Challenges

- Expanding alliances to enhance the acquisition of information on land
- Improving relationships and increasing business transactions with companies operating multiple stores through the utilization of land information
- Strengthening the Risk Management System
- Developing human resources with high degree of specialization

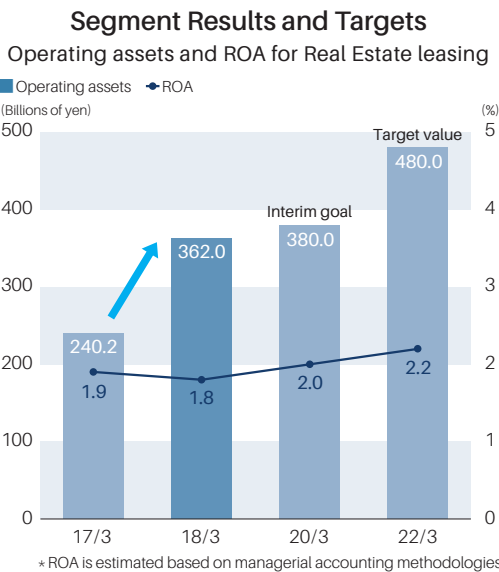
## FY 2017 Overview and Outlook

In FY 2017, operating assets increased sharply year on year as we signed large contracts in collaboration with leading developers and companies operating multiple stores. We will continue to steadily acquire operating assets to achieve our goals.

### Growth Strategies under Frontier Expansion 2021

The value of real estate contracts increased more than threefold during the previous Medium-term Management Plan period due to an increasing number of large contracts, growing demand for budget hotels, and the launch of initiatives aimed at nursing homes. During the current Medium-term Management Plan period, we aim to increase operating assets, which initially stood at 240 billion yen, twofold over the five year plan by discovering needs through incorporating land information and working even closer with real estate developers. We will also work on real estate financing, while investing in REITs and real estate with the aim of expanding the frontiers of

our operations. At the same time, we will move forward with group-wide initiatives that make the most of the real estate leases offered by our subsidiary, Sharp Finance.



## Achievements

### Primetree Akaike, Seven & i Group's Large-scale Shopping Mall

We were awarded a building lease contract for Primetree Akaike, a shopping mall in Aichi Prefecture's Nisshin City operated by Ito-Yokado Co., Ltd. and Seven & i Create Link Co., Ltd.

Situated on a sprawling property measuring more than 40,000 square meters, the shopping mall is a four-level large-scale commercial facility housing about 180 tenants. This is the largest building lease we have ever signed.

The shopping center features a number of popular shops, including the anchor tenant Ito-Yokado along with retailers opening at their first locations in Aichi Prefecture. It also boasts various other facilities, such as community spaces that local residents can use for get-togethers and other activities, a state-of-the-art movie complex, a food court, and more, which supports the growth of the local community and enriches the lives of the residents.



### Large Real Estate Lease Signed Jointly with Developer

In May 2017, we acquired TOC Minato Mirai, a commercial complex located in Yokohama City's Minato Mirai, from TOC Co., Ltd. Situated adjacent to Sakuragicho Station, a gateway to the Minato Mirai 21 area, TOC Minato Mirai is a large commercial complex housing the Colette Mare shopping center, a hotel, offices, movie theaters, and a fitness gym. We earned this major contract by working together with our close partner and developer, Hulic. We will continue to work with more developers with the aim of winning large contracts and expanding our Real Estate business.

### Budget Hotel Building Lease in Nihonbashi Koamicho

We have signed a building lease with West Japan Railway Daily Service Net Company for Via Inn Tokyo Nihonbashi (tentative name), a budget hotel the company plans to open in Tokyo's Nihonbashi district in the fall of 2019.

The hotel is located just a 4-minute walk from Ningyocho station on the Toei Asakusa Line, which provides direct access to Haneda and Narita International Airports. It is also close to tourist destinations that are popular among international travelers, such as Asakusa and Tokyo Skytree. It is a convenient location for both business and sightseeing.

Working to meet the needs of budget hotel operators, who want to invest in hotel facilities that will accommodate the growing number of international travelers visiting Japan, we provide building leases for budget hotels, which have opened or are scheduled to open near Kyoto station and Nagoya station as well as in Kawasaki and Shinagawa. We will step up our efforts to provide building leases for budget hotels and help operators open hotels that are convenient for business travelers as well as tourists.





### Six Strategic Areas

## Medical/ Social Welfare

### Analysis of Current Status

We offer a wide range of services, which include leasing medical equipment, buying and selling pre-owned medical equipment as well as factoring for medical receivables and nursing care receivables. We are also focusing on building leases for welfare and care facilities.

#### Market Environment

Growing need for nursing care and medical services in a super-aged society  
Shortage of facilities where elderly people can live with peace of mind  
Growing need for financing including leases, as medical equipment employing state-of-the-art technologies for higher performance becomes more expensive

#### Strengths

One-stop services through our group-wide businesses, including Fujita and Accretive, are helping to build an Integrated Community Care System  
A track record of providing leases for elderly homes through collaborations with partner companies, despite their greater difficulty compared to leases for commercial facilities

#### Challenges

Strengthening our consulting functions to help hospital operators solve management problems  
Further developing human resources as we expand the scope of operations  
Expanding network through the reinforcement of alliances with medical equipment manufacturers and related industries

### FY 2017 Overview and Outlook

In FY 2017, we worked together with our partners on joint initiatives that focused on business alliances and investments, including building leases for welfare and nursing care facilities. We will continue to enhance our capability to provide customers with one-stop services as we aim to enhance the value we provide.

### Growth Strategies under Frontier Expansion 2021

Our Medical business will focus on expanding the scope of our frontiers by launching consulting services designed to put hospital operations and business management back on track, working with Fujita to leverage its expertise in selling and buying pre-owned medical equipment, and capitalizing on Accretive's factoring service for medical receivables. In the area of Social Welfare (nursing care), we became the first in the industry to start building leases for nursing care facilities, such as nursing homes for the elderly, during the period of the previous Medium-term Management Plan. We will move ahead by capitalizing on our strong ties with nursing care industry giants, such as the Nichii Group.

### Achievements

#### Senior Housing Complex in Kachidoki Completed

Fuyo Lease served as a financier for the AIP Kachidoki Ekimae Building, Japan's first urban senior housing complex incorporating medical and commercial facilities. Completed in April 2017, the building houses Nichii Home Kachidoki, a private for-profit nursing home, which is its anchor tenant, a medical mall consisting of a number of clinics and pharmacies as well as a supermarket and more. It fulfills the needs of senior citizens who want all the convenience of living in an urban center plus peace of mind.



AIP Kachidoki Ekimae Building

#### Healthcare Advisory Office Created: Launching Consultation Services to Assist Medical Corporations with Operations

We established the Healthcare Advisory Office under our Medical & Welfare Division in August 2018.

The Healthcare Advisory Office mainly provides consulting services to hospital operators and helping them solve the problems they face. It aims to offer various solutions employing the Fuyo Lease Group's wide range of products and service functions.

#### Fujita Co., Ltd. Becomes a Consolidated Subsidiary

In April 2018, we acquired additional shares in Fujita Co., Ltd., with which we signed a capital and business alliance agreement in December 2016, thus making it a consolidated subsidiary.

Fujita's strengths lie in its ability to provide one-stop services, including everything from disassembly and removal to buying and selling pre-owned large medical devices such as MRI scanners, CT scanners, and X-ray equipment. Since signing the capital and business alliance agreement, we have worked steadily with Fujita on a wide number of projects where we leveraged each other's customer and sales networks, and cooperated in buying and selling pre-owned medical equipment after their leases expired. We expect to create further synergies.

We plan to enhance the development of lease products that incorporate the future value of assets, provide renovation support services for hospitals when they relocate or build a new building, and more.





## Six Strategic Areas

## Energy/Environment

Our operations in the areas of Energy and the Environment focus on solar power generation and the ESCO service. We provide services that promote renewable energy and energy conservation to expand operations, while protecting the Earth's environment.

Analysis  
of Current  
Status

## Market Environment

Growing demand for renewable energy fueled by national obligations to reduce greenhouse gas emissions, as well as greater expectations of the business community and the role it should play

Development and sales of energy- and resource-saving equipment and technologies are creating more leasing opportunities

Rising environmental awareness among large corporations as ESG evaluation becomes common practice and supply chains become more global

## Strengths

Ability to offer optimal solutions to customers by using know-how gained through our own solar power generation business

A track record of providing a number of ESCO and ES\* services jointly with leading partner companies

## Challenges

Entering the wind power, geothermal, biomass, and other renewable energy markets

\* Under the ESCO service, customers pay a service fee when the actual energy cost savings generated through the service exceed a predetermined energy saving target agreed upon with the customer. Under the ES service, the customer pays a predetermined service fee and keeps the full amount of energy cost savings generated through the service.

## FY 2017 Overview and Outlook

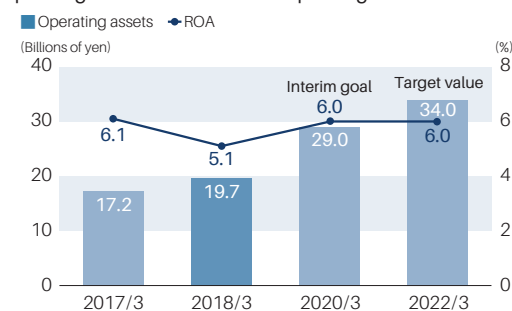
In FY 2017, we saw our largest solar power plant go into operation and our existing plants maintain stable operations. Although the ROA of the overall business declined due to upfront investments on sites under development, the profitability of existing plants remained high. We will continue to work on expanding operations in accordance with our Medium-term Management Plan.

## Growth Strategies under Frontier Expansion 2021

In the solar power generation business, 29 large-scale solar power plants (known as mega-solar power plants) were in operation during the previous Medium-term Management Plan period, supplying enough green energy to power about 23,000 homes. Under the current Medium-term Management Plan, we plan to operate large solar power plants that are several times the size of our existing plants, in order to supply twice as much electricity as now by the final year of the Medium-term Management Plan. We will step up efforts in the ESCO business in collaboration with our partners, who are industry leaders, while working on new energy businesses and others to expand the frontiers of our operations.

## Segment Results and Targets

Operating assets and ROA for solar power generation business



\* ROA is estimated based on managerial accounting methodologies.

## Achievements

## Consolidated Subsidiary Tomioka-Sugiuchi Solar Starts Commercial Operation of Solar Power Plant

On March 1, 2018, our consolidated subsidiary, Tomioka-Sugiuchi Solar Ltd., started commercial operation of its Tomioka-Sugiuchi Solar Power Plant located in Tomioka-machi, Futaba District, Fukushima Prefecture. The solar power plant has an installed capacity of approximately 25.05 MW-DC<sup>\*1</sup> with an estimated annual power output of approximately

24,780,000 kWh, making it our largest solar power plant. This output is equivalent to the total annual power consumption of approximately 6,880 typical homes<sup>\*2</sup>.

\*1 DC: direct current

\*2 Calculated at 3,600 kWh per household.



## Six Strategic Areas

## Aircraft

Since signing the first lease in 1985, we have provided more than 200 aircraft leasing arrangements for airline companies across the globe. In 1999, we became the first in the industry to expand into the primary aircraft market in Dublin, Ireland. We also executed a lease for aircraft owned by our company in 2009 and acquired UK-based ALM in 2014 with the aim of expanding our operations.

Analysis  
of Current  
Status

## Market Environment

Increasing of business opportunities based on global growing needs of aircraft

Overheated market due to an increasing number of players

## Strengths

Enhanced organizational structure as a result of the 2014 acquisition of ALM, a British company specializing in aircraft-related services and marketing

Aircraft know-how accumulated since 1985

A portfolio with greater liquidity mainly consisting of narrow-body aircraft

## Challenges

Strengthening business on package contract basis (multiple aircraft leasing) and enlarging the number of airline companies with which to do business

Stable planning and sales of products for investors including JOLCO\*

\* Japanese Operating Lease with a Call Option

## FY 2017 Overview and Outlook

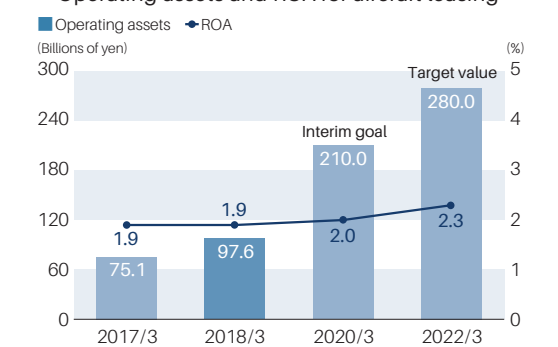
In FY 2017, we made leasing arrangements for aircraft owned by our company and executed our first engine operating lease, steadily expanding the scope of the business. We will continue to build up our fleet of aircraft, while maintaining our ROA by carefully selecting projects.

## Growth Strategies under Frontier Expansion 2021

Leasing arrangements for aircraft owned by our company grew to 19 during the previous Medium-term Management Plan period. We aim to increase the number of aircraft leased per year by ten, so that the number of company-owned aircraft reaches 70 by the final year of the Medium-term Management Plan. We will accelerate the pace of acquiring operating assets by working on packaged contracts, under which multiple aircraft are leased, expanding the scope of airlines and equipment covered, and strengthening our organizational structure.

## Segment Results and Targets

Operating assets and ROA for aircraft leasing



\* ROA is estimated based on managerial accounting methodologies.

## Achievements

## ANA Holdings Signs a Lease for Four Airbus A321neo

In August 2017, ANA Holdings Inc. (ANAHD) signed a lease for four A321neo, a new aircraft from France-based Airbus, to be the first to bring the aircraft to Japan. The A321neo (with neo standing for new engine option) is equipped with Pratt & Whitney's latest engine. Also equipped with large wingtip devices called Sharklets, the aircraft features 15% higher fuel efficiency

and about a 7% longer range than conventional models\*.

All four aircraft, for which leases were signed, are already in operation in the route network of All Nippon Airways Co., Ltd., ANAHD's core airline company.

\* According to Airbus data





## Six Strategic Areas

### Overseas

As the domestic leasing market shrinks, we aim to increase our overseas locations mainly in North America and Asia by leveraging our network to attain organic growth, while building up high-quality assets through investments, acquisitions, and alliances with local companies to achieve inorganic growth.

#### Analysis of Current Status

#### Market Environment

Financing needs are growing overseas as more manufacturers relocate their production bases outside Japan

Leasing companies are aggressively expanding overseas as the domestic leasing market shrinks

#### Strengths

Customer base built on the Mizuho Group's network

A steady track record of operating businesses in the US and Hong Kong for about 30 years, during which we have developed an extensive customer base

#### Challenges

Expanding our business with a focus on M&A and capital alliances

Developing human resources with high degree of specialization and strengthening the human resource development system as we expand the scope of operations

Expanding non-Japanese business in North America and Asia

## FY 2017 Overview and Outlook

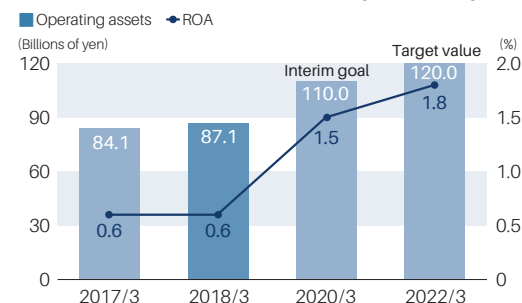
In FY 2017, we obtained excellent non-Japanese assets by acquiring local companies. In the future, we will continue to expand our Overseas operations through inorganic growth and other strategies.

### Growth Strategies under Frontier Expansion 2021

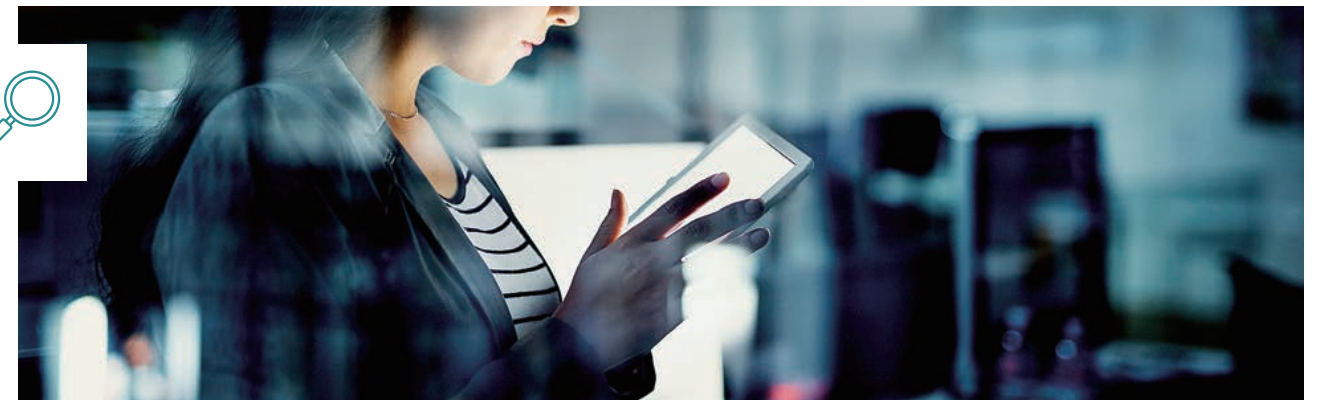
Our Overseas business segment saw its operating assets almost double during the period of the previous Medium-term Management Plan, and we will pick up the pace of obtaining assets even further. We will continue to focus on expanding non-Japanese businesses mainly in North America and Asia, as we did under the previous Medium-term Management Plan. Over the medium-term, we will seek inorganic growth through M&A and capital alliances with the aim of achieving an additional 1.5-fold increase in operating assets by the final year of the Medium-term Management Plan.

### Segment Results and Targets

Operating assets and ROA for Overseas businesses  
(Business of overseas subsidiaries excluding aircraft leasing)



\* ROA is estimated based on managerial accounting methodologies.



## Six Strategic Areas

### New Domains

One of the Strategic Areas specified in Frontier Expansion 2021, New Domains collectively refer to as new business initiatives as well as expanding the scope of our businesses. We will work to expand the frontiers of our operations focusing on non-asset businesses.

#### Analysis of Current Status

#### Market Environment

Needs for work efficiency and productivity improvements are growing due to labor shortage and work-style reforms

Development of new technology such as IoT, robots, Artificial Intelligence (AI), and Big Data

#### Strengths

Solid business foundation built on the Fuyo Lease Group's nationwide network

#### Challenges

Delivery of BPO\* service with high added-value

Initiatives in new business areas with potential for future growth

\* BPO: Business Process Outsourcing

## FY 2017 Overview and Outlook

In FY 2017, we focused on providing Accretive solutions to Fuyo Leasing Group customers and sought partnerships with state-of-the-art research and development companies, as well as invested in them. We will continue to work on expanding our operations with the focus on non-asset businesses.

### Growth Strategies under Frontier Expansion 2021

Working to launch new businesses and expand the scope of our operations, we will specifically concentrate on Accretive's factoring services and new business initiatives based on M&A as well as capital and business alliances, development of leasing programs that factor in used asset sales and the residual values of assets, asset securitization, and accounting services using FLOW Cube+ which was jointly developed with SAP Japan.

## Achievements

### Canada's Pickup Truck Rental and Leasing Company Becomes Fuyo Lease's Equity-method Affiliate

Fuyo Lease acquired a 50% stake in Marubeni Auto Investment (Canada) Inc., a subsidiary of Marubeni Corporation, which owns TDF Group Inc., a pickup truck rental and leasing company in Canada, and made it an equity-method affiliate.

TDF provides mainly corporate clients with comprehensive vehicle-related solutions, including pickup truck rental, leasing, and sales. Since its establishment in 1978, TDF has built a solid business foundation, providing services to the Canadian energy

and resource development industry as well as firms and local governments involved in infrastructure projects.

The acquisition of shares will enable us to combine know-how Marubeni has gained through its pickup truck rental and leasing businesses in North American with our fundraising ability and leasing industry know-how as we aim to grow the business further and create synergies over the medium to long term.

## Achievements

We are working to expand our business frontiers through corporate alliances and investing in companies and organizations working to develop cutting-edge technologies or intellectual properties with the aim of securing preferential rights to sales and partnerships in the future.

Business Form	Partner	Description
Establishment	GAP Fund	Established a fund designed to provide financial assistance to universities in order to help them overcome hurdles (i.e. gaps) when commercializing intellectual properties or technologies they own. It is Japan's first fund created through an industry-academia collaboration.
Alliance	Optical Comb, Inc.	Formed a business alliance for promoting sales of a non-contact 3D scanner employing Nobel Prize-winning optical comb technology.
Investment	Riverfield Inc.	Invested in the company, which developed Japan's first robotic surgical assistant system with the aim of creating a leasing and sales promotion partnership.
Investment	CREWT Medical Systems, Inc.	Signed a capital and business alliance agreement with the company, which developed the world's first head-mounted visual field inspection device, to support its sales activities.
Investment	Lily MedTech Inc.	Invested in the company, which is developing a breast cancer inspection system using medical ultrasound technology.
Subsidiary	Fujita Co., Ltd.	Capable of providing one-stop services, including everything from removal to sales of pre-owned medical equipment. The consolidation of Fujita will enable us to develop new products and services.
Investment	Exergy Power Systems Inc.	Invested in the company, which develops and manufactures next-generation energy storage systems.
Investment	MerryBiz Inc.	Invested in the company, which provides accounting services using virtual accounting assistants.
Subsidiary	INVOICE Inc.	Reached a mutual agreement among the related parties to acquire the company, which provides combined billing service to expand our services that contribute to the improvement of our customers' productivity.



## Four Core Areas

## Domestic Corporate



This is a Core Area that supports Fuyo Lease.

In addition to conventional leases, such as for information and office equipment as well as commercial facility leases, we offer a wide range of services that include leasing arrangements and strategic financial solutions tailored to customers' needs.

Analysis  
of Current  
Status

## Market Environment

Shrinking market due to declining lease transaction volumes, and declining profitability due to intensifying competition

Demand for leases as a means of raising funds declining as customers' financial health improves

## Strengths

Ability to offer strategic financial solutions in addition to leasing services

## Challenges

Strengthening our ability to offer solutions by promoting teamwork among the Group companies, and creating new business opportunities by business matching

Improving profitability by differentiating ourselves from competitors

## FY 2017 Overview and Outlook

**In FY 2017, as a result of offering a wide range of solutions tailored to customers' business needs, we were able to enter into various types of transactions, including real estate contracts as well as various overseas transactions. We will continue to increase transactions through cross-selling with group companies and offering solutions to improve clients' profitability.**

## Growth Strategies under Frontier Expansion 2021

Solutions are our specialty and we will continue to enhance our offerings by targeting corporate customers of our group companies. At the same time, we are streamlining and downsizing our organization as we shift the workforce to Strategic Areas in order to optimize the allocation of personnel. Specifically, we have consolidated all vender leasing and small factoring operations at our subsidiaries and abolished some specialized departments.

## Four Core Areas

## Vendor Leases



As a partner to dealers of office, information, medical, and other equipment and machinery, we focus on providing financial service solutions that help vendors sell their products. We are continually working to enhance our ability to offer solutions, such as those designed to help companies start a business in the healthcare market, with the aim of creating new markets.

Analysis  
of Current  
Status

## Market Environment

Oligopolistic market dominated by the industry's leading companies

Developing systems for managing cash flows, credit screening, and other functions for small- and medium-sized companies, who are the primary customers, making it difficult to enter the market because most transactions are high-volume and small size

## Strengths

Large market share and market recognition

An organizational structure with locations across Japan that enables us to meet the exact needs of customers

An established operating base and years of expertise gained in the healthcare market

## Challenges

Further expanding the range of sales partners, and promoting vendor business by extending information channels

Expanding non-asset (fee-based) business initiatives

## FY 2017 Overview and Outlook

**In FY 2017, we saw alliance transactions increase as a result of forming more partnerships with major dealers and promoting alliances with medical equipment manufacturers. We will continue to work on strengthening our non-asset businesses, such as debt collection services, while increasing transactions with our existing vendor clients.**

## Growth Strategies under Frontier Expansion 2021

We will seek further growth of the Vendor Leases business, operated by Sharp Finance, mainly by expanding the range of partners we work with and shifting resources to the Tokyo metropolitan area. We will also focus on leveraging the group's strengths by offering real estate leases, factoring services, and other products and know-how available from our group companies to Sharp Finance's customers.

## Four Core Areas

## Financing



In addition to conventional corporate loans, we provide a wide array of services, including fund investments and business-related investments as well as investments and lending positioned as balance sheet solutions.

Analysis  
of Current  
Status

## Market Environment

Market overheated due to low interest rate strategies of regional banks and others since the introduction of the negative interest rate policy

## Strengths

Various financing programs built on our track record in various fields and tailored to customers' needs

Mizuho Financial Group's network

## Challenges

Optimizing the risk-return tradeoff by offering a wide array of services

Developing the information infrastructure to support sophistication of the monitoring related to fund investments

## FY 2017 Overview and Outlook

**In FY 2017, we launched a council to investigate fund investments that successfully help boost operating assets. We will continue to accumulate the know-how needed to further improve profitability.**

## Growth Strategies under Frontier Expansion 2021

We will shift our focus to more profitable areas, while maintaining an appropriate risk-return tradeoff. This effort will center on investments in funds, business-related investments, and investment and lending positioned as balance sheet solutions.

