1. Consolidated