## Four Core Areas

## Auto Leases



We offer a wide range of services including auto financing, maintenance, insurance, and safe driving education as well as administrative support, and will continue to expand our operations by leveraging synergies among group companies.

Analysis  
of Current  
Status

## Market Environment

Number of vehicles owned by the auto leasing industry as a whole is expected to rise in an expanding market

## Strengths

Providing high value-added leasing arrangements, under which customers can outsource administrative work related to the purchase, management, and maintenance of automobiles

Partnerships with about 6,300 repair shops across Japan to provide safe and well-maintained vehicles

## Challenges

Expanding the customer base by strengthening cooperation within the Fuyo Lease Group

Developing unique products and differentiating ourselves from competitors through collaborations with partner companies

## FY 2017 Overview and Outlook

**In FY 2017, the number of vehicles in our inventory inched up year on year, while the value of contracts signed through joint efforts with our group company, Sharp Finance, soared 47% year on year, indicating the good progress of our intra-group collaboration. Looking ahead, we aim to boost our business performance even further by increasing the number of vehicles in our inventory and building up operating assets.**

## Growth Strategies under Frontier Expansion 2021

We will leverage synergies among our group companies to expand the Auto Leases business. In particular, we will approach Sharp Finance's retail client base and further strengthen coordination with Fuyo Lease.

# Foundation for Value Creation

## Foundation for Value Creation

The Fuyo Lease Group aims to solve social issues through its business operations as it paves the way to a sustainable society and sustainable business growth, while responding to the expectations of its stakeholders. This section outlines the initiatives that are behind creating this kind of value.

### Stakeholder Dialogue

We believe that communicating with stakeholders is the key to accurately understanding various social issues and the role we are expected to play. We see communication as the bridge that brings us closer to stakeholders, and we use it to ensure that we live in harmony with people from all walks of life.

Customers	Our management philosophy is to “always give first priority to the customer and provide the best service.” In putting that philosophy into practice we work to enhance the level of satisfaction of all our customers, including users of our leasing services.
Suppliers and partners	We work together with suppliers of leased assets, business partners, and vendors to build and maintain fair and equal relationships that serve as fertile ground upon which everyone involved can grow.
Shareholders	Our basic policy is to return stable profits to shareholders on a long-term basis. We also disclose information in a timely, appropriate, and fair manner to ensure the transparency of our operations.
Industry organizations and competitors	We work with competitors to enhance the leasing business, improve services, and share information, for example, through the initiatives undertaken by the Japan Leasing Association.
Communities	We value communication with people, companies, and other organizations not only in the areas where we operate but also with a host of communities that lie beyond, and engage in community-based activities as a responsible corporate citizen.
Natural environment	To address environmental issues, we actively implement environmental initiatives through our business activities and strive to minimize our environmental footprint.
National government, administrative authorities, etc.	We maintain appropriate relationships with the government of Japan, relevant ministries and agencies, and local governments. We also maintain sound relationships with the central governments and administrative authorities of countries where our overseas subsidiaries operate.
Financial institutions	We raise funds necessary for our operations by maintaining strong relationships of trust with financial institutions.
Employees and their families	We work to create a safe, happy, and vibrant workplace environment for our employees. In addition, we are building a better occupational environment where all employees can find their own optimal work-life balance and enhance the quality of both life and work.

# Environmental Management

## Basic Approach

The Fuyo Lease Group is committed to reducing its environmental footprint through appropriate environmental management and building a closed-loop society through its business operations. We have formulated an environmental philosophy and policy in order to engage the entire group into activities that address environmental issues. We have also acquired ISO14001 for the Group’s major operating sites to operate management system for continuous improvement.\*1

\*1 ISO14001 certified sites: Fuyo General Lease’s head office and Osaka branch, Fuyo Leasing Sales, Fuyo Network Service, and FGL Service.

Environmental Philosophy	The Fuyo Lease Group acts with care to preserve the global environment based on its management philosophy of “supporting our customers’ business activities, and contributing to the community through the leasing business,” and promotes activities to address environmental issues in line with its environmental policy.
Environmental Policy	<p><b>1. Protecting the global environment through leasing business</b> We endeavor to provide products and services that contribute to protecting the global environment in our business activities, including leasing, rental, and financial business.</p> <p><b>2. Promoting resource and energy saving activities</b> We are aware of the environmental burdens associated with business activities and endeavor to engage in resource and energy saving activities and green procurement.</p> <p><b>3. Contributing to the development of a recycling society</b> We promote the reuse and recycling of goods no longer leased, restrict the generation of waste, and ensure proper disposal of waste.</p> <p><b>4. Complying with environmental laws</b> We comply with environment-related laws and agreements to which the Fuyo Lease Group has agreed.</p> <p><b>5. Establishing an environmental management system</b> We promote continuous improvement of an environmental management system and endeavor to prevent environmental pollution by setting environmental targets.</p>

## Key Environmental Targets

Objectives	Scope	FY 2017 targets	FY 2017 results	Evaluation	FY 2018 targets
Climate change initiatives	Fuyo General Lease & Group companies*2	Maintain the FY 2010 level of CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Scope1 & 2)	1.1 % increase from the FY 2010 level	×	Maintain the FY 2010 level of CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Scope1 & 2)
Promote energy conservation	Fuyo General Lease & Group companies*2	Maintain the FY 2010 level of energy consumption (kWh)	14.3 % reduction from the FY 2010 level	○	Maintain the FY 2010 level of energy consumption (kWh)
Comply with environmental laws and regulations	Fuyo General Lease & Group companies*2	Assess compliance with environmental laws and regulations	Conducted compliance assessment. No non-compliance found	○	Assess compliance with environmental laws and regulations
Saving the environment through leasing	Fuyo General Lease	Invest 12 billion yen on acquiring energy-efficient and environmentally-friendly assets*3	17 billion yen	○	Invest 13 billion yen on acquiring energy-efficient and environmentally-friendly assets
	Fuyo General Lease	Invest 5 billion yen on acquiring assets for PC Eco & Value Leases and PC rental services	4.7 billion yen	×	Invest 5 billion yen on acquiring assets for PC Eco & Value Leases and PC rental services

\*2 Scope: all domestic locations of Fuyo General Lease and Group companies including Fuyo Auto Lease, Fuyo Network Service, Fuyo Lease Sales, FGL Service, and Aqua Art.  
\*3 Machines related to energy including boilers and turbines, industrial waste recycling equipment, pollution control devices, environmental equipments such as energy saving devices including combined heat and power systems and water purification systems, and renewable energy (i.e. solar power generation) supply facilities.

### The Issuance of Green Bonds

Fuyo Lease has started to issue green bonds through public offering in the Japanese domestic market (unsecured straight bonds). Green bonds are receivables, which are issued by companies and local governments to fund green projects (businesses with environmental benefits, which include renewable energy business, building and retrofitting of energy-saving structures, and prevention and management of environmental pollution). We plan to use the raised funds for construction of solar power facilities.

## Climate Change Initiatives

### Basic Approach

Today, climate change is a universally recognized problem, and increasing greenhouse gas emissions are making it worse. As the Paris Agreement, an international framework for climate action beyond 2020, and other initiatives give momentum to efforts to reduce greenhouse gas emissions across the globe, renewable energy along with environmentally-friendly products and services are more important than ever. Activities to cut greenhouse gas emissions are also underway in the Japanese business community. Recognizing the impact of climate change on the business environment, the Fuyo Lease Group is working toward climate change mitigation by reducing greenhouse gas emissions in our operations.

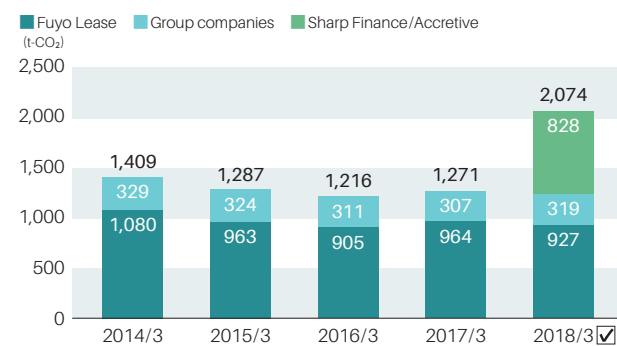
### Initiatives to Reduce Greenhouse Gas Emissions

The Japan Leasing Association has formulated a voluntary low-carbon society action plan, which Fuyo Lease has signed on to as a member company.

The Fuyo Lease Group is making efforts to conserve the environment at all our locations by setting targets that lower our CO<sub>2</sub> emissions and energy consumption, and work to reduce power usage, as well as our company vehicles' fuel consumption and exhaust emissions. In addition, we joined RE100, a business initiative which aims to source 100% renewable energy to power business activities, the first member among comprehensive leasing companies in Japan. The Group's goal is to power our own operation with 50% renewable energy by 2030 and 100% by 2050.

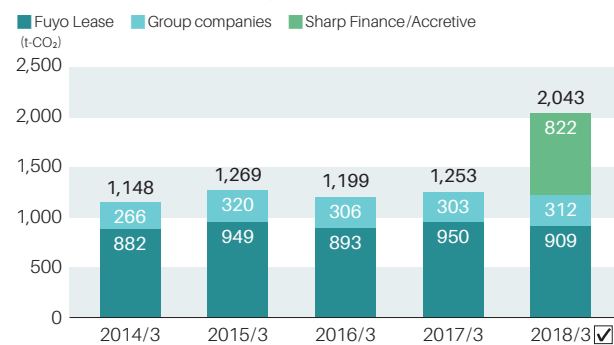


Total CO<sub>2</sub> Emissions (Scope 1, 2)<sup>\*4\*</sup>



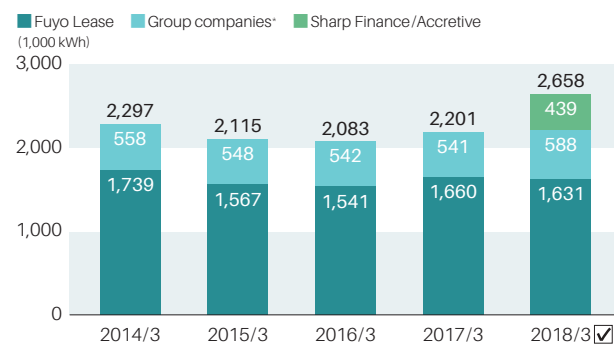
<sup>\*4</sup> Total CO<sub>2</sub> emissions were calculated with the emission factors specified by the government based on the Ministerial Ordinance Concerning GHG emissions Associated with Business Activities of Specified Emitters (The emissions associated with electricity are calculated with the actual emission factors issued by power transmission and distribution business operators of where our regional operations and offices are located). Please note that Fuyo Lease and each Group company are not included in the specified emitters. Our scope 1 and 2 emissions were 770 t-CO<sub>2</sub> and 1,304 t-CO<sub>2</sub> respectively.

Total CO<sub>2</sub> Emissions (adjusted) (Scope 1, 2)<sup>\*5\*</sup>

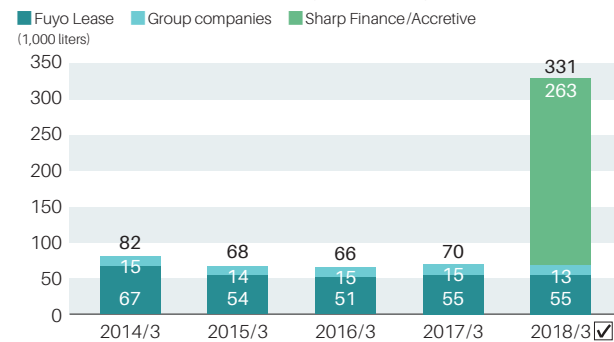


<sup>\*5</sup> Total CO<sub>2</sub> emissions (adjusted) were calculated with the emission factors specified by the government based on the Ministerial Ordinance Concerning GHG emissions Associated with Business Activities of Specified Emitters (The emissions associated with electricity are calculated based on the adjusted annual emission factors issued by power transmission and distribution business operators of where our regional operations and offices are located).

Electricity Consumption<sup>\*6</sup>



Total Gasoline Consumed by Company Vehicles<sup>\*6</sup>



<sup>\*6</sup> Data coverage: all domestic locations of Fuyo General Lease. All domestic locations of Fuyo Auto Lease, Fuyo Network Service, Fuyo Lease Sales, FGL Service, and Aqua Art as for the Group companies. Figures for Sharp Finance and Accretive include all of their domestic locations. Figures of and before March 2017 do not include Sharp Finance and Accretive as their data collection began in FY 2017.

### Energy Conservation via Products and Services

We have partnered with energy-saving equipment manufacturers, construction companies, and companies in other various sectors to help customers save energy through the ESCO service and other programs. The ESCO service provides everything needed to improve energy efficiency, including technology, equipment, personnel, and funding, and achieves energy conservation without compromising a customer's current environment or convenience. As the ESCO service provider, we receive a portion of the actual energy cost savings generated through the service as compensation. In addition, we help our customers reduce costs and CO<sub>2</sub> emissions by introducing various energy saving solutions tailored to their energy usage. Examples of the solutions include energy-saving control and operational improvement for air-conditioning systems and LED lightings, and subsidized leasing.

### Promotion of Renewable Energy

As climate change risks increase, the renewable energy market continues to grow with a focus on solar, wind, biomass, small and medium hydro, and geothermal power to promote zero-carbon energy society. In 2012, Fuyo Lease launched a solar power generation business through its subsidiary. As of March 2018, we supply enough renewable energy to power about 30,000 homes by operating large-scale solar power plants (mega-solar power plants) at 30 locations throughout Japan.

We also leverage the know-how gained through our power generation business to offer a host of power generation equipment installation plans that meet a wide array of customer needs. Those include everything from large-scale power plants to rooftop solar panels of distribution warehouses and other commercial facilities, or off-grid schemes for home consumption. Along with various financing options, we introduce them to customers with the aim of taking the use of renewable energy to new heights.

## Saving the Environment through Leasing

### Basic Approach

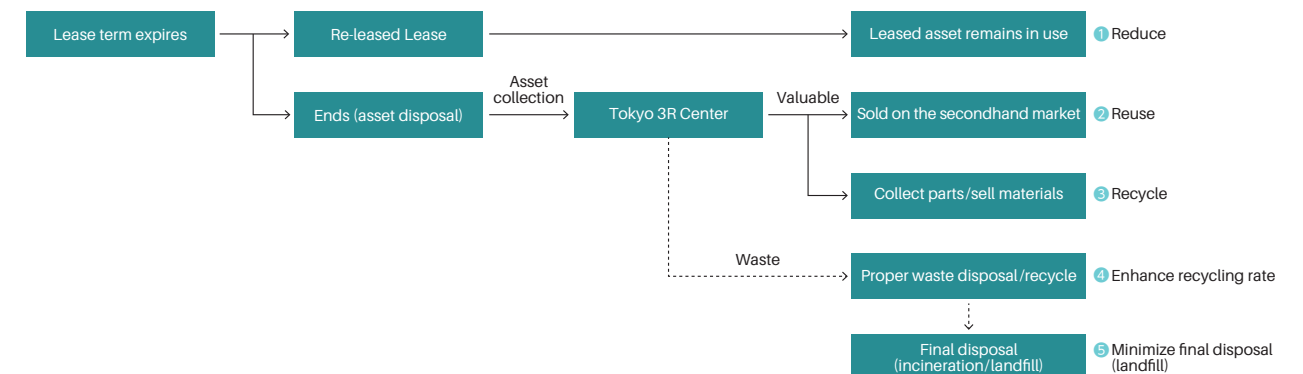
Effectively using limited resources and reducing waste as much as possible together comprise one of the most important steps towards building a sustainable society.

The Fuyo Lease Group provides products and services that contribute to protecting the global environment through its business activities, including leasing, renting, and financing, while promoting the reuse and recycling of leased assets after their leases expire to minimize waste and ensure their proper disposal.

### Saving Resources and Reducing Waste through the 3Rs

Guided by our environmental policy, we actively work on the 3Rs (Reduce, Reuse, and Recycle) for leased assets once a lease ends. At the Tokyo 3R Center, which

#### 3Rs initiatives for leased assets after their leases expire



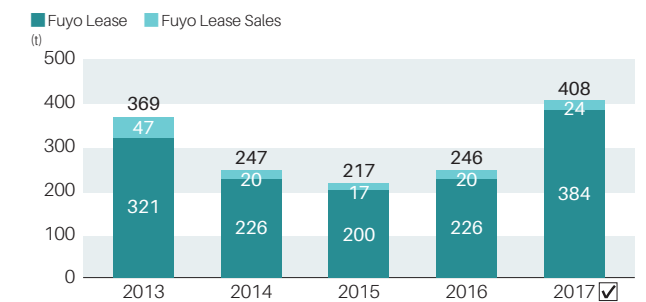
is responsible for reusing and recycling leased assets after their leases expire, we reuse and recycle not only items leased by our corporate group but also used assets we have bought from other companies.

### Appropriate Disposal of Waste

When disposing of leased assets that can no longer be used after their leases expire, we take the utmost care to ensure they do not pollute the environment. Going above and beyond simply complying with the Waste Management and Public Cleansing Act (Waste Management Act), as a waste generating business operator we keep close track of every piece of waste we dispose of through an electronic manifest<sup>\*7</sup> system. We conduct on-site inspections of waste disposal contractors according to an annual schedule.

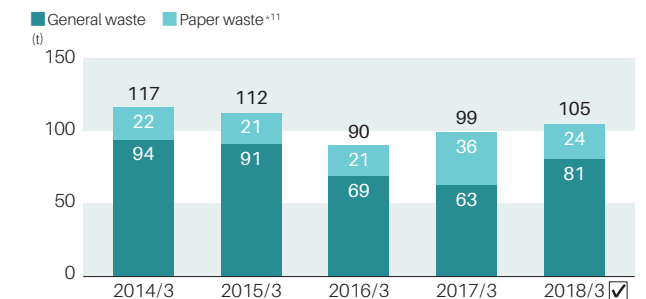
<sup>\*7</sup> Manifest: A document or electronic data that verifies proper disposal of waste. Waste generating business operators are required by the Waste Management Act to issue a manifest or collect it (from subcontractors), and register to confirm proper disposal of waste.

Volume of Industrial Waste Generated<sup>\*8\*</sup>



<sup>\*8</sup> Data coverage: all domestic locations of Fuyo General Lease and Fuyo Lease Sales.  
<sup>\*9</sup> The volume of industrial wastes is calculated by the calendar year.

Volume of Waste Generated<sup>\*10</sup>



<sup>\*10</sup> Data coverage: Fuyo General Lease/Headquarter (including FGL Service)  
<sup>\*11</sup> All volume of waste paper is dissolution-processed.



## Human Resource Management Strategies for Enhancing Value

### Basic Approach

In today's society where values and needs are becoming more diverse, the Fuyo Lease Group believes that diversity is a key growth driver. Attracting and retaining highly talented people regardless of their sex, age, and other factors is crucial for continually creating new value. As we work to enhance the value of our corporate group, we focus on developing human resources with emphasis on making our company a better workplace, so that all of our employees can realize their full potential as they hone their professional skills.

We encourage respect for human rights in accordance with international norms such as the Universal Declaration of Human Rights, and embrace the Code of Corporate Conduct that has zero tolerance for discrimination on the basis of sex, nationality, race, ethnicity, religion, disability, etc.

### Activities towards Creating a Better Workplace

Working with the goal of making people's jobs more challenging and fulfilling, we are striving to build a better working environment where all employees can find their own optimal work-life balance and enhance the quality of both life and work through maintaining and improving their health, gaining new knowledge and experiences, attaining personal growth etc.

Since the Act on Advancement of Measures to Support Raising Next-Generation Children went into effect in 2005, we have been working to create a better job environment for working parents by developing a "general employer action plan" as required by the law. In FY 2017, we were recognized for our outstanding achievement in implementing these initiatives and received the Platinum Kurumin, a special certification awarded to selected companies that have already received Kurumin certification given to employers who provide support to employees with young children.

We have been implementing work-style reforms since FY 2014. Not only do we ensure legal compliance through programs designed to reduce long working hours, including programs such as the Refresh Days (leave-work-early days), we have also introduced a staggered hours program, which offers four different work schedules with earlier and later starting and finishing times so employees can choose the

schedule most suitable to their needs, for activities such as childcare or family nursing care duties, as well as their lifestyles.

At Fuyo Lease, we have a working group that includes a cross-section of employees to ensure that we can create



a better workplace from our workers' perspective. +Friday (Plus Friday), introduced in February 2017, is one of the programs born from this group. This program allows employees to choose one Friday each month when they can end their workday early at three o'clock in the afternoon. The staggered hours program introduced in May 2017 was also born out of the working group's discussions.

### Action Plan: Stage 7 (April 2017 - March 2022)

Description	<ul style="list-style-type: none"> <li>Promoting independent and active working styles</li> <li>Encouraging male employees to take a more active role in parenting</li> <li>Reducing total working hours</li> <li>Offering diverse career path options</li> </ul>
Numerical targets	<ul style="list-style-type: none"> <li>Percentage of male employees who take childcare leave etc.: 80% or more April 2021 - March 2022 (1 year)</li> <li>Percentage of employees who take annual paid leave: 70% or more<sup>*12</sup> April 2020 - March 2021 (1 year)</li> </ul>

<sup>\*12</sup> The target has been revised to be "80% or more."

### Empowering Women in the Workplace

We see empowering women in the workplace as a management priority and are taking steps towards creating a work environment where women can fulfill their potential and play a more active role than ever. Our initiatives for empowering women focus on four specific areas -- recruitment, human resources development, organizational culture reforms, and work-life balance. In 2014, we set the goals of increasing the employment ratio of new female graduates to 30% and making the percentage of women in managerial positions one-and-a-half times more than it was in 2014 (i.e. 40 women) by 2020. We have stepped up activities for hiring women and have established clear training guidelines, while providing female managerial candidates with career development support and more. The Diversity Promotion Office opened its doors in October 2017 to bolster our organizational capability for creating a workplace where all employees can realize their full potential, regardless of gender.

#### Employee Data<sup>\*13</sup>

	2014/3	2015/3	2016/3	2017/3	2018/3
Retention rate of employees after 3 years (%)	87.5	94.7	100 ☑	—	—
Turn over rate (%) <sup>*14</sup>	1.3	1.1	0.8	1.0	1.9 ☑
Rate of paid leave taken (%)	59.1	58.5	61.9	68.9	68.0 ☑
Number of female managers (persons)	25	25	27	29	32 ☑
Employment rate of the disabled (%)	2.0	2.0	1.8	2.2	2.3 ☑

<sup>\*13</sup> Scope: Fuyo Lease (non-consolidated)

<sup>\*14</sup> Turnover ratio includes separations due to personal reasons, reaching retirement age, and other reasons including transfer. It does not include separations of re-employed workers due to the expiration of their contract terms.

### Human Resource Development

At the Fuyo Lease Group, our basic hiring policy is to keep the selection process fair, impartial, unbiased, and non-discriminatory. We also provide opportunities for all employees to independently achieve personal growth, while respecting each other's personality.

In FY 2017, we partially revised the performance evaluation system so that we can better understand the roles and abilities required of each employee in evaluating their performance as our operations become more diverse and complex. We also work to enhance communication between employees and evaluators, as well as make the evaluation process more transparent and satisfying with the aim of seeing that it is fairer and more equitable.

Because the leasing business calls for an encyclopedic knowledge of laws, taxes, accounting, finance, products, industry trends, and more, we focus on equipping employees with top-notch professional skills. In order to become a company that customers will choose, it is also essential to develop a resilient workforce consisting of individuals with the ability to think, act, and solve problems on their own. We value employees' willingness to develop their professional skills, and, to this end, we provide employees with practical on-the-job-training (OJT) at their workplaces, as well as off-the-job-training (Off-JT), including group training and personal development support. In FY 2017, we spent an average of 34.5 hours per employee on education and training.

## Community Engagement

### Basic Approach

Recognizing close ties with its neighbors, the Fuyo Lease Group hopes to grow together with them, while being a good corporate citizen who contributes to

the development of local communities. The Group has formulated a CSR policy and is conducting CSR activities that make best use of its know-how, products, and services focusing on the environment, community engagement, academia and research, and assistance to disaster-affected areas.

### Activities: Case Example

Every year, Fuyo Lease and the Group company, Aqua Art, team up with students majoring in art and design at Tokyo Metropolitan Kogei High School and Tokyo Designer Gakuin College located near the Fuyo Lease head office to create interior aquarium designs and decorations, some of which are displayed at commercial facilities.

In fiscal 2018, we hosted an exhibition jointly with Tokyo Dome Hotel. A selection of the six aquariums were displayed in the lobby and elsewhere in the hotel during the special event that ran from July 26 through August 5. Welcoming the Tokyo Communication Arts College as a new participant, the event provided a great opportunity for students to have fun designing aquariums, while at the same time letting hotel guests and visitors know about interior aquarium.



Students from a creation team and their work exhibited at the hotel lobby

### VOICE

Regarding diversity as the driver of growth, Fuyo Lease has worked on a range of activities related to the promotion of diversity in the past, and we established the Diversity Planning & Promotion Office in October 2017 to further promote diversity. We will promote initiatives aiming at becoming a company where it is easy for diverse human resources to work regardless of gender differences and nationality, and which can support participation and advancement.

In FY 2017, we organized the Balancing Work with Nursing Care Seminar and the Balancing Work with Childcare Seminar in order to support employees providing nursing care for family members and to promote a balance between work and caring for children.

Going forward, we will continue striving to promote diversity so that we can meet the diversifying needs of customers by achieving flexible work styles for individual employees and maximizing the use of each of their abilities.

**Yukiko Kurosawa**

General Manager, Diversity Planning & Promotion Office  
General Affairs Division





# Corporate Governance

## Our Approach to Corporate Governance

The Fuyo Lease Group places strong emphasis on creating and maintaining relationships with all stakeholders, including shareholders, customers, employees, and local communities. We believe that the fundamental objective of corporate governance is to perform business activities with sincerity and fairness in line with our management philosophy.

To achieve sustainable growth and increase corporate value over the medium to long term, we have established our own Corporate Governance Guidelines which align with the purpose and spirit of the Japan's Corporate Governance Code. These Guidelines serve as the foundation for our corporate governance framework, operating policies and other management policies, to which we adhere to in everything we do.

## Corporate Governance Structure

Fuyo Lease has established a Board of Corporate Auditors, which includes two outside corporate auditors who are independent from our company. In addition, in order to enhance the supervisory function of the Board of Directors, we have also appointed three independent outside directors, who provide oversight and advice on the execution of business operations from an external perspective.

Furthermore, to improve management efficiency and expedite decision-making by separating the management oversight function from the execution of operations, we have adopted the executive officer system.

## Strengthening Corporate Governance

Fuyo Lease has implemented various initiatives aimed at strengthening corporate governance.

Year	Initiative	Objective
2008	Introduced performance-based compensation and stock compensation-type stock options	To strengthen links between directors' remuneration and their performance and shareholder value
2011	Reduced the term of office of a director from two years to one year	To increase opportunities to build shareholder confidence
2015	Increased the number of independent outside directors from one to two	To strengthen the management oversight structure
	Established the Corporate Governance Guidelines	To comply with the Japanese Corporate Governance Code
	Set up the Nomination and Remuneration Advisory Committee	To ensure independence and objectivity in the decision-making process for matters such as appointments and remuneration
2016	Started analyzing and evaluating the overall effectiveness of the Board of Directors	To verify the effectiveness of the roles and functions of the Board of Directors and to make ongoing improvements

## Establishment of the Corporate Governance Guidelines

In conformity with the purpose and spirit of the Japanese Corporate Governance Code, Fuyo Lease has established our own Corporate Governance Guidelines, which provide a foundation for corporate governance framework, operating policies, etc. The Corporate Governance Guidelines set out the framework, operating policies, roles, and responsibilities of different supervisory and executive functions, in addition to our basic approach to corporate governance. To achieve sustainable growth and increase our corporate value over the medium to long term, we adhere to these guidelines in everything we do across the Fuyo Lease Group.

## Board of Directors

The Board of Directors consists of nine directors, including six inside directors and three independent outside directors. The Board of Directors deliberates and makes decisions on important management issues, as well as matters specified in laws and regulations, the Articles of Incorporation, and the Regulations governing the Board of Directors. The Board of Directors also oversees the execution of operations by Directors and Executive Officers.

In FY 2017, the Board of Directors met ten times.

## Nomination and Remuneration Advisory Committee

Fuyo Lease has set up the Nomination and Remuneration Advisory Committee under the Board of Directors in order to eliminate arbitrariness in decision-making processes and to maintain a highly transparent management structure. The committee consists of four members, including three independent outside directors and an inside director. The committee mainly deliberates on topics such as the selection of candidates for directors and corporate

auditors, remuneration of directors, determining who will be the next Chief Executive Officer, and analysis and evaluations of the overall effectiveness of the Board of Directors, and reports its findings to the Board of Directors.

## Board of Corporate Auditors

Our Board of Corporate Auditors is composed of four auditors, including two full-time, who are also independent outside corporate auditors, and two part-time auditors.

According to the audit plan formulated by the Board of Corporate Auditors, each corporate auditor audits execution of operations by directors by attending important meetings, reviewing important documents, examining operations and assets, and reviewing the audit findings of the independent accounting auditor and the internal audit department among other relevant activities. Corporate auditors closely work with the Internal Audit and Internal Control Departments to conduct audits in order to enhance audit quality.

In fiscal 2017, the Board of Corporate Auditors met eleven times.

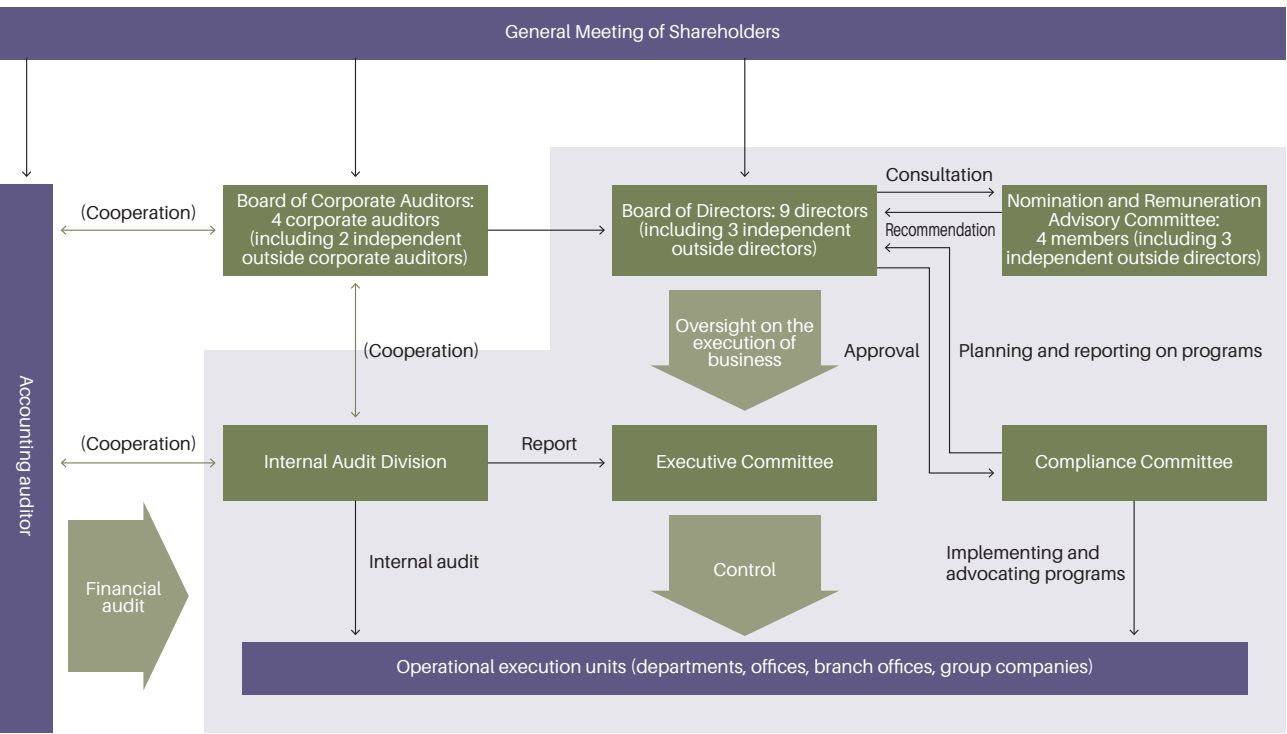
## Executive Committee

The Executive Committee is composed of Executive Officers with positions of managing executive officer or higher, the heads of the Management & Planning Division, General Affairs Division, and Business & Planning Division as well as the Presidents of affiliated companies. Full-time corporate auditors also attend meetings of the Committee on a regular basis.

As a general rule, the Executive Committee meets at least once a month to make decisions on operating activities and implementation of measures delegated to the President & CEO, and to discuss important issues concerning internal controls. Its aim is to improve the quality of management decisions and to speed up decision-making.

In fiscal 2017, the Executive Committee met nineteen times.

## Corporate Governance Structure



## Attendance at Board and Committee meetings (attendance in FY 2017 by board members, as of June 22, 2018)

Name	Position	Attendance at Board meetings
Takashi Sato	Director and Chairman (Representative Director)	Board of Directors : 10/10
Yasunori Tsujita	President and Chief Executive Officer (Representative Director)	Board of Directors : 10/10 Nomination and Remuneration Advisory Committee : 4/4
Shozo Kazama	Director and Deputy President (Representative Director)	Board of Directors : 10/10
Shinya Aizawa	Senior Managing Director	Board of Directors : 10/10
Yoriaki Takebe	Senior Managing Director	- (Elected in June 22, 2018)
Soichi Hosoi	Managing Director	Board of Directors : 10/10
Nobuya Minami	Director	Board of Directors : 10/10 Nomination and Remuneration Advisory Committee : 4/4
Seiichi Isshiki	Director	Board of Directors : 10/10 Nomination and Remuneration Advisory Committee : 4/4
Hideo Ichikawa	Director	- (Elected in June 22, 2018)
Kiyoyuki Takashima	Full-Time Corporate Auditor	Board of Directors : 10/10 Board of Corporate Auditors : 11/11
Shigeru Suda	Full-Time Corporate Auditor	Board of Directors : 8/8 Board of Corporate Auditors : 8/8 (Elected in June 23, 2017)
Teruhiko Numano	Outside Corporate Auditor	Board of Directors : 10/10 Board of Corporate Auditors : 11/11
Yoshihiro Jinnai	Outside Corporate Auditor	Board of Directors : 7/8 Board of Corporate Auditors : 7/8 (Elected in June 23, 2017)

Compliance Committee

Fuyo Lease has set up a Compliance Committee chaired by the Chief Compliance Officer. The heads of relevant planning and administrative departments, representative directors of subsidiaries in Japan, and heads of overseas subsidiaries’ relevant departments serve as full-time committee members. The administrative functions of the committee are carried out by the Legal & Compliance Division. The Compliance Committee meets quarterly to discuss and decide issues related to compliance systems and implementing annual compliance plans. Based on its discussions and decisions, the Committee submits reports and recommendations to the Executive Committee and the Board of Directors, and takes measures to develop and enhance compliance systems.

Internal Audit

The internal audit function is administered by the Internal Audit Division (staffed by four employees). The Internal Audit Division conducts operational audits of all departments, offices, branch offices, and major subsidiaries, and plays a part in ensuring that internal controls are functioning in addition to examining their effectiveness. The results of these audits of operations are reported to the President & CEO and corporate auditors every time they are conducted and periodically to the Board of Directors and the Executive Committee.

Analysis and Evaluation of the Effectiveness of the Board of Directors

At Fuyo Lease, we analyze and evaluate the overall effectiveness of the Board of Directors every year. The Board of Directors makes further efforts to enhance its functions in the light of the results of the analysis and evaluation with the aim of continually improving its effectiveness.

The results of the analysis and evaluation for fiscal 2017 are as follows.

Evaluation method

We conducted a questionnaire survey among all Directors and corporate auditors, as well as interviews with them on an as needed basis. Following the discussions and recommendations by the Nomination and Remuneration Advisory Committee, which consists mainly of independent outside directors and assisted by the corporate lawyer, the Board of Directors carried out the analysis and evaluation of the results.

Results

While the Board of Directors met all evaluation criteria, including size, composition, functions and roles, as well as operation, and was found to be effective, we concluded that we must still steadily implement measures to improve the functions of the Board of Directors, make those activities part of our daily operations, and continually review the Board’s functions.

Progress on issue identified last fiscal year

Last fiscal year we found that the Board of Directors needed to make further efforts to promote more active discussions and to take a closer look at matters discussed through activities such as reviewing information to be included in documents. In response, we added supplementary material to the Board of Directors meeting documents in August 2017, and confirmed that as a result of this the effectiveness of the Board was improved.

Newly identified issues

We found that, in addition to appointing more outside directors and auditors from different backgrounds, the Board of Directors needs to bring more perspectives to the boardroom, narrow down discussion points, and enhance reporting on risk management and corporate governance trends.

Director Qualifications and Nomination Procedures

1. Policy and procedures for nominating director and corporate auditor candidates

Our Corporate Governance Guidelines sets forth the qualifications of directors and corporate auditors, as well as the procedures for nominating candidates for these positions. Under these guidelines, a director or corporate auditor candidate must possess an outstanding personality, a wide breadth of knowledge, abilities, experience, and high ethical standards. The guidelines also specifies that candidates be nominated regardless of factors such as sex, age, and nationality, with the aim of achieving greater diversity. In order to ensure fairness and transparency in the nomination process, the selection of candidates for directors and corporate auditors is finalized by the Board of Directors following a discussion by the Nomination and Remuneration Advisory Committee. Selection of corporate auditor candidates is finalized by the Board of Directors upon consent of the Board of Corporate Auditors.

2. Independence standards for outside directors and outside corporate auditors

Independence standards for outside directors and outside corporate auditors are stipulated in the Corporate Governance Guidelines in line with the independence standards prescribed in the Guidelines Concerning Listing Management, etc. established by the Tokyo Stock Exchange.

Board Remuneration

Fuyo Lease believes that enhancing the link between shareholder value and remuneration of the Board of Directors will boost their morale and motivate them to improve our financial performance and share price, leading us towards our goals of ensuring stable performance and growth, while enhancing our corporate value. That is why we have introduced variable pay programs such as performance-based compensation and stock compensation in addition to a base salary, which is provided as fixed compensation.

We determine base salaries in the light of our employees’ salaries, average market salaries for directors, our financial standing, and other relevant factors. The

actual amount of performance-based compensation depends on our consolidated performance, such as operating assets and ordinary profit, as well as an individual director’s contribution to our financial performance, among other factors.

The ratio between the base salary and the variable pay plan is set at 1 to 0.6 based on the average compensation ratio used by listed companies. The variable pay plan consists of performance-based compensation and stock compensation, and the ratio between the two is set at 5 to 7 in the light of the characteristics of the revenue structure of the leasing business to provide higher incentives on a medium- to long-term basis.

The introduction of the Board Benefit Trust (BBT) was approved at the Annual General Meeting in June 2018, in order to motivate board members to help boost our company’s performance and corporate value over the medium to long term by making the link between their compensation and our equity value even clearer, so they share not only the benefits of a higher share price but also the risk of a decline in value with shareholders.

Directors’ compensation is discussed by the Nomination and Remuneration Advisory Committee in order to ensure transparency and objectivity in determining the amounts. Compensation for outside directors and corporate auditors consists only of fixed compensation because short-term incentives and equity compensation are not really applicable.

Internal Control System

Fuyo Lease has instituted an internal control system across our corporate group to ensure compliance with all relevant laws and the articles of incorporation, capability to respond to various risks in a timely and appropriate manner, and to ensure transparency and efficiency of operations, in addition to ensuring the reliability of financial reports, etc.

Our Internal Audit Department, corporate auditors, and independent auditor share information about audit findings to monitor the status and operation of the internal control system. The status of the internal control system operation is reported to the Board of Directors during a meeting held at the end of each fiscal year, and continuous improvements are made in the light of the audit findings.

Roles expected of outside directors and outside corporate auditors and reasons for appointment

Name	Reason for appointment
Nobuya Minami	Having served as the president of Tokyo Electric Power Company, Incorporated (until his retirement in 2002), Nobuya Minami has held numerous important positions during his career, including outside corporate officer of listed companies and chairman of other incorporated organizations. We believe that he will help enhance the effectiveness of the decision-making and oversight functions of the Board of Directors from a position that is independent from our company’s management by drawing upon his extensive experience and wealth of knowledge.
Seiichi Isshiki	Seiichi Isshiki has served as representative director and president of JX Nippon Oil & Energy Corporation, director of JX Holdings, Inc., and president of ENEOS Celltech Co., Ltd. We believe that he will help enhance the effectiveness of the decision-making and oversight functions of the Board of Directors from a position that is independent from our company’s management by drawing on his extensive experience and wealth of knowledge.
Hideo Ichikawa	Currently serving as representative director and chairman of the board and formerly representative director and president at Showa Denko K.K., Hideo Ichikawa has years of experience in corporate management. We believe that he will help enhance the effectiveness of the decision-making and oversight functions of the Board of Directors from a position that is independent from our company’s management by drawing upon his extensive experience and wealth of knowledge.
Teruhiko Numano	We believe that Teruhiko Numano will conduct audits appropriately from an objective standpoint based on the expertise he has gained as a jurist and a lawyer and provide us with highly professional legal advice. He is also well versed in business litigation cases as a lawyer and has considerable financial and accounting knowledge.
Yoshihiro Jinnai	Having served as senior managing executive director at Sompo Japan Insurance Inc. and president of Audatex Japan (now Cognivision, Inc.), Yoshihiro Jinnai should be able to conduct audits appropriately from an objective standpoint by drawing upon his extensive experience and wealth of knowledge.

Board Remunerations

Officer classification	Total amount (millions of yen)	Remuneration amount (millions of yen)			Number of directors
		Basic remuneration	Stock-based remuneration (Stock option)	Performance-linked remuneration (Annual bonuses)	
Directors (excl. Outside Directors)	289	188	64	37	6
Board of Corporate Auditors members (excl. Outside Auditors)	44	44	—	—	3
Outside Directors	39	39	—	—	5

Note: 1. The above remuneration amount and number of directors include those who resigned by the end of FY 2017.  
2. The above performance-linked remuneration comprises the amount, which shall be recorded in the fiscal year.  
3. The above Stock-based remuneration comprises the amount calculated on the basis of a fair value of stock warrant issued and shall be recorded in the fiscal year.  
4. At the 39th Annual General Meeting of Shareholders held on June 25, 2008, Fuyo Lease approved the resolution to pay accrued retirement benefits associated with the abolishment of the retirement benefits system for directors. The estimated amount as of the end of the fiscal year is 9 million yen (outside directors). The payment is made at the time of their retirement.

Board Members (As of June 26, 2018)

<b>Takashi Sato</b> Director and Chairman (Representative Director)			
Apr. 1977 Mar. 2006	Joined The Fuji Bank, Limited. Managing Executive Officer of Mizuho Corporate Bank, Ltd. (retired in March 2009)	June 2009	Director and Deputy President Deputy President and Executive Officer Representative Director
May 2009	Deputy President and Executive Officer of the Company	Nov. 2009	President and Chief Executive Officer
		Apr. 2016	President and Executive Officer Director and Chairman To present

<b>Yasunori Tsujita</b> President and Chief Executive Officer (Representative Director), Nomination and Remuneration Advisory Committee Chairman			
Apr. 1981 Apr. 2013	Joined The Fuji Bank, Limited. Deputy President-Executive Officer of Mizuho Financial Group, Inc. (until June 2013) Deputy President-Executive Officer of Mizuho Bank, Ltd. (until November 2013) Deputy President-Executive Officer of Mizuho Corporate Bank, Ltd. (until July 2013) Managing Executive Officer of Mizuho Trust & Banking Co., Ltd. (until April 2014) Managing Executive Officer of Mizuho Securities Co., Ltd. (until April 2014)	Nov. 2013	Deputy President-Executive Officer, Member of the Board of Directors of Mizuho Bank, Ltd. (until March 2015)
		June 2014	Member of the Board of Directors and Deputy President & Executive Officer (Representative Executive Officer) of Mizuho Financial Group, Inc. (until March 2015)
		Apr. 2015	Member of the Board of Directors (retired in June 2015)
		May 2015	Deputy President and Executive Officer of the Company
June 2013	Deputy President-Executive Officer, Member of the Board of Directors (Representative Director) of Mizuho Financial Group, Inc. (until June 2014)	June 2015	Director and Deputy President Deputy President and Executive Officer Representative Director
		Apr. 2016	President and Chief Executive Officer President and Executive Officer To present

<b>Shozo Kazama</b> Director and Deputy President (Representative Director)			
Apr. 1979 Mar. 2006	Joined The Fuji Bank, Limited Executive Officer, General Manager of Shinbashi Branch of Mizuho Bank, Ltd.	June 2010	Senior Managing Director and Senior Managing Executive Officer
Apr. 2009	Managing Executive Officer, General Manager of Business Unit of Mizuho Research Institute Ltd. (retired in April 2010)	Apr. 2014 Apr. 2018	Representative Director Director and Deputy President Deputy President and Executive Officer To present
May 2010	Senior Managing Executive Officer of the Company		

<b>Shinya Aizawa</b> Senior Managing Director Chairman & CEO of Fuyo General Lease (USA) Inc., Chairman of Fuyo General Lease (HK) Limited, Chairman and Representative Director of Fuyo General Lease (China) Co., Ltd., Director of FGL Aircraft Ireland Limited, Chairman/Director of Fuyo Aviation Capital Europe Limited			
Apr. 1982 Apr. 2010	Joined The Fuji Bank, Limited Executive Officer, General Manager of Internal Audit Division of Mizuho Corporate Bank, Ltd. (retired in April 2011)	June 2011	Managing Director and Managing Executive Officer
		Apr. 2018	Senior Managing Director and Senior Managing Executive Officer To present
May 2011	Managing Executive Officer of the Company		

<b>Yoriaki Takebe</b> Senior Managing Executive Officer			
Apr. 1978 Apr. 2005	Joined The Yasuda Trust & Banking Co., Ltd. Executive Officer, General Manager of Real Estate Planning Division of Mizuho Trust & Banking Co., Ltd.	Apr. 2011	Executive Officer, General Manager of Business Promotion Division I of the Company
		Apr. 2013 Apr. 2018	Managing Executive Officer Senior Managing Executive Officer
June 2009	Executive Managing Director (retired in April 2011)	June 2018	Senior Managing Director To present

Soichi Hosoi Managing Director

Apr. 1983 Apr. 2013	Joined The Fuji Bank, Limited Executive Officer, General Manager of Financial Planning Division of Mizuho Financial Group, Inc. (retired in April 2014) Executive Officer, General Manager of Financial Planning Division of Mizuho Bank, Ltd. (retired in April 2014)	Apr. 2014 June 2014	Executive Officer, General Manager of Financial Planning Division of Mizuho Corporate Bank, Ltd. (until July 2013) Managing Executive Officer of the Company Managing Director and Managing Executive Officer To present
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<b>Nobuya Minami</b> Outside Director, Nomination and Remuneration Advisory Committee member President of Global Industrial and Social Progress Research Institute Outside Audit & Supervisory Board Member of Fuji Media Holdings, Inc.			
Apr. 1958 June 1999	Joined Tokyo Electric Power Company, Incorporated Director and President	Oct. 2002 June 2005	Adviser (retired in March 2012) Director (part-time) of the Company To present

<b>Seiichi Isshiki</b> Outside Director, Nomination and Remuneration Advisory Committee member			
Apr. 1972 June 2012	Joined Nippon Oil Corporation Representative Director, President of JX Nippon Oil & Energy Corporation Director of JX Holdings, Inc.	June 2014 June 2015	Advisor of JX Nippon Oil & Energy Corporation (currently JXTG Nippon Oil & Energy Corporation) (retired in June 2016) Director (part-time) of the Company To present

<b>Hideo Ichikawa</b> Outside Director, Nomination and Remuneration Advisory Committee member Representative Director, Chairman of the Board of Showa Denko K.K.			
Apr. 1975 Jan. 2011	Joined Showa Denko K.K. Representative Director, President, Corporate Officer and Chief Executive Officer (CEO)	Jan. 2017 June 2018	Representative Director, Chairman of the Board (current position) Director (part-time) of the Company To present

<b>Kiyoyuki Takashima</b> Full-time Audit & Supervisory Board Member			
Apr. 1979 Apr. 2011 Apr. 2012	Joined the Company General Manager of Shinjuku Branch Executive Officer, General Manager of Shinjuku Branch	Oct. 2014 June 2016	Executive Officer, General Manager of Tokyo Business Division III Full-time Audit & Supervisory Board Member of the Company To present

<b>Shigeru Suda</b> Full-time Audit & Supervisory Board Member			
Apr. 1981 Aug. 1999 Mar. 2009	Joined the Company General Manager of International Division General Manager of Internal Audit Division	June 2017	Full-time Audit & Supervisory Board Member of the Company To present

<b>Teruhiko Numano</b> Part-time Audit & Supervisory Board Member			
Apr. 1973	Registered as attorney-at-law Assistant professor, Nihon University College of Law	Sep. 2005	Vice-President of Nihon University, and Dean of Nihon University College of Law
July 2003	Trustee of Nihon University, and Dean of Nihon University College of Law	July 2006 Aug. 2006	Vice-President of Nihon University Retired from the position as Vice-President of Nihon University
June 2005	Part-time Audit & Supervisory Board Member of the Company To present	Apr. 2011	Retired from professorship at Nihon University College of Law

<b>Yoshihiro Jinnai</b> Part-time Audit & Supervisory Board Member			
Oct. 1978 Apr. 2010	Joined The Yasuda Fire and Marine Insurance Co., Ltd. Associate Director, General Manager, 1st Production Department	Mar. 2013	Retired from the position as Managing Executive Officer
Apr. 2011	Executive Officer, General Manager, Hokkaido Regional Headquarters	June 2013	President, Japan Audatex Co. Ltd. (now “Cognivision Inc.”) until the retirement in June 2017
Apr. 2012	Managing Executive Officer, General Manager, Hokkaido Regional Headquarters	June 2017	Part-time Audit & Supervisory Board Member of the Company To present



# Risk Management and Compliance System

## Risk Management

### Our Approach to Risk Management and Risk Management System

As stipulated in the Fuyo Lease Group risk management regulations, we have established a risk management system at our locations across the globe in order to manage risks based on their particular risk characteristics and importance. Risks to be managed are categorized into credit, market (such as interest rate fluctuation risk), liquidity (such as cash flow risk), administrative, system, legal, human, reputation, and other risks (including ESG risks). Each type of risk is managed by a designated department.

The Board of Directors and the Executive Committee receives updates on risk management, discusses risk management policies according to the characteristics and importance of each risk, and evaluates the effectiveness of risk management. The Asset and Liability Management (ALM) Committee meets on a regular basis to appropriately manage and control market and liquidity risks. These efforts enable us to continually improve our risk management system.

In addition, we have a system in place for responding to emergencies. In the event of a large-scale disaster or emergency, the emergency response headquarters under the direction of the president will take measures necessary for ensuring safety and continuity of our operations in accordance with the Emergency Preparedness Regulations.

## Risk Factors in Business Operations

Listed below are the main factors that could pose a risk to the development of the Group's business and have a significant impact on the decisions of investors.

The forward-looking statements here represent the judgment of the Group's management as of the date that its annual securities report was submitted (June 26, 2018). The following is not an exhaustive list of all the risks that could affect investment in the Company's shares.

### 1 Impact of Capital Expenditure Trends and Other Changes on Business Results

The lease transactions and installment sales handled by the Fuyo Lease Group are two means by which customers finance capital expenditures, and there is generally a positive correlation between the amount of private sector capital expenditure and lease capital expenditure.

The Fuyo Lease Group is focusing on expanding its customer base and increasing contracts by making various

proposals that satisfy customers' diverse and latent needs. Nevertheless, the Group's business results could be affected by trends in corporate capital expenditure.

### 2 Impact of Credit Risk on Business Results

The business of the Fuyo Lease Group involves extending credit to counterparties over the medium to long term, with lease agreements averaging around five years. Consequently, there is a risk that difficulty will arise in collecting lease payments from a counterparty that files for bankruptcy or experiences other serious issues during the leasing period.

To minimize potential losses associated with credit risk, the Fuyo Lease Group quantitatively assesses and monitors credit risk in its portfolio while working to maintain and improve the soundness of assets in addition to screening and monitoring the creditworthiness of individual counterparties. The Group also conducts self-assessments of its assets in accordance with standards applied by banks and other financial institutions based on Industry Audit Committee Report No. 19, "Temporary Treatment for Accounting and Auditing of Application of the Accounting Standards for Financial Instruments in the Leasing Industry," issued by the Japanese Institute of Certified Public Accountants (JICPA). Accordingly, Fuyo Lease sets aside an allowance for doubtful receivables in its balance sheets, for which it calculates an amount of estimated losses based on bad debts recorded in previous financial years under a general allowance as well as an amount of estimated uncollectable payments of individual counterparties under specific allowances for doubtful receivables and borrowers in bankruptcy or reorganization. The Group also monitors the creditworthiness of a specified group of large-lot borrowers and reports the results periodically to management.

Nevertheless, depending on future economic trends, newly arising bad debts caused by worsening creditworthiness of counterparties could adversely impact the Group's business results.

### 3 Impact of Changes in factors such as Interest Rates, Exchange Rates and Share Prices, and Financing on Business Results

The Fuyo Lease Group procures funds to purchase properties for leasing or for installment sales to customers and to purchase the business assets owned by the Group mainly from financial institutions and markets. Moreover, in addition to owning foreign currency-denominated assets such as aircraft, the Group carries out investment through securities investments and funds.

The Fuyo Lease Group not only monitors the market conditions, but also strives to manage risks appropriately by constantly monitoring the gap between asset management and financing, managing risks associated with interest rate fluctuations (market risk), and holding Asset-Liability

Management Committee meetings, where policies on future funding and other activities are discussed and deliberated. Because of its sound financial standing, the Company has obtained good ratings from multiple credit rating agencies.

Nevertheless, future interest rate, exchange rate, share price and financing trends could adversely impact the Group's business results. Moreover, if a rating agency were to lower the Company's rating, it would be difficult for the Company to procure necessary funds in appropriate ways, as access to commercial paper and other preferred financing methods would be limited. In such an event, the Company may have to borrow from banks at higher interest rates than would normally apply, which could adversely affect the Fuyo Lease Group's business results.

### 4 Competitive Environment in the Leasing Industry

The various businesses in which the Fuyo Lease Group is engaged, and the leasing business in particular, are exposed to intense competition that includes financial institutions in addition to the leasing industry.

The Fuyo Lease Group endeavors to differentiate itself from the competition and enhance its competitiveness by strengthening its ability to deliver value-added services that contribute to greater convenience for customers. However, intensification in competition could have an adverse effect on the Group's business results.

### 5 Impact of Changes in Regulatory Systems on Business Results

The Fuyo Lease Group operates its business activities based on current laws, tax regulations, accounting standards, and other regulatory systems. The Group's business results could therefore be affected by any significant future changes in these systems.

### 6 Risks Related to Strategic Partnerships and Corporate Acquisitions

The Fuyo Lease Group may form strategic partnerships with other companies, acquire other companies, or undertake related actions to expand operations and achieve business growth. While management exhaustively examines the implications of forming a strategic partnership or acquiring another company, if business activities do not proceed as originally expected following the partnership or acquisition due to changes in the operating environment or other factors, the Group's business results could be adversely affected.

### 7 Risks from Natural Disasters or Other Causes

The Fuyo Lease Group has established various measures to ensure business continuity as well as life and safety in times of emergency, such as disasters, accidents, and infectious disease epidemics. However, unforeseen circumstances, such as damage to key social infrastructure, could restrict the Group's business activities and affect its business results.

### 8 Other Business Risks

The Fuyo Lease Group faces a number of business risks other than those listed above. The risks include administrative risk resulting from inadequate administrative processing, systems risk caused by breakdowns, malfunction, or other issues involving computer systems due to cyberattacks, and human risk that includes difficulties in securing and developing the necessary human resources. They also include asset and residual value risk, meaning the risk of a decline in the value of owned assets such as real estate or the residual value of leased assets becoming lower than initial assessments. Moreover, compliance risk could materialize if failure to comply with laws and regulations or social norms leads to a loss of social credibility. There is also country risk related to the political and economic environment in the overseas countries where the Fuyo Lease Group has expanded its business operations. In addition, revenues from electricity sales in the Group's mega solar business could fall below projections due to unfavorable weather conditions.

## Compliance System

### Our Approach to Compliance and Compliance System

At the Fuyo Lease Group, ensuring compliance is a fundamental principle of management. We work to strengthen and enhance our compliance system, which enables us to operate with integrity and fairness by conforming to relevant social norms, while strictly complying with all laws and regulations.

We promote compliance throughout the Group by stipulating various regulations, procedures, and manuals, conducting compliance education, and enhancing the whistleblower system on the basis of the Fuyo General Lease Group's Code of Corporate Conduct. In order to maintain and further improve our compliance systems, we implement and carry out compliance programs every fiscal year. Issues associated with the compliance programs are discussed at the Compliance Committee and the Executive Committee before being submitted to the Board of Directors for approval. Findings and progress of the programs are reported to the Board of Directors on a semi-annual basis.

We will continue our group-wide activities including conducting compliance practices and compliance education, and streamlining our compliance systems across the Group to improve their effectiveness.

### Fuyo General Lease Group Code of Corporate Conduct

The Fuyo Lease Group has formulated the Fuyo General Lease Group Code of Corporate Conduct, which specifies the basic policies and position of the entire group as well as behavioral guidelines for the employees of the Group.

We conduct various training activities including e-learning programs to entrench the Code among our employees.



Fuyo General Lease Group Code of Corporate Conduct

Chapter 1.  
Basic Policy of Fuyo General Lease Group

- 1. Social Responsibilities and Public Missions
- 2. Implementation of Customer First Principles
- 3. Compliance with Laws and Rules
- 4. Respect for Human Rights
- 5. Blocking Relationships with Anti-social Forces

Chapter 2.  
Basic Attitude of Fuyo General Lease Group

- 1. Basic Attitude Toward Customers
- 2. Basic Attitude Toward Shareholders
- 3. Basic Attitude Toward Local Communities
- 4. Basic Attitude Toward Employees
- 5. Basic Attitude Toward Suppliers and Competitors
- 6. Basic Attitude Toward Politics and Government

Chapter 3.  
Action Guidelines for All Members of the Fuyo Lease Group

- 1. Maintaining Order in the Workplace
- 2. No Personal Use of Company Assets
- 3. Appropriate Information Management
- 4. No Conflicts of Interest
- 5. Appropriate Personal Conduct
- 6. Social Media Policy  
(Appropriate Personal Conduct 2)

\* Please refer to our website for detailed contents.

Compliance Training

The Fuyo Lease Group emphasizes employee training programs that are designed to ensure compliance. Our training programs include workplace compliance training and e-learning on insider trading regulations for all Group employees, as well as group training conducted by external instructors for directors, heads of departments, offices and branch offices, presidents of Group companies, and departmental compliance officers.\*

\* A compliance officer is appointed for each department or company to raise compliance awareness and ensure compliance.

Compliance Training (FY 2017)  
Group training and workplace training

Participant	Subject	# of session
Entry level	Introduction to compliance, Fuyo General Lease Group Code of Corporate Conduct, Unreasonable demand, Credit information, Attribute information, Fraud prevention	2
2nd year employee (Generalist track)	Information management, Personal information protection	1
5th year employee (Generalist track)	Response to accidents and troubles	1
Newly appointed head of department/branch office	Issues to be understood as responsible officers to ensure compliance	1
Newly appointed assistant manager/section chief	Prevention of power harassment, sexual and maternity harassment	2
All employees	Proper use of e-mail and postal services	1

E-Learning

Participant	Subject	# of session
Directors, head of department/office/branch office, compliance officer, entry level	Regulation for Insider Trading (E-Learning material of the Japan Exchange Group)	2
All employees	Code of Corporate Conduct and general issues on compliance	2

Whistleblower Hotline

The Fuyo Lease Group operates a whistleblower hotline. In addition to the in-house compliance hotline, we provide a consultation service desk through a cooperating law firm. Employees are informed of these services via posters placed inside the company, and portable information cards distributed to all group directors and employees. Concerned individuals can immediately seek consultation or report whenever they detect any violations of the law, the Code of Corporate Conduct and other corporate regulations, harassment cases, misconduct in information management or other potential infringements. The whistleblower systems accept anonymous reports to protect whistleblowers.

At the Fuyo Lease, full-time corporate auditors are appointed to accept reports from the Group companies, and the cooperating law firm is available for reports from the overseas affiliated companies.

In FY 2017, three reports were received through the hotline. In each case, we contacted the related parties to confirm the facts and conducted investigations promptly with due care to protect whistleblowers against detrimental treatment. For the cases confirmed to be misconducts, measures were taken according to corporate regulations, and all cases have been resolved. We will reinforce our compliance training of FY 2018 to prevent any recurrences.

Independent Assurance Report



Independent Assurance Report

To the President and CEO of Fuyo General Lease Co., Ltd.

We were engaged by Fuyo General Lease Co., Ltd. (the “Company”) to undertake a limited assurance engagement of the environmental and social performance indicators marked with ☒ (the “Indicators”) for the period from April 1, 2017 to March 31, 2018 included in its Integrated Report 2018 (the “Report”) for the fiscal year ended March 31, 2018.

The Company’s Responsibility

The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the “Company’s reporting criteria”), as described in the Report.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with the ‘International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information’ and the ‘ISAE 3410, Assurance Engagements on Greenhouse Gas Statements’ issued by the International Auditing and Assurance Standards Board. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing the Company’s responsible personnel to obtain an understanding of its policy for preparing the Report and reviewing the Company’s reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical procedures on the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company’s reporting criteria, and recalculating the Indicators.
- Visiting Fuyo Lease Sales Co., Ltd. selected on the basis of a risk analysis.
- Evaluating the overall presentation of the Indicators.

Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Report are not prepared, in all material respects, in accordance with the Company’s reporting criteria as described in the Report.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG AZSA Sustainability Co., Ltd.

KPMG AZSA Sustainability Co., Ltd.  
Tokyo, Japan  
November 13, 2018

# Financial Section

## Financial Information

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## Financial Information

### Financial Position and Management Goals

#### Financial Position and Results of Operations

In FY 2017, the fiscal year ended March 31, 2018, the Japanese economy continued a trend of moderate recovery backed by strong corporate earnings and improved employment conditions. Overseas economies also continued to experience steady economic expansion despite concern over the impact of U.S. trade policies and geopolitical risks.

According to the Japan Leasing Association, the total volume of lease transactions in Japan's leasing industry in FY 2017 came to ¥4,875.9 billion, a decrease of 2.9% compared to the previous fiscal year.

In this environment, the Fuyo Lease Group launched Frontier Expansion 2021, its new five-year Medium-term Management Plan, in April 2017. In FY 2017, the first fiscal year of the plan, the Group steadily implemented the business and management strategies outlined in the plan, aiming to be a corporate group that continually expands the frontiers of its business portfolio and clears the way to new business fields by fulfilling the corporate slogan of "Go where no one has gone before".

As a result of these efforts, newly executed contract volume in FY 2017 totaled ¥1,105,028 million, up 32.5% year on year. Consolidated operating assets (after subtracting the deferred profit on installment sales) as of March 31, 2018, totaled ¥2,168,728 million, up ¥125,163 million, or 6.1%, from the end of the previous fiscal year.

The total assets amounted to ¥2,430,838 million, up ¥130,748 million, or 5.7%, from the end of FY 2016. This increase is due to a steady increase in operating assets, which increased by ¥125,163 million from the end of the previous fiscal year to ¥2,168,728 million, an increase of 6.1% year over year.

The funding balance stood at ¥1,964,954 million, an increase of 6.2% year on year, mainly due to the issuance of unsecured straight bonds amounting to ¥20,000 million during the fiscal year under review.

On the profit front, the Company reported total revenues of ¥590,201 million, up 16.4% year on year, operating profit of ¥32,609 million, up 13.9% year on year, ordinary profit of ¥35,200 million, up 12.2% year on year, and net profit attributable to owners of parent of ¥21,944 million, up 9.9% year on year.

#### Financial Position and Results of Operations by Segment

##### Revenues, cost of sales and gross profit

###### ► Lease and Installment Sales

In FY 2017, Lease and Installment Sales segment revenues increased ¥74,828 million, or 15.4% year on year, to ¥560,298 million. Cost of sales increased by ¥71,807 million,

or 16.3% year on year, to ¥512,156 million, and gross profit in the Lease and Installment Sales segment increased by ¥3,020 million, or 6.7%, year on year, to ¥48,141 million. This result was mainly due to the steady accumulation of operating assets in finance leases and operating leases in addition to a significant contribution from the expiration of large-lot real estate leases and the increase in lump-sum recorded sales for bridge-type contracts, and the impact of these factors was similar at each profit level.

###### ► Financing

Financing segment revenues totaled ¥13,063 million in FY 2017, an increase of ¥2,783 million, or 27.1%, year on year. Cost of sales increased by ¥134 million, or 507.9%, to ¥160 million, and gross profit in the Financing segment rose ¥2,649 million, or 25.8%, to ¥12,902 million. This result was mainly due to the steady accumulation of operating assets in the Financing segment in addition to the increase in profit due to short-term revolving-type factoring at Accretive Co., Ltd., which became a consolidated subsidiary.

###### ► Other

The Other segment's revenues jumped by ¥5,588 million, or 49.7% year on year, to ¥16,839 million in FY 2017. Cost of sales increased by ¥5,775 million, or 132.6% year on year, to ¥10,130 million, and gross profit in the other segment declined by ¥187 million, or 2.7% year on year, to ¥6,708 million. This result was mainly due to the contribution from the Solution business at Accretive Co., Ltd., which became a consolidated subsidiary, and decreases in premium revenue and warranty fee revenue.

#### Operating profit, ordinary profit and profit attributable to owners of parent

In Leases, the Company steadily expanded the balance of operating assets through the accumulation of operating assets focused on real estate leases. In Financing, in addition to the consolidation of Accretive, the Company successfully accumulated assets with a focus on profitability, steadily expanding both the balance of operating assets and profits. Meanwhile, in the area of funding costs, under the current interest rate environment, the Company strived for low interest rate fund procurement. In terms of costs, such as personnel expenses, the Company managed to maintain costs largely on level with the previous fiscal year when the cost increase due to the consolidation of Accretive Co., Ltd. is excluded. There were no major changes in bad debt expenses, which were maintained at a favorable level. As a result, ordinary profit totaled ¥35,200 million, an increase of 12.2% year on year, and profit attributable to owners of parent stood at ¥21,944 million, up 9.9% year on year.

#### Net assets and equity ratio

Total shareholders' equity was ¥208,397 million, up 9.4% year on year, mainly owing to an increase in retained



earnings. As a result, total net assets came to ¥282,574 million at the end of the fiscal year under review, up ¥23,381 million, or 9.0%, compared to the end of the previous fiscal year. As a result of accumulating operating assets with an awareness of return on assets (ROA), the equity ratio improved by 0.3 percentage points from the end of the previous fiscal year to 10.2%.

## Cash Flows

The analysis of cash flows for FY 2017 is as follows.

### Cash flows from operating activities

Operating activities in FY 2017 used net cash of ¥100,667 million, a decrease compared to the net cash used of ¥154,028 million in the previous fiscal year. The major changes included an increase in profit before income taxes, increases in loss on retirement of property for lease due to disposal of property for lease and cost of property for lease sales, and increases in cash outflows for lease receivables and investment assets, loans, and purchase of lease assets due to the steady accumulation of operating assets.

### Cash flows from investing activities

Investing activities in FY 2017 used net cash of ¥9,428 million, an increase compared to the net cash used of ¥4,897 million in the previous fiscal year. The main changes included an increase in cash outflows for the purchase of assets for solar power plant projects in the Energy/Environment area, which is a strategic area, and the purchase of the shares of Marubeni Auto Investment (CANADA) Inc., which became an equity-method affiliate of the Company.

### Cash flows from financing activities

Financing activities in FY 2017 provided net cash of ¥113,549 million, a decrease compared to the net cash provided of ¥157,674 million in the previous fiscal year. The main changes in indirect financing included a decrease in proceeds from long-term loans from banks and other financial institutions, and an increase in cash outflows due to repayments of long-term loans to banks and other financial institutions. In direct funding, the main changes included an increase in proceeds from the issuance of commercial paper, a decrease in proceeds from the issuance of bonds, a decrease in cash outflows due to the redemption of bonds, and decreases in proceeds from securitized lease receivables and cash outflows from repayments for securitized lease receivables.

## Financial Policy

The Fuyo Lease Group has set a basic policy of ensuring the liquidity required for business operations and stable funding sources.

The Fuyo Lease Group raises funds through indirect financing using borrowings from financial institutions and direct financing from the markets for its working capital and equipment funding.

At the end of the fiscal year under review, indirect financing amounted to ¥1,295,388 million, up 5.0% from

the end of the previous fiscal year, mainly due to increases in short-term loans and long-term loans from banks and other financial institutions. Direct financing increased 8.5% from the end of the previous fiscal year to ¥669,565 million, mainly due to the issuance of commercial paper and bonds. As a result, the funding balance at the end of the fiscal year under review increased 6.2% from the end of the previous fiscal year to ¥1,964,954 million. The percentage of direct financing stood at 34.1%, up 0.7 points compared to the end of the previous fiscal year.

The main demand for working capital at the Fuyo Lease Group other than the purchase of lease assets and properties for installment sales to customers and the purchase of operational investment securities comes from operating expenses and selling, general and administrative expenses.

As of March 31, 2018, the balance of interest-bearing debt, including borrowings and lease obligations, stood at ¥2,000,289 million, up 5.2% from the end of fiscal year. Moreover, cash and cash equivalents at the end of the fiscal year under review totaled ¥54,062 million.

At the end of the fiscal year under review, the Company had concluded overdraft agreements and loan commitment agreements with 75 correspondent financial institutions. The balance of executed loans amounted to ¥419,867 million, and the balance of unexecuted loans stood at ¥481,836 million.

## Management policy, management strategy and objective indicators used for evaluating progress towards management goals

The Medium-term Management Plan, Frontier Expansion 2021, aims to expand the frontiers of our business portfolio through robust and sustainable growth by constantly challenging new business areas and business models.

To this end, it is important to steadily build operating assets and enhance profitability in order to achieve better performance. From this point of view, we have defined operating assets, ordinary profit, and return on assets (ROA) as our three management goals.

On the basis of steadily accumulating operating assets, both sales and profit showed favorable performance exceeding the previous year's results. In particular, ordinary profit increased 12.2% from the previous year to record a new high.

Regarding stock, we were able to steadily increase operating assets by 6.1% from the end of the previous consolidated fiscal year while improving return on assets (ROA) by 0.06 points from the end of the previous consolidated fiscal year.

Management Goals (Consolidated)	FY 2016 Result	FY 2017 Result	Interim Goal (FY 2019)	Target Value (FY 2021)
Operating Assets	¥2,043.6 bn	¥2,168.7 bn	¥2,300~¥2,400 bn	¥2,500 bn
Ordinary Profit	¥31.4 bn	¥35.2 bn	¥38~42 bn	¥50 bn
Return on assets (ROA)	1.61 %	1.67 %	1.7~1.8 %	2.0 %

# Consolidated Balance Sheets

Fuyo General Lease Co., Ltd. and Consolidated Subsidiaries  
March 31, 2018 and 2017

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Current assets:</b>			
Cash and deposits (Notes 2 and 8)	¥ 54,822	¥ 50,990	\$ 517,194
Marketable securities (Notes 2, 3 and 5)	174,036	145,343	1,641,858
Trade receivables (Notes 2 and 5):			
Installment sales	116,697	129,663	1,100,924
Financing	380,555	383,373	3,590,143
Lease	1,113,085	1,060,579	10,500,804
Other	2,396	3,189	22,613
Allowance for doubtful receivables	(2,806)	(3,519)	(26,475)
Deferred tax assets (Note 11)	2,771	2,533	26,148
Other	35,200	32,053	332,084
<b>Total current assets</b>	<b>1,876,761</b>	<b>1,804,206</b>	<b>17,705,293</b>
<b>Investments and other assets:</b>			
Investment in securities (Notes 2, 3 and 5)			
Unconsolidated subsidiaries and affiliates	14,976	8,029	141,289
Other investment in securities	79,337	75,420	748,463
Claims provable in bankruptcy, claims provable in rehabilitation and other	1,022	879	9,650
Other investments	46,505	47,928	438,729
Deferred tax assets (Note 11)	679	642	6,414
Allowance for doubtful receivables	(445)	(356)	(4,202)
<b>Total investments and other assets</b>	<b>142,076</b>	<b>132,544</b>	<b>1,340,343</b>
<b>Property and equipment, at cost less accumulated depreciation:</b>			
Leased assets (Note 4)	375,312	320,637	3,540,682
Advances on purchases of property and equipment for lease	3,504	11,730	33,062
Own-used assets (Note 4)	21,556	18,137	203,365
<b>Total property and equipment</b>	<b>400,373</b>	<b>350,505</b>	<b>3,777,109</b>
<b>Intangible fixed assets:</b>			
Software leased to customers	373	572	3,525
Goodwill	6,226	7,797	58,741
Other	4,201	4,208	39,632
<b>Total intangible fixed assets</b>	<b>10,801</b>	<b>12,578</b>	<b>101,898</b>
<b>Deferred assets:</b>			
Deferred organization expenses	0	0	3
Business commencement expenses	825	253	7,791
<b>Total deferred assets</b>	<b>826</b>	<b>254</b>	<b>7,794</b>
<b>Total assets:</b>	<b>¥ 2,430,838</b>	<b>¥ 2,300,090</b>	<b>\$ 22,932,437</b>

See accompanying notes to the consolidated financial statements.



Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Current liabilities:</b>			
Short-term borrowings (Notes 2 and 5)	¥ 959,940	¥ 897,820	\$ 9,056,044
Current portion of long-term debt (Notes 2 and 5)	271,719	245,183	2,563,396
Lease obligations (Notes 2 and 5)	34,873	49,728	328,997
Notes and accounts payable – trade	26,464	30,174	249,661
Income taxes payable	5,880	5,511	55,475
Deferred tax liabilities (Note 11)	130	134	1,233
Advances received from customers	7,772	7,704	73,325
Deferred profit on installment sales	1,625	1,812	15,334
Other	22,770	17,574	214,813
Total current liabilities	1,331,177	1,255,645	12,558,278
<b>Long-term liabilities:</b>			
Long-term debt (Notes 2 and 5)	733,293	707,928	6,917,862
Deferred tax liabilities (Note 11)	16,790	14,806	158,400
Net defined benefit liability (Note 12)	1,703	1,887	16,067
Guarantee deposits from customers	60,461	57,001	570,396
Other	4,837	3,629	45,640
Total long-term liabilities	817,086	785,252	7,708,365
Total liabilities	2,148,264	2,040,897	20,266,643
<b>Contingent liabilities</b> (Note 6)			
<b>Net assets:</b>			
<b>Shareholders' equity</b> (Notes 16, 19 and 20):			
Common stock, without par value			
Authorized: 100,000,000 shares			
Issued: 30,287,810 shares in 2018 and 2017	10,532	10,532	99,360
Capital surplus	10,416	10,416	98,269
Retained earnings	187,673	169,942	1,770,503
Less, treasury stock, at cost – 64,939 shares in 2018 and 99,224 shares in 2017	(224)	(342)	(2,119)
Total shareholders' equity	208,397	190,548	1,966,013
<b>Accumulated other comprehensive income</b>			
Net unrealized gains (losses) on available-for-sale securities	39,265	35,314	370,432
Deferred gains (losses) on hedges	(92)	(109)	(873)
Foreign currency translation adjustments	1,551	2,137	14,638
Remeasurements of defined benefit plans	(10)	(47)	(96)
Total accumulated other comprehensive income	40,714	37,294	384,101
<b>Subscription rights to shares</b>	924	842	8,719
<b>Non-controlling interests</b>	32,537	30,506	306,961
Total net assets	282,574	259,192	2,665,794
Total liabilities and net assets	¥ 2,430,838	¥ 2,300,090	\$ 22,932,437

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Income

Fuyo General Lease Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Revenues:</b>			
Lease and installment sales	¥ 560,298	¥ 485,470	\$ 5,285,837
Financing	13,063	10,280	123,240
Other	16,839	11,251	158,864
Total revenues	590,201	507,001	5,567,941
<b>Costs:</b>			
Lease and installment sales	512,156	440,349	4,831,669
Financing	160	26	1,517
Other	10,130	4,355	95,574
Interest expense	7,340	7,125	69,253
Total costs	529,789	451,856	4,998,013
<b>Gross profit</b>	60,412	55,145	569,928
Selling, general and administrative expenses	27,802	26,510	262,289
<b>Operating profit</b>	32,609	28,634	307,639
<b>Other income (expenses)</b>			
Interest and dividend income	1,556	1,636	14,682
Interest expenses	(363)	(312)	(3,432)
Equity in earnings of affiliates	753	456	7,106
Bad debt recovered	118	285	1,117
Reversal of allowance for doubtful receivables	103	149	977
Reversal of provision for loss on guarantees	127	262	1,207
Gain on sale of marketable and investment securities	0	466	1
Loss on sale of marketable and investment securities	—	(0)	—
Other, net	224	265	2,119
<b>Profit before income taxes</b>	35,130	31,844	331,416
<b>Income taxes</b> (Note 11)			
Current	10,965	10,051	103,447
Deferred	(92)	(511)	(872)
Total	10,872	9,540	102,575
<b>Profit after income taxes</b>	24,257	22,304	228,841
<b>Profit attributable to non-controlling interests</b>	2,312	2,330	21,819
<b>Profit attributable to owners of parent</b>	¥ 21,944	¥ 19,974	\$ 207,022

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Fuyo General Lease Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2018	2017	2018	
<b>Profit after income taxes</b>	¥ 24,257	¥ 22,304	\$ 228,841	
<b>Other comprehensive income</b>				
Net unrealized gains (losses) on available-for-sale securities	3,957	3,076	37,332	
Deferred gains (losses) on hedges	9	26	89	
Foreign currency translation adjustment	(586)	(272)	(5,532)	
Remeasurements of defined benefit plans	80	51	757	
Share of other comprehensive income of entities accounted for using equity method	(14)	211	(140)	
<b>Total other comprehensive income</b>	<b>3,445</b>	<b>3,092</b>	<b>32,506</b>	
<b>Comprehensive income</b>	<b>¥ 27,702</b>	<b>¥ 25,397</b>	<b>\$ 261,347</b>	
<b>(Comprehensive income attributable to)</b>				
Comprehensive income attributable to owners of the parent	¥ 25,364	¥ 23,042	\$ 239,286	
Comprehensive income attributable to non-controlling interests	2,338	2,354	22,061	

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Fuyo General Lease Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2018 and 2017

	Number of shares of common stock	Year ended March 31, 2018				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Millions of yen						
<b>Balance at beginning of year</b>	30,287,810	¥ 10,532	¥ 10,416	¥ 169,942	¥ (342)	¥ 190,548
Cash dividends				(4,167)		(4,167)
Profit attributable to owners of parent				21,944		21,944
Purchase of treasury stock					(0)	(0)
Disposal of treasury stock				(45)	118	73
Net changes of items other than shareholders' equity						
<b>Balance at end of year</b>	<b>30,287,810</b>	<b>¥ 10,532</b>	<b>¥ 10,416</b>	<b>¥ 187,673</b>	<b>¥ (224)</b>	<b>¥ 208,397</b>

	Year ended March 31, 2018				
	Accumulated other comprehensive income				
	Net unrealized gains on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income
Millions of yen					
<b>Balance at beginning of year</b>	¥ 35,314	¥ (109)	¥ 2,137	¥ (47)	¥ 37,294
Cash dividends					
Profit attributable to owners of parent					
Purchase of treasury stock					
Disposal of treasury stock					
Net changes of items other than shareholders' equity	3,951	17	(586)	37	3,419
<b>Balance at end of year</b>	<b>¥ 39,265</b>	<b>¥ (92)</b>	<b>¥ 1,551</b>	<b>¥ (10)</b>	<b>¥ 40,714</b>

	Year ended March 31, 2018		
	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at beginning of year</b>	¥ 842	¥ 30,506	¥ 259,192
Cash dividends			(4,167)
Profit attributable to owners of parent			21,944
Purchase of treasury stock			(0)
Disposal of treasury stock			73
Net changes of items other than shareholders' equity	81	2,031	5,532
<b>Balance at end of year</b>	<b>¥ 924</b>	<b>¥ 32,537</b>	<b>¥ 282,574</b>

See accompanying notes to the consolidated financial statements.



	Year ended March 31,2018				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	Thousands of U.S. dollars (Note 1)				
<b>Balance at beginning of year</b>	\$ 99,360	\$ 98,269	\$ 1,603,231	\$ (3,234)	\$ 1,797,626
Cash dividends			(39,318)		(39,318)
Profit attributable to owners of parent			207,022		207,022
Purchase of treasury stock				(7)	(7)
Disposal of treasury stock			(432)	1,122	690
Net changes of items other than shareholders' equity					
<b>Balance at end of year</b>	\$ 99,360	\$ 98,269	\$ 1,770,503	\$ (2,119)	\$ 1,966,013

	Year ended March 31,2018				
	Accumulated other comprehensive income				
	Net unrealized gains on available-for sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income
	Thousands of U.S. dollars (Note 1)				
<b>Balance at beginning of year</b>	\$ 333,156	\$ (1,038)	\$ 20,167	\$ (448)	\$ 351,837
Cash dividends					
Profit attributable to owners of parent					
Purchase of treasury stock					
Disposal of treasury stock					
Net changes of items other than shareholders' equity	37,276	165	(5,529)	352	32,264
<b>Balance at end of year</b>	\$ 370,432	\$ (873)	\$ 14,638	\$ (96)	\$ 384,101

	Year ended March 31,2018		
	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at beginning of year</b>	\$ 7,953	\$ 287,794	\$ 2,445,210
Cash dividends			(39,318)
Profit attributable to owners of parent			207,022
Purchase of treasury stock			(7)
Disposal of treasury stock			690
Net changes of items other than shareholders' equity	766	19,167	52,197
<b>Balance at end of year</b>	\$ 8,719	\$ 306,961	\$ 2,665,794

See accompanying notes to the consolidated financial statements.

	Year ended March 31,2017					
	Shareholders' equity					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
	Millions of yen					
<b>Balance at beginning of year</b>	30,287,810	¥ 10,532	¥ 10,416	¥ 153,366	¥ (401)	¥ 173,913
Cash dividends				(3,379)		(3,379)
Profit attributable to owners of parent				19,974		19,974
Purchase of treasury stock					(0)	(0)
Disposal of treasury stock				(18)	59	41
Net changes of items other than shareholders' equity						
<b>Balance at end of year</b>	30,287,810	¥ 10,532	¥ 10,416	¥ 169,942	¥ (342)	¥ 190,548

	Year ended March 31,2017				
	Accumulated other comprehensive income				
	Net unrealized gains on available-for sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income
	Millions of yen				
<b>Balance at beginning of year</b>	¥ 32,230	¥ (187)	¥ 2,416	¥ (232)	¥ 34,226
Cash dividends					
Profit attributable to owners of parent					
Purchase of treasury stock					
Disposal of treasury stock					
Net changes of items other than shareholders' equity	3,084	77	(278)	185	3,068
<b>Balance at end of year</b>	¥ 35,314	¥ (109)	¥ 2,137	¥ (47)	¥ 37,294

	Year ended March 31,2017		
	Subscription rights to shares	Non-controlling interests	Total net assets
<b>Balance at beginning of year</b>	¥ 722	¥ 23,670	¥ 232,531
Cash dividends			(3,379)
Profit attributable to owners of parent			19,974
Purchase of treasury stock			(0)
Disposal of treasury stock			41
Net changes of items other than shareholders' equity	120	6,835	10,025
<b>Balance at end of year</b>	¥ 842	¥ 30,506	¥ 259,192

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

Fuyo General Lease Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 35,130	¥ 31,844	\$ 331,416
Adjustments for:			
Depreciation and amortization	32,377	32,765	305,448
Loss on retirement of leased assets and cost of leased assets sales	70,364	10,923	663,813
Decrease in allowance for doubtful receivables	(622)	(367)	(5,869)
Interest and dividend income	(1,556)	(1,636)	(14,682)
Interest expenses	7,704	7,437	72,684
Gain on sales of marketable and investment securities, net	(0)	(466)	(1)
Equity in earnings of affiliates	(753)	(456)	(7,106)
Amortization of goodwill and negative goodwill	1,571	1,328	14,822
Increase in trade receivables	(65,488)	(86,747)	(617,814)
Purchase of leased assets	(149,448)	(131,628)	(1,409,891)
Decrease in trade payables	(18,077)	(20,847)	(170,539)
Other, net	4,852	19,283	45,776
<b>Subtotal</b>	<b>(83,945)</b>	<b>(138,567)</b>	<b>(791,943)</b>
Interest and dividend income received	1,361	1,393	12,846
Interest expenses paid	(7,857)	(7,313)	(74,124)
Income taxes paid	(10,226)	(9,541)	(96,476)
<b>Net cash used in operating activities</b>	<b>(100,667)</b>	<b>(154,028)</b>	<b>(949,697)</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sales and redemption of marketable and investment securities	2,604	2,992	24,567
Payments for purchase of marketable and investment securities	(7,501)	(693)	(70,764)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(8,159)	—
Payments for purchase of property and equipment for own use	(5,862)	(1,468)	(55,305)
Other, net	1,330	2,431	12,550
<b>Net cash used in investing activities</b>	<b>(9,428)</b>	<b>(4,897)</b>	<b>(88,952)</b>
<b>Cash flows from financing activities:</b>			
Increase in short-term borrowings, net	62,662	34,437	591,157
Proceeds from long-term debt	318,241	364,194	3,002,276
Repayments of long-term debt	(282,268)	(266,777)	(2,662,909)
Proceeds from issuance of bonds	20,000	40,000	188,679
Redemption of bonds	(300)	(10,150)	(2,830)
Cash dividends paid	(4,168)	(3,379)	(39,325)
Other, net	(617)	(649)	(5,822)
<b>Net cash provided by financing activities</b>	<b>113,549</b>	<b>157,674</b>	<b>1,071,226</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>47</b>	<b>406</b>	<b>448</b>
Net increase (decrease) in cash and cash equivalents	3,500	(844)	33,025
Cash and cash equivalents at beginning of year	50,561	51,406	476,998
<b>Cash and cash equivalents at end of year</b>	<b>¥ 54,062</b>	<b>¥ 50,561</b>	<b>\$ 510,023</b>

See accompanying notes to the consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Basis of Presentation

Fuyo General Lease Co., Ltd. (the “Company”) and its domestic consolidated subsidiaries maintain their books of account in conformity with generally accepted accounting principles in Japan, and its foreign consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Act of Japan and have been prepared in accordance with generally accepted accounting principles in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The amounts in US dollars presented in the financial statements are translated from the amounts in Japanese yen at the exchange rate of ¥106 to US\$1.00, in effect at March 31, 2018, solely for the convenience of overseas readers. Therefore, this does not imply that those amounts in yen can be converted into equivalent amounts in US dollars at this or any other exchange rate. The amounts, which are indicated in millions of yen, are rounded down by truncating the figures below one million. As a result, the totals may not add up exactly.

### (2) Principles of Consolidation

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

For fiscal years ended March 31, 2018 and 2017, consolidated accounting covered the parent company and 46 and 45 subsidiaries, respectively. A total of 4 and 3 affiliated companies are accounted for under the equity method and incorporated into the consolidated financial statements for fiscal years ended March 31, 2018 and 2017, respectively.

Investments in the non-consolidated subsidiaries or affiliates for which the equity method has not been applied are evaluated using the cost method.

With regard to the equity method affiliates whose closing dates differ from the consolidated closing date, the financial statements of these companies for their respective fiscal years have been applied.

Regarding the closing dates of the consolidated subsidiaries, the closing date of 20 companies is December 31, that of 14 companies is March 31, and that of 12 companies is January 31 for the current year.

Financial statements of the respective subsidiaries for the respective fiscal years, with necessary adjustments in material activities transacted during the periods up to the consolidated closing date, have been reflected in the consolidation.

Of the acquisition costs of newly consolidated subsidiaries, portions exceeding their net assets as of the dates when the Company acquired control are recorded as goodwill and will be amortized using the straight-line method over 20 years or less, except for immaterial amounts.

### (3) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates, except for assets and liabilities hedged by forward foreign exchange contracts.

All revenues and expenses associated with foreign currencies are translated at the exchange rates prevailing when such transactions were made. The resulting exchange gains and losses are credited or charged to income.

The accounts of the foreign subsidiaries are translated at the exchange rates prevailing at the balance sheet dates, except for the components of net assets. The components of net assets are translated at their historical exchange rates. The resulting exchange differences are included in the foreign currency translation adjustments account in net assets.

### (4) Cash and Cash Equivalents

The Company and its subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### (5) Lease Accounting

Revenue and cost of finance leases are recognized when each lease payment becomes due.

Revenue from operating leases is based on the monthly amounts of lease payments due under lease agreements over the lease agreement periods. The monthly lease payments corresponding to each period are allocated to revenue from operating leases for that period.

### (6) Installment Sales

Revenue and cost of installment sales are recognized when each installment payment becomes due.



(7) Interest Expenses

Interest expense is allocated to cost of sales and other expenses based on the balances of the respective operating assets, which consist principally of accounts receivable and leased assets, and other assets.

Interest expense classified as cost of sales is stated net of interest income.

(8) Securities

All securities are classified as available-for-sale securities.

Marketable available-for-sale securities are carried at fair market value and unrealized gains or losses are reported as a separate component of net assets, net of the related deferred income taxes.

Other securities without available fair market values are stated at values determined using the moving-average cost method.

The cost of securities sold is determined based on the moving-average method.

When a significant decline in fair value below cost of an individual security is deemed to be other than temporary, the carrying value of the individual security is written down to fair value.

(9) Depreciation and Amortization

Depreciation of leased assets is computed primarily by the straight-line method based on the lease term of the respective assets.

Depreciation of assets leased under finance leases not involving title transfer is computed by the straight-line method based on the lease term of the respective assets and assuming a residual value of zero.

Depreciation of own-used assets is computed by the declining balance method. However, some domestic and overseas consolidated subsidiaries apply the straight-line method for depreciation of buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998 and facilities attached to buildings and structures acquired on and after April 1, 2016.

The estimated useful lives of own-used assets are principally as follows:

Buildings	3 to 50 years
Furniture and equipment	3 to 20 years

Computer software intended for internal use is amortized by the straight-line method over the estimated useful lives (5 to 10 years).

(10) Allowance

Allowance for doubtful receivables

To cover possible losses from bad debts, the Company sets aside an allowance for the estimated amount of doubtful receivables deemed uncollectible. This allowance is based on historical default rates for general receivables, the analysis of debtors’ financial positions for classified loans and claims in bankruptcy. With respect to the bankruptcy claims, an estimated uncollectible amount is directly deducted from the amount of claims. The direct deduction totaled ¥1,923 million in the fiscal year ended March 31, 2017 and ¥2,072 million (\$19,555 thousand) in the fiscal year ended March 31, 2018.

Provision for future lease payments

To cover possible losses from future lease payment receivables for operating leases (subleases), a provision for the amount deemed uncollectible is recorded. This provision is based on the historical default rates for general receivables, the analysis of individual receivables with respect to classified loans in addition to bankruptcy claims.

Provision for loss on guarantees

To cover possible losses on guarantees, the Company provides an allowance for estimated loss, taking into consideration the financial condition of the providers of the financial guarantees as well as other factors.

Provision for automobile maintenance costs

To cover future payments for automobile maintenance costs that are required in specific lease transactions and maintenance services, a provision for estimated cost is recorded for the fiscal year ended March 31, 2017.

(11) Deferred Assets

Deferred organization expenses

Organization expenses are amortized by the straight-line method within five years after the date of founding.

Business commencement expenses

Business commencement expenses are amortized by the straight-line method within five years after the business commencement date.

Bond issuance cost

Bond issuance cost is expensed upon payment.

(12) Income Taxes

The temporary differences between the book value of assets and liabilities recognized for accounting and those for tax purposes are recorded as deferred tax assets (liabilities) to account for future income taxes.

(13) Consumption Taxes

Transactions are recorded exclusive of consumption taxes and local consumption taxes.

(14) Retirement Benefits

The method for attributing estimated retirement benefits for periods of employee service

For the calculation of retirement benefit obligations, the benefit formula method is used to attribute estimated retirement benefits for the period up to the end of the fiscal year under review (March 31, 2017).

Actuarial differences and prior service cost

With respect to prior service cost, the Company expenses the entire amount of it in the fiscal year of occurrence, but one of the Company’s domestic consolidated subsidiaries amortizes it by the straight-line method over a period within the average remaining service years for employees at the time of recognition (10 years), starting from the fiscal year of occurrence.

With respect to actuarial differences, the Company expenses the entire amount of them in the fiscal year of occurrence, but one of the Company’s domestic consolidated subsidiaries amortizes them by the straight-line method over a period within the average remaining service years for employees at the time of recognition (10 years), starting from the fiscal year following the fiscal year of occurrence.

Unrecognized actuarial differences and unrecognized prior service cost

Unrecognized actuarial differences and unrecognized prior service cost after tax effect adjustments are recorded as remeasurements of defined benefit plans classified in accumulated other comprehensive income of net assets.

Simplified accounting method

Certain domestic consolidated subsidiaries use simplified accounting methods in relation to the calculation of the net defined benefit liability and the net periodic pension cost. In the case of the termination allowance plan, retirement benefit obligations are recorded as the amount to be paid under voluntary retirement as of the fiscal year-end. In the case of the corporate pension plan, retirement benefit obligations are recorded as the amount of actuarial liability calculated under the latest pension funding program.

Directors’ and audit & supervisory board members' retirement benefits

The Company records the entire amount of retirement benefits to directors and audit & supervisory board members, which are required by the internal corporate policy at the end of the consolidated fiscal year.

(15) Derivatives and Hedging Activities

With regard to foreign currency-related derivative financial instruments, the Company uses forward foreign exchange contracts. With regard to interest rate-related instruments, the Company uses interest rate swap contracts and interest rate cap contracts.

The Company uses currency-related derivatives and interest rate-related derivatives for risk management purposes, not for speculative investment purposes.

The Company uses currency-related derivatives for the purpose of hedging risks associated with foreign currency fluctuations that affect its foreign currency-denominated receivables and payables. The Company uses interest rate-related derivatives for the purpose of hedging risks associated with interest rate fluctuations that affect its borrowings.

The Company uses derivatives, in accordance with its internal “Basic Policy for Managing Market and Liquidity Risks,” for the purpose of hedging risks associated with interest-rate and foreign currency fluctuations arising from its sales and financial operations.

Derivative financial instruments are stated at fair value.

Under the exceptional treatment of hedge accounting, the interest rate swaps that qualify as hedge transactions and meet specific matching criteria are not remeasured at market value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income.

(16) Per Share Information

Basic earnings per share is computed by dividing earnings attributable to common stock by the weighted average number of common stock outstanding during the fiscal year under review.

(17) Recently Issued Accounting Standards Not Yet Adopted

- Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, revised on February 16, 2018, Accounting Standards Board of Japan)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, final revision on February 16, 2018, Accounting Standards Board of Japan)

(1) Outline

In relation to transferring the practical guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants (JICPA) to Accounting standards Board of Japan (ASBJ), these were partially amended in the points mentioned below.

<Revision of main handlings of account processing>

- Accountring treatment for taxable temporary difference in relation to equity in subsidiaries on standalone financial statements
- Accountring treatment for recoverability of deferred tax assets with respect to entities defined as (Category 1)

(2) Scheduled date of adoption

The Implementation Guidance on Tax Effect Accounting and the Implementation Guidance on Recoverability of Deferred Tax Assets will be adopted as of the beginning of the fiscal year ending in March 31, 2019.

(3) Impact of adoption of such accounting standards

The impact of the adoption of the Implementation Guidance on Tax Effect Accounting and the Implementation Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is currently under evaluation.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, ASBJ)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018, ASBJ)

(1) Outline

International Accounting Standard Board (IASB) and Financial Accounting Standard Board (FASB) have jointly developed comprehensive accounting standards for revenue recognition and announced Revenue from Contracts with Customers (IFRS 15 for IASB and Topic 606 for FASB). As IFRS 15 is effective from the fiscal year commencing on or after January 1, 2018 and Topic 606 is effective from the fiscal year commencing after December 15, 2017, ASBJ has developed comprehensive accounting standard together with its implementation guidance.

The fundamental policy of ASBJ in developing accounting standards for revenue recognition is the new accounting standard that would be consistent with IFRS 15. Alternative accounting treatment considering practices in Japan would be added to the extent not to cause inconsistency with IFRS 15.

(2) Scheduled date of adoption

The changes will be applied from the beginning of the fiscal year ending in March 31, 2022.

(3) Impact of adoption of such accounting standards

The impact of the adoption of the Accounting Standard for Revenue Recognition and its implementation guidance on the consolidated financial statements is currently under evaluation.

## 2. FINANCIAL INSTRUMENTS

The position in respect of financial instruments for the fiscal year ended March 31, 2018, was as follows.

### (1) Policy on financial instruments

The Fuyo Lease Group is engaged in leasing and installment transactions for machinery and equipment and financial transactions such as the provision of operating loans. The Group uses direct and indirect financing to procure funds for purchasing assets to lease or to sell through installment sales and for providing operating loans to customers. The Group's indirect financing mainly consists of loans from financial institutions, and its direct financing includes issuing bonds payable, commercial, paper and securitization of receivables. As the Group holds financial assets and financial liabilities that are subject to interest rate fluctuation, assets and liabilities are comprehensively managed through asset-liability management (ALM) to mitigate the negative impact of interest rate fluctuations.

Derivative transactions are only used for mitigating currency and interest rate risks and are not used for speculative purposes.

### (2) Financial instruments and their risks

Lease receivables, investment assets, and operating loans are trade receivables due from customers and subject to credit risks associated with customer default. Foreign currency-denominated receivables and payables arising from overseas business are subject to risks associated with foreign currency fluctuations.

Marketable securities and investment securities include business partners' shares, bonds, and investments in limited partnership. Those investments are subject to credit risks associated with the issuers and market risks.

Bonds payable, commercial paper, lease obligations, long-term loans, and payables under fluidity long-term lease receivables and installment sales trade receivables are used to procure funds for purchasing assets to lease or sell through installment sales to customers. These payables are subject to risks that may compel the Company to procure funds with exceptionally high interest rates and to liquidity risks (funding risks) that may negatively affect the Company's ability to obtain funding and result in losses. A portion of long-term loans have floating interest rates and are therefore subject to interest rate risks.

The Company uses foreign currency-related derivative contracts to reduce risks associated with foreign currency fluctuations that affect foreign currency-denominated receivables and payables. The Company uses interest rate-related derivatives to reduce risks associated with interest rate fluctuations that affect borrowings.

### (3) Risk management system for financial instruments

#### i) Management of credit risks (default risks)

The Company's management system and rules for credit risks are prescribed in its internal "Basic Policy for Managing Credit Risks." For all transactions that involve credit risks, the Company uses a credit risk measurement method, identifies on a timely basis the location and size of credit risks, and responds adequately as necessary.

The Company's credit risk department is engaged in the following duties: 1) daily monitoring of the effectiveness of the credit risk management system, 2) screening and management of credit transactions involving customers, 3) maintenance and enhancement of risk asset soundness, 4) enhancement of protection against doubtful receivables and implementation of measures related to collection of those receivables, and 5) guidance and support for the Company's offices and affiliated companies. The department also rates debtors based on their financial status and degree of credit risk (i.e., their ability to pay debts). The credit ratings are used for credit risk management, portfolio investment and management, credit risk measurement, guidelines on pricing of individual credits, and self-assessment and recognition of adequate credit allowances based on the self-assessments. Further, the department regularly monitors the status of the Company's main customers, manages payment-due dates and credit balances on a customer-by-customer basis, and closely monitors customers to identify potential impediments to the collectability of receivables (e.g., due to worsening financial condition) and takes steps to mitigate such impediments.

The effectiveness and appropriateness of credit risk management are examined through internal audits.

#### ii) Management of market risks (risks associated with foreign exchange rates and interest rates)

The Company's market risk management rules and procedures are prescribed in its internal "Basic Policy for Managing Market and Liquidity Risks."

Market risks are controlled by comprehensively examining various factors such as financial position (revenues and shareholders' equity), balance between target revenues and risk levels, interest rate prospects, market environments, past results, and the level of risk management for various risks. The Company manages its exposure to risks when deemed necessary for the purpose of reducing risks and expanding revenues.

The Company's ALM Committee meets once a month as a general rule, and on an ad-hoc basis as needed, to review and examine practical measures related to market risk management and to monitor performance. At the monthly meeting, the finance division reports on matters related to market risk management, including the status of market risk control, interest rate prospects, market environment developments, and hedge transactions.

The Company's consolidated subsidiaries are subject to the Company's "Basic Policy for Managing Market and Liquidity Risks."

#### (i) Interest rate risk management

The Company comprehensively manages interest rate risk using ALM. The ALM Committee ascertains and monitors the status of ALM operations and discusses future direction and strategy based on the Company's ALM policies.

#### (ii) Foreign exchange risk management

The Company manages foreign exchange risk on a case-by-case basis, using foreign exchange forward contracts as a general rule.

#### (iii) Price fluctuation risk management

With regard to marketable securities and investment securities, the Company regularly monitors the market values of these securities as well as the financial status of issuers and continuously reviews its outstanding position considering market conditions and its relationship with the issuers.

#### (iv) Derivatives contracts

With regard to derivatives, the Company uses forward foreign exchange transactions for the purpose of hedging risks associated with foreign currency fluctuations that affect its foreign currency-denominated receivables and payables. The Company uses interest rate swap transactions for the purpose of hedging risks associated with interest rate fluctuations that affect its borrowings.

The Company's finance division is authorized to engage in and manage derivative contracts, in accordance with internal regulations and individuals authorized on job responsibilities and pursuant to the approval of the Company's president (CEO) or officer in charge of the finance division.

The Company's consolidated subsidiaries' derivative-related transactions are subject to the Company's internal regulations "Basic Policy for Managing Market and Liquidity Risks." In accordance with the Company's "Regulations on Managing Associated Companies," the Company's consolidated subsidiaries report to the Company on derivative-related transactions. These reports explain the subsidiary's policy on engaging in the transaction, provide a validation of the transaction's objective, and detail the derivative transaction's status, counterparties, outstanding positions, and unrealized gains/losses.

#### (v) Quantitative information on market risk

The major types of financial instruments affected by interest rate risk, the Group's main risk factors, are "Installment sales trade receivables," "Lease receivables and investment assets," "Accounts receivable - operating loans," other marketable securities recorded under "Marketable securities and investment in securities," "Bonds payable," "Long-term loans from banks and other financial institutions," "Payables under fluidity long-term lease receivables and installment sales trade receivables," and interest rate swaps included in "Derivative contracts." The Group performs quantitative analysis in managing the risk of interest rate fluctuations. This quantitative analysis incorporates the potential change in value of these financial assets and liabilities based on a reasonable range of potential interest rate movements. To calculate the potential change in value, the financial assets and liabilities are split into fixed-rate and variable-rate categories. For the fixed-rate category, the Company allocates the book value of the instruments into appropriate categories based on their interest-payment dates and applies an appropriate potential range of interest rate movements to each category. Assuming all risk factors other than interest rates remain constant, as of March 31, 2018, a 10 basis point (0.1%) change in interest rates would result in a ¥3,566 million (\$33,650 thousand) change in the fair value of these financial assets and liabilities. This potential change in value is based on the assumption that all risk factors other than interest rates remain constant and does not incorporate the effects of correlation between interest rates and the other risk factors. If interest rates fluctuate beyond the assumed reasonable range, the value of these financial assets and liabilities may be affected by more than the Group has estimated.



### iii) Management of liquidity risks associated with funding (risks of failure to pay on due date)

The Company's management system and rules for liquidity risks are prescribed in its internal "Basic Policy for Managing Market and Liquidity Risks."

With regard to liquidity risks (funding risks), the Company's finance division rigorously controls funding for ordinary operations. The division prepares daily statements of cash receipts/disbursements and an outlook of weekly and monthly cash receipts/disbursements, analyzes investment and cash receipt/disbursement data, and summarizes information from each division to determine the impact on the Company's funding activities. The division also adequately controls liquidity, enhances capital efficiency, and optimizes liquidity risks and funding costs.

Funding is measured by adequately monitoring economic conditions and market environments. Liquidity risks are allocated to management categories by level of funding and managed based on predetermined response policies and implementation standards for each category.

The Company's finance division also monitors consolidated subsidiaries' funding status and takes appropriate action as necessary based on that status.

### (4) Supplementary explanation of matters related to fair values of financial instruments

The fair value of a financial instrument represents its market value or a reasonably calculated value if a market value is not available. Because calculations involve variable inputs, the results of calculations may vary depending on what premises and assumptions are used. Contract amounts and other derivative transaction data presented in the notes on derivative transactions are nominal contract amounts or notional amounts used in calculations and do not indicate the amount of exposure.

Fair values of financial instruments as of March 31, 2018, are listed in the table below. Financial instruments for which estimation of fair value is impracticable are not included. Financial assets and liabilities not included in the table are omitted from disclosure as they are of less importance in terms of value.

The following table presents the carrying value and fair value of financial instruments at March 31, 2018 and 2017. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Year ended March 31, 2018		
	Carrying value (A)	Fair value (B)	(B) - (A)
	Millions of yen		
Cash and deposits* <sup>1,2</sup>	¥ 54,822	¥ 54,822	¥ —
Installment sales trade receivables* <sup>2</sup>	115,049	116,427	1,377
Lease receivables and investment assets* <sup>2</sup>	1,097,681	1,133,028	35,346
Accounts receivable - operating loans* <sup>2</sup>	295,579	299,753	4,173
Marketable securities and investment in securities			
Other marketable securities	226,948	226,948	—
<b>Total assets</b>	<b>¥ 1,790,082</b>	<b>¥ 1,830,980</b>	<b>¥ 40,898</b>
Short-term loans from banks and other financial institutions	¥ 467,340	¥ 467,340	¥ —
Commercial paper	473,700	473,700	—
Lease obligations (current liabilities and long-term liabilities)	35,335	35,335	—
Bonds payable (current portion included)	110,000	109,628	(371)
Long-term loans from banks and other financial institutions (current portion included)	828,047	833,397	5,349
Payables under fluidity long-term lease receivables and installment sales trade receivables (current portion included)	66,965	67,026	61
<b>Total liabilities</b>	<b>¥ 1,981,389</b>	<b>¥ 1,986,429</b>	<b>¥ 5,039</b>
Derivative contracts* <sup>3</sup>			
Derivative contracts not accounted for as hedges	¥ —	¥ —	¥ —
Derivative contracts accounted for as hedges	(0)	(202)	(202)
<b>Total derivative contracts</b>	<b>¥ (0)</b>	<b>¥ (202)</b>	<b>¥ (202)</b>

	Year ended March 31, 2018		
	Carrying value (A)	Fair value (B)	(B) - (A)
	Thousands of U.S. dollars		
Cash and deposits* <sup>1,2</sup>	\$ 517,194	\$ 517,194	\$ —
Installment sales trade receivables* <sup>2</sup>	1,085,376	1,098,376	13,000
Lease receivables and investment assets* <sup>2</sup>	10,355,487	10,688,947	333,460
Accounts receivable - operating loans* <sup>2</sup>	2,788,488	2,827,860	39,372
Marketable securities and investment in securities			
Other marketable securities	2,141,023	2,141,023	—
<b>Total assets</b>	<b>\$ 16,887,568</b>	<b>\$ 17,273,400</b>	<b>\$ 385,832</b>
Short-term loans from banks and other financial institutions	\$ 4,408,874	\$ 4,408,874	\$ —
Commercial paper	4,468,868	4,468,868	—
Lease obligations (current liabilities and long-term liabilities)	333,358	333,358	—
Bonds payable (current portion included)	1,037,736	1,034,234	(3,502)
Long-term loans from banks and other financial institutions (current portion included)	7,811,772	7,862,243	50,471
Payables under fluidity long-term lease receivables and installment sales trade receivables (current portion included)	631,750	632,327	577
<b>Total liabilities</b>	<b>\$ 18,692,358</b>	<b>\$ 18,739,904</b>	<b>\$ 47,546</b>
Derivative contracts* <sup>3</sup>			
Derivative contracts not accounted for as hedges	\$ —	\$ —	\$ —
Derivative contracts accounted for as hedges	(8)	(1,914)	(1,906)
<b>Total derivative contracts</b>	<b>\$ (8)</b>	<b>\$ (1,914)</b>	<b>\$ (1,906)</b>

	Year ended March 31, 2017		
	Carrying value (A)	Fair value (B)	(B) - (A)
	Millions of yen		
Cash and deposits* <sup>1,2</sup>	¥ 50,990	¥ 50,990	¥ —
Installment sales trade receivables* <sup>2</sup>	127,823	129,812	1,989
Lease receivables and investment assets* <sup>2</sup>	1,047,512	1,077,947	30,435
Accounts receivable - operating loans* <sup>2</sup>	305,549	309,310	3,760
Marketable securities and investment in securities			
Other marketable securities	206,090	206,090	—
<b>Total assets</b>	<b>¥ 1,737,966</b>	<b>¥ 1,774,151</b>	<b>¥ 36,185</b>
Short-term loans from banks and other financial institutions	¥ 456,620	¥ 456,620	¥ —
Commercial paper	419,700	419,700	—
Lease obligations (current liabilities and long-term liabilities)	49,770	49,770	—
Bonds payable (current portion included)	90,300	90,047	(252)
Long-term loans from banks and other financial institutions (current portion included)	777,008	782,838	5,830
Payables under fluidity long-term lease receivables and installment sales trade receivables (current portion included)	85,804	86,512	708
<b>Total liabilities</b>	<b>¥ 1,879,203</b>	<b>¥ 1,885,489</b>	<b>¥ 6,286</b>
Derivative contracts* <sup>3</sup>			
Derivative contracts not accounted for as hedges	¥ (9)	¥ (9)	¥ —
Derivative contracts accounted for as hedges	(14)	(407)	(393)
<b>Total derivative contracts</b>	<b>¥ (24)</b>	<b>¥ (417)</b>	<b>¥ (393)</b>

\*1. Net of deferred profit on installment sales

\*2. Net of specific and general allowances for doubtful accounts related to installment sales trade receivables, lease receivables and investment assets, and operating loans

\*3. Net receivables/payables arising from derivative contracts are carried at net amounts. Those for which the net outstanding balance is a payable appear within parentheses.

Note: 1. Calculation method for fair value of financial instruments and matters related to derivative contracts

Assets

(1) Cash and deposits

The fair values of deposits that have no maturity are based on their book values, which closely approximate their fair values.

(2) Installment sales trade receivables

Fair values are calculated by discounting uncollected receivables at the rate applied to new contracts. The Company calculates the fair values of doubtful receivables by subtracting estimated losses on bad debts from their carrying values as of the balance sheet date. The resulting amount closely approximates the doubtful receivables’ fair values. Estimated losses on bad debts are calculated based on estimated cash flows or estimated net realizable value covered by collateral or guaranty.

(3) Lease receivables and investment assets

Present values of lease receivables and investment assets are calculated by subtracting major administrative and maintenance expenses from the total of uncollected lease receivables and lease payment receivables. The Company calculates the fair values of doubtful receivables by subtracting estimated losses on bad debts from their carrying values as of the balance sheet date. The resulting amount closely approximates the doubtful receivables’ fair values. Estimated losses on bad debts are calculated based on estimated cash flows or estimated net realizable value covered by collateral or guaranty.

Lease receivables and investment assets under sublease contracts are recorded on the consolidated balance sheets before interest deductions. The amount recorded as the fair value is the balance sheet carrying value. The difference between (a) the carrying value of lease receivables and investment assets under sublease contracts and (b) their fair valued calculated by discounting at the rate applied to new contracts is ¥466 million (\$4,399 thousand).

(4) Accounts receivable - operating loans

Fair values of floating-rate operating loans are based on their book values. Market rates are reflected in the rates on floating-rate operating loans with only a short time difference, so their book values closely approximate their fair values as long as the borrower credit status does not change materially after loan issuance. Fair values of fixed-rate operating loans are calculated by discounting total principal and interest for each borrower at the rate applied to new contracts. The Company calculates the fair values of doubtful receivables by subtracting estimated losses on bad debts from their carrying values as of the balance sheet date. The resulting amount closely approximates the doubtful receivables’ fair values. Estimated losses on bad debt are calculated based on estimated cash flows or estimated net realizable value covered by collateral or guaranty.

(5) Marketable securities and investment in securities

Fair values are based on amounts obtained from relevant financial and other institutions.

Liabilities

(1) Short-term loans from banks and other financial institutions, (2) Commercial paper

Fair values of short-term loans from banks and other financial institutions and commercial paper are based on their book values because they are settled over the short-term, so their book values closely approximate their fair values.

(3) Lease obligations (current liabilities and long-term liabilities)

Lease obligations are stated on the consolidated balance sheets before interest deductions. The amount recorded as the fair value is their carrying value on the balance sheets. The difference between the carrying value of lease obligations and their fair value calculated by discounting at the rate applied to new contracts is ¥264 million (\$2,497 thousand).

(4) Bonds payable (current portion included), (5) Long-term loans from banks and other financial institutions (current portion included), (6) payables under fluidity long-term lease receivables and installment sales trade receivables (current portion included)

Fair values of floating-rate loans and payables in these categories are based on their book values. Market rates are reflected in the rates on these loans and payables with only a short time difference, and the Company’s credit status has not changed materially since issuance, so their book values are deemed to closely approximate their fair values. To calculate the fair values of fixed-rate loans and payables in these categories, the instruments are first allocated to categories according to maturity terms. Total principal and interest for each category is discounted at a notional rate that is assumed would apply to borrowing in the same amount.

Note: 2. Financial instruments whose fair values are deemed extremely difficult to determine

	March 31, 2018	
	Millions of yen	Thousands of U.S. dollars
Other securities		
Unlisted shares*1	¥ 5,773	\$ 54,466
Affiliated companies’ shares / associated companies’ shares*1	14,976	141,289
Preferred securities / beneficial interest in trusts*1	1,600	15,094
Investments in limited investment partnerships*2	19,052	179,738
	¥ 41,402	\$ 390,587

\*1. We do not disclose the fair values of these shares because their market values are not available and it is deemed extremely difficult to determine their fair values.

\*2. Within investments in limited investment partnerships, we do not disclose the fair values of partnership assets consisting of investments whose fair values are deemed extremely difficult to determine.

Note: 3. Redemption schedule by term for monetary claims and securities with maturity after March 31, 2018

	March 31, 2018			
	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Millions of yen				
Cash and deposits	¥ 54,822	¥ —	¥ —	¥ —
Installment sales trade receivables	47,444	65,405	2,526	1,321
Lease receivables and investment assets	332,063	610,646	123,925	32,086
Accounts receivable - operating loans	63,180	168,694	57,220	7,309
Marketable securities and investment in securities				
Available-for-sale securities with maturities				
Bonds (government)	15	—	—	—
Bonds (corporate)	1,166	34,504	3,115	533
Bonds (other)	—	—	—	—
Other	32	36,837	7,914	5,587
Total	¥ 498,725	¥ 916,088	¥ 194,702	¥ 46,837

	March 31, 2018			
	Within one year	Over one year and within five years	Over five years and within ten years	Over ten years
Thousands of U.S. dollars				
Cash and deposits	\$ 517,194	\$ —	\$ —	\$ —
Installment sales trade receivables	447,586	617,037	23,839	12,463
Lease receivables and investment assets	3,132,674	5,760,813	1,169,111	302,705
Accounts receivable - operating loans	596,046	1,591,462	539,821	68,953
Marketable securities and investment in securities				
Available-for-sale securities with maturities				
Bonds (government)	142	—	—	—
Bonds (corporate)	11,001	325,514	29,387	5,032
Bonds (other)	—	—	—	—
Other	310	347,520	74,662	52,714
Total	\$ 4,704,953	\$ 8,642,346	\$ 1,836,820	\$ 441,867

Note: 4. Repayment schedule by term for bonds, long-term debt, and other interest-bearing debt after March 31, 2018.

	March 31, 2018					
	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
	Millions of yen					
Short-term loans from banks and other financial institutions	¥ 467,340	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	473,700	—	—	—	—	—
Lease obligations (current liabilities and long-term liabilities)	15,359	8,806	5,268	2,950	1,320	1,630
Bonds payable (current portion included)	20,000	20,000	20,000	30,000	10,000	10,000
Long-term loans from banks and other financial institutions (current portion included)	221,381	192,871	154,630	129,395	67,321	62,447
Payables under fluidity long-term lease receivables and installment sales trade receivables (current portion included)	30,338	16,477	13,959	2,048	3,050	1,090
<b>Total</b>	<b>¥ 1,228,120</b>	<b>¥ 238,155</b>	<b>¥ 193,858</b>	<b>¥ 164,395</b>	<b>¥ 81,692</b>	<b>¥ 75,168</b>

	March 31, 2018					
	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
	Thousands of U.S. dollars					
Short-term loans from banks and other financial institutions	\$ 4,408,874	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial paper	4,468,868	—	—	—	—	—
Lease obligations (current liabilities and long-term liabilities)	144,901	83,085	49,698	27,839	12,456	15,379
Bonds payable (current portion included)	188,679	188,679	188,679	283,019	94,340	94,340
Long-term loans from banks and other financial institutions (current portion included)	2,088,502	1,819,538	1,458,779	1,220,717	635,107	589,130
Payables under fluidity long-term lease receivables and installment sales trade receivables (current portion included)	286,215	155,445	131,696	19,329	28,779	10,285
<b>Total</b>	<b>\$ 11,586,039</b>	<b>\$ 2,246,747</b>	<b>\$ 1,828,852</b>	<b>\$ 1,550,904</b>	<b>\$ 770,682</b>	<b>\$ 709,134</b>

### 3. MARKETABLE SECURITIES AND INVESTMENT IN SECURITIES

Marketable securities and investment in securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Current:</b>			
Bonds	¥ 110,536	¥ 108,200	\$ 1,042,802
Other	63,499	37,142	599,056
	¥ 174,036	¥ 145,343	\$ 1,641,858
<b>Non-current:</b>			
Shares	¥ 73,413	¥ 67,562	\$ 692,581
Bonds	—	15	—
Other	5,923	7,842	55,882
	¥ 79,337	¥ 75,420	\$ 748,463

The carrying values and aggregate fair value of securities with determinable market values at March 31, 2018 and 2017, were as follows:

	March 31, 2018			
	Cost or book value	Unrealized gains	Unrealized losses	Fair value
	Millions of yen			
<b>Available-for-sale securities:</b>				
Shares	¥ 16,534	¥ 53,553	¥ 236	¥ 69,852
Bonds	108,020	2,531	14	110,536
Other	45,710	1,067	218	46,559

	March 31, 2017			
	Cost or book value	Unrealized gains	Unrealized losses	Fair value
	Millions of yen			
<b>Available-for-sale securities:</b>				
Shares	¥ 16,310	¥ 48,456	¥ 219	¥ 64,547
Bonds	106,389	1,917	91	108,215
Other	32,429	897	—	33,326

	March 31, 2018			
	Cost or book value	Unrealized gains	Unrealized losses	Fair value
	Thousands of U.S. dollars			
<b>Available-for-sale securities:</b>				
Shares	\$ 155,987	\$ 505,222	\$ 2,227	\$ 658,982
Bonds	1,019,063	23,880	141	1,042,802
Other	431,226	10,071	2,059	439,238

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2018 and 2017, were as follows:

	Carrying value		Thousands of U.S. dollars
	Millions of yen		2018
	2018	2017	
<b>Available-for-sale securities:</b>			
Shares	¥ 3,561	¥ 3,014	\$ 33,599
Other	22,864	11,658	215,700

Proceeds from sales of available-for-sale securities and resultant gross realized gains and losses for the years ended March 31, 2018 and 2017, were summarized as follows:

	Carrying value		Thousands of U.S. dollars
	Millions of yen		2018
	2018	2017	
Proceeds	¥ 2	¥ 1,107	\$ 21
Realized gain	0	466	1
Realized loss	—	0	—

Impairment loss on securities:

No impairment loss recorded on securities for the consolidated fiscal years ended March 31, 2017 and 2018.

The Company recognizes the impairment loss where the decline in the period-end price is greater than or equal to 50% of the acquisition cost. Where the decline in the period-end price is between 30% and less than 50% of the acquisition cost, the company may recognize impairment loss, taking into consideration the credit rating of the issuer, the materiality of the amount, and the likelihood of the securities recovering in price, as well as the analysis of the level of market price by looking at the gap between the book value and the highest/lowest price during the fiscal years ended March 31, 2017 and 2018.



#### 4. ACCUMULATED DEPRECIATION FOR PROPERTY AND EQUIPMENT

Accumulated depreciation of property and equipment for the fiscal years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Leased assets	¥ 158,405	¥ 162,901	\$ 1,494,392
Own-used assets	5,342	4,296	50,402

#### 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT AND PLEDGED ASSETS

The breakdown of short-term borrowings as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted-average interest rate
	2018	2017	2018	
Short-term loans from banks and other financial institutions	¥ 467,340	¥ 456,620	\$ 4,408,874	0.42%
Commercial paper	473,700	419,700	4,468,868	0.04%
Payables under securitized lease receivables	18,900	21,500	178,302	0.11%
Total	959,940	897,820	9,056,044	—
Lease obligations	34,873	49,728	328,997	—
	¥ 994,814	¥ 947,549	\$ 9,385,041	—

The breakdown of long-term debt as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted-average interest rate
	2018	2017	2018	
Bonds payable	¥ 110,000	¥ 90,300	\$ 1,037,736	0.27%
Long-term loans from banks and other financial institutions	828,047	777,008	7,811,772	0.53%
Payables under fluidity long-term lease receivables and installment sales trade receivables	66,965	85,804	631,750	0.53%
Total	1,005,013	953,112	9,481,258	—
Less current portion	271,719	245,183	2,563,396	—
	733,293	707,928	6,917,862	—
Lease obligations	462	41	4,361	—
	¥ 733,755	¥ 707,970	\$ 6,922,223	—

The projected long-term debt servicing amount by fiscal year, as of March 31, 2018, was as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 271,719	\$ 2,563,396
2020	229,348	2,163,662
2021	188,590	1,779,154
2022	161,444	1,523,064
2023	80,372	758,227
2024 and thereafter	73,538	693,755
	¥ 1,005,013	\$ 9,481,258

As of March 31, 2018, the following assets were pledged as collateral for current and long-term obligations of ¥34,278 million (\$323,383 thousand).

	Millions of yen		Thousands of U.S. dollars
Lease receivables and investment assets	¥ 25,645	\$ 241,938	
Accounts receivable – other loans to customers	4,096	38,647	
Lease and other trade receivables	13	128	
Lease and other contract receivables	4,894	46,171	
Lease assets	14,096	132,985	
	¥ 48,746	\$ 459,869	

Besides the above, the Company maintains, as guarantee deposits for its sales operations, deposits of ¥15 million (\$142 thousand) in investment securities. As third-party security for bank loans taken out by customers, the Company maintains deposits of ¥38 million (\$361 thousand) in installment sale receivables and ¥652 million (\$6,156 thousand) in investment securities. The Company maintains deposits of ¥3 million (\$28 thousand) in investment securities for the purpose of sales transactions.

#### 6. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2018 and 2017, were as follows:

(1) Guarantees provided on borrowings of business partners etc.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
As a guarantor of indebtedness of:			
Marubeni Auto Investment (Canada) Inc.	¥ 2,059	¥ —	\$ 19,431
AEON Mall Co., Ltd.	1,245	1,473	11,752
IBM Japan Credit LLC *1	1,010	733	9,532
JAPAN SECURITIZATION CORPORATION *1	818	829	7,722
AEON RETAIL CO., LTD.	769	810	7,262
MONEY PARTNERS CO., LTD.	499	499	4,715
Sumitomo Mitsui Banking Corporation *1	365	365	3,443
JCAM AGRI. CO., LTD.	249	254	2,352
XYMAX ALPHA Corporation *1	229	256	2,164
Japan Drilling Co., Ltd.	—	3,998	—
Employees	40	54	384
Others	21,259	19,556	200,562
	¥ 28,547	¥ 28,832	\$ 269,319

\*1. The Company has guaranteed loans held by IBM Japan Credit LLC and others.

(2) On both March 31, 2018 and 2017, one of the Company's domestic consolidated subsidiaries engaged in business guarantee operations which resulted in it becoming a credit guarantor of a total of ¥64,573 million (\$609,183 thousand) and ¥72,215 million in indebtedness with respect to general customers and other entities.

(3) The Company, as a lender, entered into loan commitment agreements as of March 31, 2018 and 2017 amounting to ¥900 million (\$8,491 thousand) and ¥3,920 million, respectively. The loans provided under these credit facilities as of March 31, 2018 and 2017 amounted to ¥106 million (\$1,006 thousand) and ¥2,338 million, respectively. Many of the facilities may expire without being utilized and the loans provided are subject to periodic reviews of the borrowers' credit standing.

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the fiscal years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bad debts expenses	¥ 432	¥ 444	\$ 4,078
Employees' salaries, allowances and bonuses	10,652	10,201	100,493
Provision for bonuses	1,707	1,607	16,111
Provision for directors' bonuses	139	141	1,316
Retirement benefit expenses	688	802	6,498
Provision for directors' retirement benefits	32	35	311
Welfare expenses	2,525	2,380	23,830
Rent expenses	1,328	1,254	12,536
Depreciation of own-use assets	1,251	1,200	11,802
Amortization of goodwill	1,571	1,328	14,822

## 8. CASH AND CASH EQUIVALENTS

The main components of cash and cash equivalents at March 31, 2018 and 2017, were as follows:

Relationship between cash and cash equivalents at the end of year and cash and deposits stated on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥ 54,822	¥ 50,990	\$ 517,194
Time deposits with maturity of over three months	(760)	(429)	(7,171)
Cash and cash equivalents	¥ 54,062	¥ 50,561	\$ 510,023

## 9. COMPREHENSIVE INCOME

The components of other comprehensive income for the fiscal years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized gains (losses) on available-for-sale securities			
Gains or losses arising during the year	¥ 5,701	¥ 5,049	\$ 53,788
Reclassification adjustments to profit or loss	(0)	(434)	(0)
Amount before income tax effect	5,701	4,615	53,788
Income tax effect	(1,744)	(1,538)	(16,456)
Total	¥ 3,957	¥ 3,076	\$ 37,332
Deferred gains (losses) on hedges			
Gains or losses arising during the year	7	22	69
Reclassification adjustments to profit or loss	6	14	59
Amount before income tax effect	13	37	128
Income tax effect	(4)	(11)	(39)
Total	¥ 9	¥ 26	\$ 89
Foreign currency translation adjustments			
Gains or losses arising during the year	(586)	(272)	(5,532)
Total	¥ (586)	¥ (272)	\$ (5,532)
Remeasurements of defined benefit plans			
Gains or losses arising during the year	204	160	1,931
Reclassification adjustments to profit or loss	(89)	(86)	(840)
Amount before income tax effect	115	73	1,091
Income tax effect	(35)	(22)	(334)
Total	¥ 80	¥ 51	\$ 757
Share of other comprehensive income of entities accounted for using equity method			
Gains or losses arising during the year	(17)	198	(164)
Reclassification adjustments to profit or loss	2	12	24
Total	¥ (14)	¥ 211	\$ (140)
Total other comprehensive income	¥ 3,445	¥ 3,092	\$ 32,506

## 10. DERIVATIVES

Fair values, etc., of derivatives contracts as of March 31, 2018 and 2017, were as follows:

(1) Derivative contracts to which hedge accounting is not applied

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Contract amount (over one year)	Fair value	Unrealized gain (loss)	Contract amount (over one year)	Fair value	Unrealized gain (loss)	Contract amount (over one year)	Fair value	Unrealized gain (loss)
<b>Foreign exchange forward contracts:</b>									
Buying	¥ — (—)	¥ —	¥ —	¥ 408 (—)	¥ (9)	¥ (9)	\$ — (—)	\$ —	\$ —
<b>Interest rate swap contracts:</b>									
Fixed rate payment, floating rate receipt	— (—)	—	—	200 (—)	(0)	(0)	— (—)	—	—
	¥ —	¥ —	¥ —	¥ 608	¥ (9)	¥ (9)	\$ —	\$ —	\$ —

The fair values are based on the amounts presented by relevant financial and other institutions.

(2) Derivative contracts to which hedge accounting is applied

	Millions of yen						Thousands of U.S. dollars		
	Contract amount	2018 (over one year)	Fair value	Contract amount	2017 (over one year)	Fair value	Contract amount	2018 (over one year)	Fair value
<b>Principle treatment</b>									
<b>Interest rate swap contracts:</b>									
Fixed rate payment, floating rate receipt	¥ 1,200	¥ (—)	¥ (0)	¥ 7,700	¥ (1,200)	¥ (14)	\$ 11,321	\$ (—)	\$ (8)
<b>Exceptional treatment of interest rate swaps</b>									
<b>Interest rate swap contracts:</b>									
Fixed rate payment, floating rate receipt	33,389	(28,865)	(202)	49,530	(34,315)	(393)	314,995	(272,313)	(1,906)
	¥ 34,589	¥(28,865)	¥ (202)	¥ 57,230	¥ (35,515)	¥ (407)	\$ 326,316	\$ (272,313)	\$ (1,914)

The fair values are based on the amounts presented by relevant financial and other institutions.

## 11. INCOME TAXES

Earnings of the Company and its domestic consolidated subsidiaries are subject to various taxes. The statutory tax rate for both years ended March 31, 2018 and 2017, were 30.9%.

The respective breakdowns of total deferred tax assets and deferred tax liabilities by major item, as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Deferred tax assets:</b>			
Allowance for doubtful receivables	¥ 1,713	¥ 1,826	\$ 16,170
Tax loss carried forward	869	1,055	8,199
Guarantee deposits from customers	754	680	7,117
Reserve for bonus payments	526	488	4,964
Accrued expenses	648	5	6,121
Net defined benefit liability	473	500	4,469
Loss on devaluation of investment securities and other items	364	363	3,434
Enterprise taxes	326	249	3,076
Other	1,946	1,729	18,365
Subtotal gross deferred tax assets	7,623	6,899	71,915
Less valuation allowance	(474)	(441)	(4,475)
Total deferred tax assets	7,148	6,458	67,440
<b>Deferred tax liabilities:</b>			
Net unrealized gain on available-for-sale securities	¥ (17,354)	¥ (15,607)	\$ (163,717)
Gain on revaluation of investment securities and others	(1,267)	(1,305)	(11,956)
Depreciation	(661)	(351)	(6,240)
Gain on transfer of receivables	(506)	(650)	(4,777)
Foreign subsidiary's unitary tax	(327)	—	(3,085)
Other	(502)	(308)	(4,736)
Total deferred tax liabilities	(20,618)	(18,223)	(194,511)
Net deferred tax liabilities	¥ (13,469)	¥ (11,765)	\$ (127,071)

The respective breakdowns of major items that constituted the material difference between the statutory tax rate and the effective tax rate for the fiscal years ended March 31, 2018 and 2017, were as follows:

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying Consolidated Statements of Income for the years ended March 31, 2018 and 2017, were not presented as the difference is less than 5% of the effective statutory tax rate.

## 12. RETIREMENT BENEFITS

### (1) Overview of the Company Group's retirement benefits plan

The Company has a defined-benefit corporate pension fund plan (established by the Company Group) and a defined-benefit corporate pension plan as its defined-benefit system, and it also has a defined-contribution pension plan as its defined-contribution system.

The defined-benefit corporate pension plan is the only fund type and provides a lump-sum payment or pension based on the employees' final salary points and lengths of service. Furthermore, certain defined-benefit corporate pension plans have retirement benefit trusts.

The defined-benefit corporate pension fund plan (established by the Company Group) which is a multi-employer type of pension plan is accounted for in the same manner as a defined-contribution pension plan because it is not possible to reasonably estimate the value of plan assets corresponding to the contribution of each company.

The defined-contribution pension plan was transferred from a termination allowance plan on November 1, 2009. The defined-contribution pension plan, under which employees are participants, is funded by the contributions based on the participant's plan course and eligibility.

Some of the domestic consolidated subsidiaries have a defined-benefit corporate pension plan and a termination allowance plan as its defined-benefit pension system.

Some of the domestic consolidated subsidiaries, which have a defined-benefit corporate pension plan and a termination allowance plan, use simplified accounting methods for calculation of net defined benefit liability and net periodic pension cost. In the termination allowance plan, retirement benefit obligations are recorded in the amount to be paid for voluntary retirement as of fiscal year-end. In the corporate pension plan, retirement benefit obligations are recorded in the amount of actuarial liability calculated under the latest pension funding programs.

The Company and some of its domestic consolidated subsidiaries may make lump-sum payments of premium retirement benefits to some employees at their retirement.

### (2) Defined-benefit pension plan (excluding pension plans using the simplified accounting methods)

#### i) Reconciliation of retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations at beginning of year	¥ 10,890	¥ 10,400	\$ 102,744
Service cost	572	586	5,403
Interest cost	55	52	523
Actuarial gains/losses incurred	45	30	426
Retirement benefits paid	(321)	(178)	(3,028)
Other	1	(0)	11
Retirement benefit obligations at end of year	¥ 11,244	¥ 10,890	\$ 106,079

#### ii) Reconciliation of plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥ 9,637	¥ 9,168	\$ 90,923
Expected return on plan assets	268	242	2,530
Actuarial gains/losses incurred	93	(47)	878
Contribution from employer	470	442	4,438
Retirement benefits paid	(303)	(167)	(2,867)
Plan assets at end of year	¥ 10,165	¥ 9,637	\$ 95,902



**iii) Reconciliation of retirement benefit obligations and plan assets at end of fiscal year and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets**

	Millions of yen				Thousands of U.S. dollars
	2018		2017		2018
Retirement benefit obligations for funded pension plans	¥	11,244	¥	10,890	\$ 106,079
Plan assets		(10,165)		(9,637)	(95,902)
		1,078		1,253	10,177
Retirement benefit obligations for unfunded pension plans		—		—	—
Net assets/liabilities recorded in the consolidated balance sheets		1,078		1,253	10,177
Net defined benefit liability		1,132		1,392	10,685
Net defined benefit asset		(53)		(139)	(508)
Net assets/liabilities recorded in the consolidated balance sheets	¥	1,078	¥	1,253	\$ 10,177

**iv) Breakdown of net periodic pension cost**

	Millions of yen				Thousands of U.S. dollars
	2018		2017		2018
Service cost	¥	572	¥	586	\$ 5,403
Interest cost		55		52	523
Expected return on plan assets		(268)		(242)	(2,530)
Amortization of actuarial loss		67		151	634
Amortization of prior service cost		0		0	6
Other		(42)		(41)	(403)
Net periodic pension cost for defined-benefit pension plan	¥	385	¥	507	\$ 3,633

**v) Remeasurements of defined benefit plans**

The breakdown of remeasurements of defined benefit plans was as follows:

	Millions of yen				Thousands of U.S. dollars
	2018		2017		2018
Prior service cost	¥	0	¥	0	\$ 6
Actuarial differences		115		73	1,085
Total	¥	115	¥	73	\$ 1,091

**vi) Remeasurements of defined benefit plans**

The breakdown of remeasurements of accumulated defined benefit plans was as follows:

	Millions of yen				Thousands of U.S. dollars
	2018		2017		2018
Unrecognized prior service cost	¥	—	¥	0	\$ —
Unrecognized actuarial differences		83		198	785
Total	¥	83	¥	198	\$ 785

**vii) Plan assets**

(i) Breakdown of plan assets

Major components of total plan assets and their proportion were as follows:

	2018		2017	
Bonds	37	%	32	%
Shares	18		19	
Cash and time deposits	4		9	
General account	30		30	
Other	11		10	
Total	100		100	

Note: The total includes retirement benefits trust established for corporate pension plan at 5% in the fiscal year ended March 31, 2018 and 5% in the fiscal year ended March 31, 2017.

(ii) Estimation of expected long-term rate of return on plan assets

Expected long-term rate of return on plan assets is estimated based on current and expected future distribution of plan assets as well as current and expected future long-term rate of return on various components of plan assets.

**viii) Basis for actuarial calculation**

Major basis for actuarial calculation

	2018		2017	
Discount rate	0.37~0.98	%	0.37~0.98	%
Expected long-term rate of return	2.50~2.88		2.50~2.69	
Expected salary increase rate	1.37~3.82		1.37~3.82	

**(3) Defined-benefit pension plans using the simplified accounting methods**

**i) Reconciliation of net defined benefit liability for the pension plans using the simplified accounting methods**

	Millions of yen				Thousands of U.S. dollars
	2018		2017		2018
Net defined benefit liability at beginning of year	¥	352	¥	305	\$ 3,324
Net periodic pension cost		54		52	516
Retirement benefits paid		(5)		(5)	(56)
Net defined benefit liability at end of year	¥	401	¥	352	\$ 3,784

**ii) Reconciliation of retirement benefit obligations and plan assets at end of fiscal year and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets**

	Millions of yen				Thousands of U.S. dollars
	2018		2017		2018
Retirement benefit obligations for funded pension plans	¥	427	¥	379	\$ 4,029
Fair value of plan assets		(130)		(118)	(1,231)
		296		261	2,798
Retirement benefit obligations for unfunded pension plans		104		90	986
Net assets/liabilities recorded in the consolidated balance sheets		401		352	3,784
Net defined benefit liability		401		352	3,784
Net defined benefit asset		—		—	—
Net assets/liabilities recorded in the consolidated balance sheets	¥	401	¥	352	\$ 3,784

**iii) Net periodic pension cost**

In the fiscal year ended March 31, 2018 and 2017 net periodic pension cost calculated with the simplified accounting methods amounted to ¥54 million (\$516 thousand) and ¥52 million, respectively.

#### (4) Defined-contribution pension plan

In the fiscal year ended March 31, 2018 and 2017 the amount required to be contributed by the Company to the defined-contribution pension plan amounted to ¥80 million (\$761 thousand) and ¥78 million, respectively.

#### (5) Multi-employer type of pension plan

In the fiscal year ended March 31, 2018 and 2017 the amount required to be contributed to the defined-benefit corporate pension fund plan (established by the Company Group) of multi-employer type of pension plan amounted to ¥168 million (\$1,588 thousand) and ¥164 million, respectively. The contribution is accounted for in the same manner with a defined-contribution pension plan.

The following summarizes the most recent funded status of the multi-employer welfare pension plan at March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Amount of plan assets	¥ 10,710	¥ 9,298	\$ 101,044
Retirement benefits under pension funding programs	12,914	12,320	121,834
Difference	¥ (2,203)	¥ (3,022)	\$ (20,790)

At March 31, 2018 and 2017 the liability for retirement benefits for directors and corporate auditors amounted to ¥169 million (\$1,598 thousand) and ¥142 million, respectively.

### 13. LEASE TRANSACTIONS

Details of leases as lessee at March 31, 2018 and 2017, were as follows:

#### Operating leases

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Future lease payments	¥ 3,924	¥ 5,530	\$ 37,022
Amount of above due within one year	990	1,484	9,345

Details of leases as lesser at March 31, 2018 and 2017, were as follows:

#### (1) Breakdown of lease investment assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Portion of lease receivables	¥ 1,021,163	¥ 934,481	\$ 9,633,622
Portion of estimated residual value	12,147	9,891	114,601
Rental revenues attributable to financing income	(115,582)	(86,723)	(1,090,405)
Lease investment assets	¥ 917,728	¥ 857,649	\$ 8,657,818

#### (2) Projected amounts of lease receivables to be collected after March 31, 2018 (consolidated)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 54,714	\$ 516,179
2020	44,563	420,409
2021	39,517	372,810
2022	26,437	249,415
2023	11,694	110,329
2024 and thereafter	14,792	139,552

#### (3) Projected amounts of lease payment receivables on lease investment assets to be collected after March 31, 2018 (consolidated)

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 310,666	\$ 2,930,812
2020	211,211	1,992,566
2021	150,226	1,417,232
2022	103,825	979,483
2023	80,928	763,479
2024 and thereafter	164,305	1,550,050

#### (4) Operating leases

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Future lease payments	¥ 240,735	¥ 221,690	\$ 2,271,089
Amount of above due within one year	47,382	50,225	447,003

Details of sublease transactions for the fiscal years ended March 31, 2018 and 2017, were as follows.

Lease receivables, assets, and obligations under sublease transactions that are carried on the consolidated balance sheets before interest deductions

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lease receivables and investment assets	¥ 31,736	¥ 47,960	\$ 299,396
Lease obligations (current liabilities)	34,782	49,676	328,141

### 14. STOCK OPTIONS

Stock option expenses and gains on expiration of unexercised stock options for the fiscal years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Selling, general and administrative expenses (stock-based compensation expenses)	¥ 154	¥ 159	\$ 1,455

Details of stock option for the fiscal year ended March 31, 2018, was as follows:

(1) The Company

	Stock options for 2008	Stock options for 2009	Stock options for 2010
Class and number of grantees (Note 1)	Directors of the Company: 8 Executive Officers of the Company: 16	Directors of the Company: 8 Executive Officers of the Company: 15	Directors of the Company: 7 Executive Officers of the Company: 17
Number and type of stock options (Note 2)	Common stock: 57,800 shares	Common stock: 84,600 shares	Common stock: 61,300 shares
Grant date	October 15, 2008	October 15, 2009	October 15, 2010
Vesting conditions	(Note 3)	(Note 3)	(Note 3)
Requisite service period	(Note 4)	(Note 4)	(Note 4)
Exercise period	October 15, 2008 – October 14, 2038 (Note 5)	October 15, 2009 – October 14, 2039 (Note 5)	October 15, 2010 – October 14, 2040 (Note 5)

	Stock options for 2011	Stock options for 2012	Stock options for 2013
Class and number of grantees (Note 1)	Directors of the Company: 7 Executive Officers of the Company: 16	Directors of the Company: 8 Executive Officers of the Company: 16	Directors of the Company: 8 Executive Officers of the Company: 18
Number and type of stock options (Note 2)	Common stock: 54,800 shares	Common stock: 73,000 shares	Common stock: 42,000 shares
Grant date	October 14, 2011	October 16, 2012	October 15, 2013
Vesting conditions	(Note 3)	(Note 3)	(Note 3)
Requisite service period	(Note 4)	(Note 4)	(Note 4)
Exercise period	October 14, 2011 – October 13, 2041 (Note 5)	October 16, 2012 – October 15, 2042 (Note 5)	October 15, 2013 – October 14, 2043 (Note 5)

	Stock options for 2014	Stock options for 2015	Stock options for 2016
Class and number of grantees (Note 1)	Directors of the Company: 7 Executive Officers of the Company: 18	Directors of the Company: 7 Executive Officers of the Company: 19	Directors of the Company: 7 Executive Officers of the Company: 21
Number and type of stock options (Note 2)	Common stock: 35,500 shares	Common stock: 28,600 shares	Common stock: 34,700 shares
Grant date	October 15, 2014	October 15, 2015	October 14, 2016
Vesting conditions	(Note 3)	(Note 3)	(Note 3)
Requisite service period	(Note 4)	(Note 4)	(Note 4)
Exercise period	October 15, 2014 – October 14, 2044 (Note 5)	October 15, 2015 – October 14, 2045 (Note 5)	October 14, 2016 – October 13, 2046 (Note 5)

	Stock options for 2017
Class and number of grantees (Note 1)	Directors of the Company: 6 Executive Officers of the Company: 22
Number and type of stock options (Note 2)	Common stock: 22,200 shares
Grant date	October 16, 2017
Vesting conditions	(Note 3)
Requisite service period	(Note 4)
Exercise period	October 16, 2017 – October 15, 2047 (Note 5)

Notes:

1 Excluding outside directors and corporate auditor

2 Converted to number of shares

3 No vesting conditions attached

4 Requisite service period is undetermined

5 Notwithstanding the above, if a stock acquisition rights holder loses his/her position as director, auditor, or executive officer of the Company during the above term, he/she may exercise the rights within five years of the first anniversary of the day immediately after losing his/her position.

(2) Consolidated subsidiaries

	Stock options for 2016	Stock options for 2017
Class and number of grantees (Note 1)	Directors of consolidated subsidiaries: 2	Directors of consolidated subsidiaries: 2
Number and type of stock options (Note 2)	Common stock: 7,400 shares	Common stock: 6,900 shares
Grant date	July 28, 2016	July 5, 2017
Vesting conditions	(Note 3)	(Note 3)
Requisite service period	(Note 4)	(Note 4)
Exercise period	July 29, 2016 – July 28, 2046 (Note 5)	July 6, 2017 – July 5, 2047 (Note 5)

Notes:

1 Excluding directors who serve as audit committee members and outside directors

2 Converted to number of shares

3 No vesting conditions attached

4 Requisite service period is undetermined

5 Notwithstanding the above, if a stock acquisition rights holder loses his/her position as director of the Company during the above exercise period, he/she may exercise the rights in a lump sum within 10 days (or the preceding business day if the 10th day falls on a holiday) from the day following the day when he/she loses his/her position.

**Volume and status of stock options for the fiscal year ended March 31, 2018, was as follows.**

**(1) Number of stock options**

i) The Company

	Stock options for 2008	Stock options for 2009	Stock options for 2010
Pre-vesting (shares)			
Previous fiscal year-end	—	—	—
Granted	—	—	—
Expired	—	—	—
Vested	—	—	—
Balance unvested	—	—	—
Post-vesting (shares)			
Previous fiscal year-end	6,700	23,000	27,600
Vested	—	—	—
Exercised	2,700	7,600	4,200
Expired	—	—	—
Balance unexercised	4,000	15,400	23,400

	Stock options for 2011	Stock options for 2012	Stock options for 2013
Pre-vesting (shares)			
Previous fiscal year-end	—	—	—
Granted	—	—	—
Expired	—	—	—
Vested	—	—	—
Balance unvested	—	—	—
Post-vesting (shares)			
Previous fiscal year-end	36,200	56,000	33,700
Vested	—	—	—
Exercised	7,600	9,700	2,600
Expired	—	—	—
Balance unexercised	28,600	46,300	31,100



	Stock options for 2014	Stock options for 2015	Stock options for 2016	Stock options for 2017
Pre-vesting (shares)				
Previous fiscal year-end	—	—	—	—
Granted	—	—	—	22,200
Expired	—	—	—	—
Vested	—	—	—	22,200
Balance unvested	—	—	—	—
Post-vesting (shares)				
Previous fiscal year-end	33,500	28,600	34,700	—
Vested	—	—	—	22,200
Exercised	—	—	—	—
Expired	—	—	—	—
Balance unexercised	33,500	28,600	34,700	22,200

ii) Consolidated subsidiaries

	Stock options for 2016	Stock options for 2017
Pre-vesting (shares)		
Previous fiscal year-end	—	—
Granted	—	6,900
Expired	—	—
Vested	—	6,900
Balance unvested	—	—
Post-vesting (shares)		
Previous fiscal year-end	7,400	—
Vested	—	6,900
Exercised	—	—
Expired	—	—
Balance unexercised	7,400	6,900

(2) Unit price

i) The Company

	Stock options for 2008	Stock options for 2009	Stock options for 2010
Exercise price (yen)	1	1	1
Average stock price at exercise (yen)	5,280	5,651	5,372
Fair value at grant date (yen)	1,610	1,668	2,218

	Stock options for 2011	Stock options for 2012	Stock options for 2013
Exercise price (yen)	1	1	1
Average stock price at exercise (yen)	6,254	5,885	6,096
Fair value at grant date (yen)	2,449	1,943	3,556

	Stock options for 2014	Stock options for 2015	Stock options for 2016	Stock options for 2017
Exercise price (yen)	1	1	1	1
Average stock price at exercise (yen)	—	—	—	—
Fair value at grant date (yen)	3,584	4,653	4,606	6,840

ii) Consolidated subsidiaries

	Stock options for 2016	Stock options for 2017
Exercise price (yen)	1	1
Average stock price at exercise (yen)	—	—
Fair value at grant date (yen)	319	348

Estimation method for fair value of stock options for the fiscal year ended March 31, 2018, was as follows.

(1) The Company

- i) Evaluation method: Black-Scholes model
- ii) Main base data and estimation methods

	Stock options for 2017
Expected volatility (Note 1)	27.23 %
Expected remaining contractual life (Note 2)	4.25 years
Expected dividend (Note 3)	2.51 %
Risk-free interest rate (Note 4)	(0.093) %

Notes:

1. Calculated based on actual stock prices over the past four years and three months (July 14, 2013 – October 13, 2017).
2. Calculated based on the assumption that stock options are exercised in the middle of the exercise period, because the Company does not have sufficient data to reasonably estimate otherwise.
3. Calculated based on the actual dividend paid in the most recent fiscal year.
4. Risk free interest rate is the yield on Japanese government bonds over a period equivalent to the expected remaining contractual life.

(2) Consolidated subsidiaries

- i) Evaluation method: Black-Scholes model
- ii) Main base data and estimation methods

	Stock options for 2017
Expected volatility (Note 1)	75.87 %
Expected remaining contractual life (Note 2)	15.00 years
Expected dividend (Note 3)	1.09 %
Risk-free interest rate (Note 4)	0.324 %

Notes:

1. Calculated based on actual stock prices (December 24, 2004 – July 5, 2017).
2. Calculated based on the assumption that stock options are exercised in the middle of the exercise period, because the Company does not have sufficient data to reasonably estimate otherwise.
3. Calculated based on the actual dividend paid in the most recent fiscal year.
4. Risk free interest rate is the yield on Japanese government bonds over a period equivalent to the expected remaining contractual life.

The Company used the actual number of expired options to estimate the number of vested options, because it is generally difficult to reasonably estimate how many options will expire in the future.

## 15. RELATED PARTY TRANSACTIONS

The Company's transactions with related parties during fiscal years ended March 31, 2018 and 2017, were as follows:

All the amounts below refer to Hulic Co., Ltd., our major shareholder.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Purchase of operating assets	¥ 31,503	¥ —	\$ 297,199
Interest income received	—	101	—

The ending balances of the Company's transactions with related parties at March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans receivable	¥ —	¥ 21,000	\$ —
Accrued income	—	10	—

16. SHAREHOLDERS’ EQUITY

The Companies Act provides that an amount equal to 10% of the amount to be distributed 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, but neither the capital reserve nor the legal reserve is available for distributions.

17. REAL ESTATE LEASING BUSINESS

The Company and some of its consolidated subsidiaries own commercial facilities for lease and office buildings (including land) for lease in Tokyo and other regions. Net lease income from these assets amounted to ¥2,056 million (\$19,401 thousand) and 1,876 million (lease income and lease cost were generally recorded as net sales and cost of sales, respectively) for the fiscal years ended March 31, 2018 and 2017, respectively.

The carrying value on the consolidated balance sheets, net change, and fair value are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Carrying value			
Beginning of year	¥ 132,049	¥ 65,977	\$ 1,245,749
Net change	44,716	66,071	421,852
End of year	176,765	132,049	1,667,601
Fair value			
End of year	¥ 186,482	¥ 141,443	\$ 1,759,267

Notes:  
1. The carrying value on the consolidated balance sheet is the amount after deduction of accumulated depreciation from historical cost.  
2. The increase of carrying value is mainly attributable to the purchase of real estate of ¥104,036 million (\$981,473 thousand) and ¥72,667 million, in the fiscal years ended March 31, 2018 and 2017, respectively.  
3. The fair value of properties is mainly estimated based on income approach in accordance with Real Estate Appraisal standards as of March 31, 2018. For other properties, the Company reasonably estimated the fair value based on income approach or market approach while the Company used their carrying value as the fair value for certain properties.

18. SEGMENT INFORMATION

(1) Overview of reportable segments

The Fuyo Lease Group’s reportable segments are components of the Group about which separate financial information is available. These segments are subject to periodic examinations to enable the Company’s board of directors to decide how to allocate resources and assess performance.

The Fuyo Lease Group is primarily engaged in leasing and installment sales. Based on the major types of transactions handled, operations are divided into three reportable segments, namely the Lease and Installment Sales segment, the Financing segment, and the Other segment.

The Lease and Installment Sales segment conducts leasing of IT and office equipment, industrial machinery, and other assets (includes the sale of off-lease assets upon lease expiration or termination) and sells commercial/service equipment, production facilities, medical devices, and other assets on an installment basis. The Financing segment is mainly engaged in commercial lending and investment in marketable securities for financial income. The Other segment primarily engages in environmental-related businesses and forms tokumei-kumiai (silent partnership) arrangements.

(2) Revenues, income/loss, assets, liabilities, and other items by reportable segment

	Year ended March 31, 2018			
	Lease Installment	Financing	Other	Total
Millions of yen				
Operating revenues				
Revenue from customers	¥ 560,298	¥ 13,063	¥ 16,839	¥ 590,201
Intersegment revenue and transfers	839	2,073	846	3,759
Total revenues	561,137	15,137	17,686	593,961
Operating profit	¥ 29,705	¥ 8,605	¥ 4,438	¥ 42,749
Segment assets	¥ 1,619,503	¥ 677,427	¥ 36,926	¥ 2,333,858
Other items				
Depreciation	¥ 31,126	¥ —	¥ —	¥ 31,126
Amortization of goodwill	1,189	324	57	1,571
Amount invested in equity–method affiliates	—	—	—	—
Increase in tangible fixed assets and intangible fixed assets	157,674	—	3,648	161,323

	Year ended March 31, 2018			
	Lease Installment	Financing	Other	Total
Thousands of U.S. dollars				
Operating revenues				
Revenue from customers	\$ 5,285,837	\$ 123,240	\$ 158,864	\$ 5,567,941
Intersegment revenue and transfers	7,916	19,564	7,990	35,470
Total revenues	5,293,753	142,804	166,854	5,603,411
Operating profit	\$ 280,241	\$ 81,181	\$ 41,872	\$ 403,294
Segment assets	\$ 15,278,340	\$ 6,390,823	\$ 348,366	\$ 22,017,529
Other items				
Depreciation	\$ 293,646	\$ —	\$ —	\$ 293,646
Amortization of goodwill	11,218	3,061	543	14,822
Amount invested in equity–method affiliates	—	—	—	—
Increase in tangible fixed assets and intangible fixed assets	1,487,494	—	34,422	1,521,916

	Year ended March 31, 2017			
	Lease Installment sales	Financing	Other	Total
Millions of yen				
Operating revenues				
Revenue from customers	¥ 485,470	¥ 10,280	¥ 11,251	¥ 507,001
Intersegment revenue and transfers	950	1,469	691	3,112
Total revenues	486,420	11,749	11,943	510,114
Operating profit	¥ 28,717	6,964	3,678	39,360
Segment assets	¥ 1,552,310	646,179	26,731	2,225,221
Other items				
Depreciation	¥ 31,564	¥ —	¥ —	¥ 31,564
Amortization of goodwill	1,189	81	57	1,328
Amount invested in equity–method affiliates	—	—	—	—
Increase in tangible fixed assets and intangible fixed assets	127,061	—	247	127,308

**(3) Difference and analysis between reportable segments' total income/loss and income/loss reported on the consolidated statements of income (adjustments)**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating revenues			
Reportable segments total	¥ 593,961	¥ 510,114	\$ 5,603,411
Eliminations	(3,759)	(3,112)	(35,470)
Operating revenues reported on the consolidated statements of income	¥ 590,201	¥ 507,001	\$ 5,567,941
Income			
Reportable segments total	¥ 42,749	¥ 39,360	\$ 403,294
Eliminations	(1,876)	(2,077)	(17,700)
Corporate	(8,263)	(8,648)	(77,955)
Operating profit reported on the consolidated statements of income	¥ 32,609	¥ 28,634	\$ 307,639
Assets			
Reportable segments total	¥ 2,333,858	¥ 2,225,221	\$ 22,017,529
Corporate	96,980	74,868	914,908
Total assets reported on the consolidated balance sheets	¥ 2,430,838	¥ 2,300,090	\$ 22,932,437
Other items			
Depreciation			
Reportable segments total	¥ 31,126	¥ 31,564	\$ 293,646
Adjustment	1,251	1,200	11,802
Amounts reported on the consolidated financial statements	¥ 32,377	¥ 32,765	\$ 305,448
Amortization of goodwill			
Reportable segments total	¥ 1,571	¥ 1,328	\$ 14,822
Adjustment	—	—	—
Amounts reported on the consolidated financial statements	¥ 1,571	¥ 1,328	\$ 14,822
Amount invested in equity-method affiliates			
Reportable segments total	¥ —	¥ —	\$ —
Adjustment	14,504	7,566	136,831
Amounts reported on the consolidated financial statements	¥ 14,504	¥ 7,566	\$ 136,831
Increase in tangible fixed assets and intangible fixed assets			
Reportable segments total	¥ 161,323	¥ 127,308	\$ 1,521,916
Adjustment	2,213	1,220	20,883
Amounts reported on the consolidated financial statements	¥ 163,536	¥ 128,529	\$ 1,542,799

Notes:

1. Depreciation adjustments mainly represent depreciation on own-used assets.
2. Adjustments for amount invested in equity-method affiliates mainly represent the amount of funds invested in equity-method affiliates.
3. Adjustments on increases in tangible fixed assets and intangible fixed assets mainly represent capital investment in own-used assets.

**(4) Tangible fixed assets**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Japan	¥ 304,630	¥ 268,756	\$ 2,873,875
North America and Latin America	10,596	4,823	99,969
Europe			
Ireland	79,343	71,140	748,524
Other	1	1	11
Other items	5,801	5,782	54,730
Total	¥ 400,373	¥ 350,505	\$ 3,777,109

Note:

1. The figures shown are presented according to the respective geographic locations of the Company and its consolidated subsidiaries.
2. The following geographic categories primarily include the respective countries and regions shown below.  
North America and Latin America: United States, Republic of Panama  
Europe: United Kingdom, Ireland  
Asia: China, Malaysia, Thailand

**19. NET ASSETS PER SHARE**

Net assets per share are computed based on the net assets available for distribution to the shareholders of common stock (i.e., net assets excluding minority interests) and the number of shares of common stock outstanding on each balance sheet date.

	Yen		U.S. dollars
	2018	2017	2018
Net assets	¥ 8,242.50	¥ 7,547.33	\$ 77.76

**20. BASIC EARNINGS PER SHARE**

The reconciliation of the differences between basic and diluted basic earnings per share ("EPS") for the year ended March 31, 2018 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Basic earnings	Weighted average shares	EPS	
Year ended March 31, 2018				
Basic EPS				
Basic earnings available to common shareholders	¥ 21,944	30,209	¥ 726.41	\$ 6.85
Effect of dilutive securities warrants		269		
Diluted EPS				
Basic earnings for computation	¥ 21,944	30,478	¥ 719.99	\$ 6.79



21. SUBSEQUENT EVENTS

Cash dividends

The following appropriations of retained earnings of the Company, which are not reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, were approved at a shareholders’ meeting held on June 22, 2018:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends of ¥78 (\$0.74) per share	¥ 2,357	\$ 22,239

Introduction of Board Benefit Trust (BBT)

At the Board of Directors meeting held on May 16, 2018, the Company resolved to introduce a new stock-based remuneration plan or Board Benefit Trust (BBT) (the “Plan”) for the Company’s directors, excluding outside directors, (the “Eligible Directors”) and executive officers who currently do not serve as Directors (the “Executive Officers”) the Eligible Directors and Executive Officers are hereinafter collectively referred to as the “Directors, etc.”. The Company submitted the proposal regarding the Plan to the 49th Annual General Meeting of Shareholders held on June 22, 2018 (the “General Meeting of Shareholders”) and received approval.

1. Background and Purpose of the Plan

The Board of Directors of the Company resolved to submit the Proposal to the General Meeting of Shareholders to introduce the Plan under the conditions approved by the shareholders. The introduction of the Plan aims further raising the incentives for the Directors, etc. to contribute to improving medium and long term performance and enhancing corporate value, by making the linkage between the Directors’ remuneration and the Company’s equity value even clearer, in other words, by making that the Directors, etc. not only share the benefits of the share price rising but also share the risks of the share price declining with the shareholders.

Upon the resolution of the Board of Directors to introduce the Plan, the Nomination and Remuneration Advisory Committee, which majority of the members are independent outside directors, held deliberations and submitted a report acknowledging the validity of the Plan.

This Proposal requests approval for the new stock-based remuneration to Eligible Directors which separates from the upper limit of the cash remuneration for the Company’s directors (up to ¥500 million per annum, comprising up to ¥360 million per annum in “basic remuneration” for the Company’s directors and up to ¥140 million per annum in “performance-linked remuneration (annual bonus)” for the Company’s directors, excluding outside directors) approved at the 39th Annual General Meeting of Shareholders held on June 25, 2008.

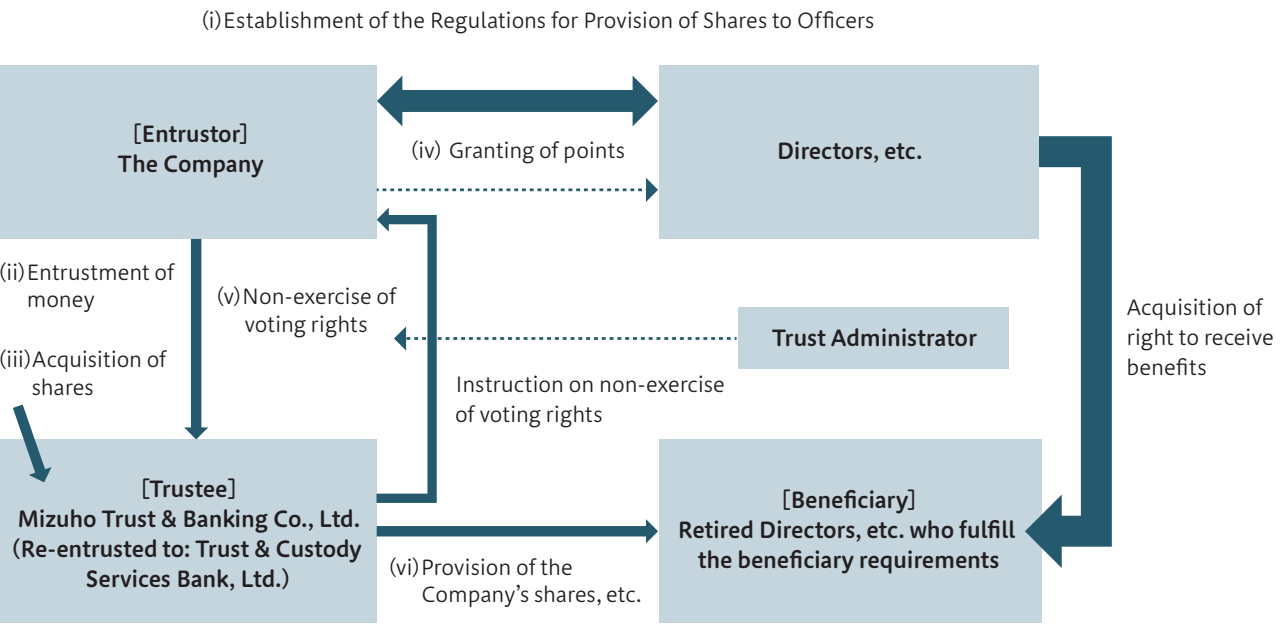
At the 39th Annual General Meeting of Shareholders held on June 25, 2008, the Company also has received approval for the amount up to ¥120 million per annum for “stock-based remuneration-type stock options” for the Eligible Directors, which separates from the aforementioned upper limit on cash remuneration, and has been in place until the 49th General Meeting of Shareholders. However, subject to the approval and adoption of this Proposal, the Company plans to stop to provide them with the former remuneration for “stock-based remuneration-type stock options.” However, subscription rights to shares that have been granted but not yet exercised will be effective in the future.

2. Overview of the Plan

(1)Overview of the Plan

The Plan is a stock-based remuneration plan, under which the Company’s shares will be acquired by a trust (the trust to be established under the Plan is referred to hereinafter as the “Trust”) using funds that the Company will contribute, and the Company’s shares and cash equivalent to the market price of the Company’s shares (the “Company’s share, etc.”) will be provided to the Directors, etc. from the Trust in accordance with the Regulations for Provision of Shares to Officers established by the Company. In principle, the Company’s shares, etc. will be provided to the Company’s Directors, etc. on their retirement.

<Structure of the Plan>



- (i) The Company will obtain approval for remuneration for officers at this General Meeting of Shareholders and will establish the Regulations for Provision of Shares to Officers within the scope of the framework approved at this General Meeting of Shareholders.
- (ii) The Company will entrust money within the limit for which approval was received at this General Meeting of Shareholders described in (i).
- (iii) The Trust will acquire shares of the Company through the stock market on which the Company’s shares are listed or by subscribing for treasury shares disposed of by the Company using the money entrusted as described in (ii) as the funds.
- (iv) The Company will grant points to the Directors, etc. in accordance with the Regulations for Provision of Shares to Officers.
- (v) In accordance with the instruction of the trust administrator, which is independent of the Company, the Trust shall not exercise the voting rights of the shares of the Company within the Trust account.
- (vi) The Trust will provide the persons who have retired from office of Directors, etc. and fulfill the beneficiary requirements as prescribed in the Regulations for Provision of Shares to Officers (the “Beneficiaries”) with the Company’s shares in proportion to the number of points that have been granted to the Beneficiaries. However, if the Directors, etc. satisfy the requirements as prescribed in the Regulations for Provision of Shares to Officers, the Trust will provide them with cash equivalent to the market price of the Company’s shares instead of the Company’s shares for a certain proportion of the points.

(2)Persons eligible for the Plan

The Eligible Directors and the Executive Officers of the Company

(3)Trust period

From August 2018 (planned) until the expiration of the Trust (With regard to the trust period for the Trust, no specific expiration date will be set, and the Trust will continue as long as the Plan continues. The Plan will terminate due to reasons that include the delisting of the Company’s shares and the abolition of the Regulations for Provision of Shares to Officers.)

**(4)Trust amount (amount of remuneration, etc.)**

Subject to the approval of this Proposal at the General Meeting of Shareholders, the Company will introduce the Plan for the three fiscal years starting from the fiscal year ending March 31, 2019 until the fiscal year ending March 31, 2021 (the relevant period of three fiscal years is referred to hereinafter as the “Initial Plan Period” with each period of three fiscal years after the Initial Plan Period being referred to as the “Plan Period”) and for each subsequent Plan Period. In order to provide, under the Plan, the Company’s shares, etc. to the Directors, etc., the Company will contribute money as outlined below to the Trust as funds for the acquisition of the Company’s shares by the Trust.

Firstly, at the commencement of the Trust Period as in (3) above, the Company will contribute money up to ¥950 million (which includes ¥360 million as the portion for the Eligible Directors) as the funds required for the Initial Plan Period.

In addition, after the Initial Plan Period, the Company will make additional contributions to the Trust up to ¥950 million (which includes ¥360 million as the portion for the Eligible Directors) for each Plan Period, in principle, until the termination of the Plan. However, in the case of making additional contributions, if the Company’s shares (excluding the Company’s shares corresponding to the points granted to the Directors, etc. for each immediately preceding Plan Period and provision of the Company’s shares to the Directors, etc. is not completed) and money remain in the Trust (such shares and money are collectively referred to as the “Remaining Shares, etc.”), the total amount of the Remaining Shares, etc. (the amount for the Company’s shares shall be the book value at the end day of the immediately preceding Plan Period) and additionally contributed money shall not exceed ¥950 million (which includes ¥360 million as the portion for the Eligible Directors).

The Company will provide timely and appropriate disclosure when it decides to make additional contributions. In addition, the Board of Directors will make the necessary arrangements in the event that the necessary funds (trust amount) which are the portion for the Executive Officers for each Plan Period the Company will contribute to the Trust exceed the upper limit (the Board of Directors will do likewise regarding the upper limit for the portion of the points granted to the Executive Officers in (6) below).

**(5)Method of acquisition of the Company’s shares and the number of shares to be acquired**

The acquisition of the Company’s shares by the Trust will be implemented through the stock market on which the Company’s shares are listed or by subscribing for treasury shares disposed of by the Company with the money contributed as in (4) above as the funds. A maximum of 300,000 shares (which include 114,000 shares as the portion for the Eligible Directors) shall be acquired in the Initial Plan Period. The Company will provide timely and appropriate disclosure concerning the details of the acquisition of the Company’s shares by the Trust.

**(6)Calculation method for the number of the Company’s shares, etc. to be provided to the Directors, etc.**

Each fiscal year, the number of points determined as per the Regulations for Provision of Shares to Officers will be granted to the Directors, etc. The maximum total number of points per fiscal year to be granted to the Directors, etc. shall be 100,000 points (which include 38,000 points as the portion for the Eligible Directors).

The points granted to the Directors, etc. shall be converted to one common share of the Company for one point upon the provision of the Company’s shares, etc. as in (7) below. (However, if there is a share split, allotment of shares without contribution, an integration of shares, etc., with regard to the Company’s shares, after the approval of this Proposal, the upper limit on the number of points, the number of points granted, and the conversion ratio shall be adjusted in a reasonable manner proportional to the relevant ratio, etc.)

These calculations and the trust amount were determined taking into consideration a comprehensive view of the current level of remuneration for officers and the trend in the number of the Directors, etc. as well as the future prospects thereof and other factors.

The number of points of a Director, etc. which will be used as the basis for the provision of the Company’s shares, etc. described in (7) below shall, in principle, be the number of points granted to the Director, etc. until the time of his/her retirement from office (points calculated in this manner are hereinafter referred to as the “Confirmed Number of Points”).

**(7)Provision of the Company’s shares, etc.**

If a retired Director, etc. fulfills the beneficiary requirements as prescribed in the Regulations for Provision of Shares to Officers, in principle, the Director, etc. will be provided from the Trust with the number of the Company’s shares that corresponds to the Confirmed Number of Points stipulated in accordance with (6) above after his/her retirement from office by following the prescribed beneficiary vesting procedures. However, if the Director, etc. satisfies the requirements as prescribed in the Regulations for Provision of Shares to Officers, the Trust will provide him/her with cash equivalent to the market price of the Company’s shares instead of the Company’s shares for a certain proportion of the points. The Trust may sell the Company’s shares in order to make the monetary provisions.

**(8)Exercise of voting rights**

Based on instructions from the trust administrator, none of the voting rights of the shares of the Company within the Trust account shall be exercised. By using this method, the Company intends to ensure neutrality toward management of the Company with regard to the exercise of the voting rights of the shares of the Company within the Trust account.

**(9)Treatment of dividends**

The Trust will receive the dividends for the shares of the Company within the Trust account, and the dividends will be used for the acquisition of shares of the Company or the trust fees for the trustees relating to the Trust. In the case of the termination of the Trust, dividends, etc. remaining within the Trust shall be granted to the Directors, etc. in office at that time in proportion to the number of points that each of them possesses.

**(10)Handling of the termination of trust**

The Trust will terminate for reasons such as the delisting of the Company’s shares or the abolition of the Regulations for Provision of Shares to Officers. Of the residual assets in the Trust on its termination, it is planned that the Company will acquire all of the Company’s shares without consideration, which will then be cancelled by resolution of the Board of Directors. Of the residual assets in the Trust on its termination, cash, excluding the cash provided to the Directors, etc. in accordance with (9) above, will be paid to the Company.

Overview of the Trust

- 1. Name: Board Benefit Trust (BBT)
- 2. Entrustor: The Company
- 3. Trustee: Mizuho Trust & Banking Co., Ltd. (Sub-trustee: Trust & Custody Services Bank, Ltd.)
- 4. Beneficiary: Retired Directors, etc. who fulfill the beneficiary requirements stipulated in the Regulations for Provision of Shares to Officers
- 5. Trust administrator: A third party without a conflict of interest with the Company will be selected
- 6. Type of trust: Entrustment of money other than money in trust (third-party benefit trust)
- 7. Date of conclusion of the trust agreement: August 2018 (scheduled)
- 8. Date of money entrustment: August 2018 (scheduled)
- 9. Trust period: From August 2018 (scheduled) until the expiration of the Trust  
(No specific expiration date will be set, and the Trust will continue as long as the Plan continues.)

**Corporate bond issuance**

The company issued straight bonds as follows:

- (1) Issue name: Fuyo General Lease Co., Ltd., No. 16 unsecured straight bond
- (2) Issuance amount: ¥15,000 million
- (3) Issuance date: April 27, 2018
- (4) Issue price: ¥100 per ¥100 of face value
- (5) Coupon rate: 0.210% per year
- (6) Redemption date: April 27, 2023
- (7) Purpose: To fund capital investments

# Report of Independent Auditors



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## Independent Auditor's Report

The Board of Directors  
Fuyo General Lease Co., Ltd.

We have audited the accompanying consolidated financial statements of Fuyo General Lease 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 Fuyo General Lease 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 1.

*Ernst & Young ShinNihon LLC*

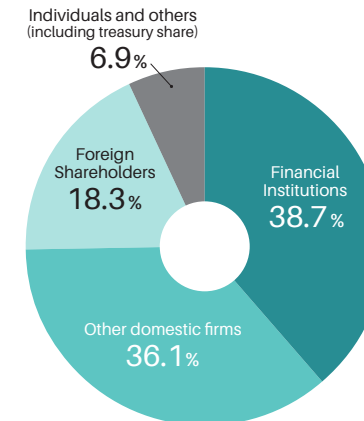
June 25, 2018

A member firm of Ernst & Young Global Limited

## Stock Information (As of March 31, 2018)

### Stock Overview

Total number of authorized shares	100,000,000 shares
Number of shares outstanding	30,288,000 shares
Share unit number	100 shares
Number of shareholders	12,937

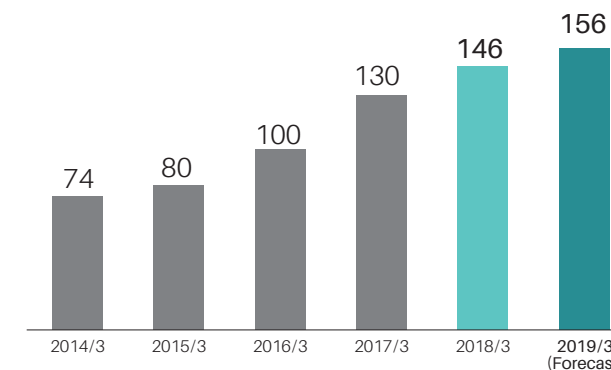


Breakdown of Shareholders	Number of Shareholders	Number of shares held (in thousands)
Financial Institutions	66	11,709
Other domestic firms	154	10,945
Foreign Shareholders	209	5,531
Individuals and others (including treasury share)	12,508	2,102 (treasury share included)

### Major Shareholders (Top 10)

Shareholders	Number of shares held (in thousands)	Shareholding ratio (%)
Hulic Co., Ltd.	4,218	13.96
Meiji Yasuda Life Insurance Company	2,261	7.48
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account); Trust & Custody Services Bank, Ltd. as a Trustee of Retrust	1,512	5.00
Sompo Japan Nipponkoa Insurance Inc.	1,002	3.32
Azbil Corporation	1,000	3.31
The Master Trust Bank of Japan, Ltd. (Trust Account)	979	3.24
Japan Trustee Services Bank, Ltd. (Trust Account)	958	3.17
Mizuho Bank, Ltd.	907	3.00
BBH FOR FIDELITY PURITAN TR: FIDELITY SR INTRINSIC OPPORTUNITIES FUND	550	1.82
Japan Trustee Services Bank, Ltd. (Trust Account 5)	431	1.43

### Annual dividend per share (Yen)





# FUYO LEASE

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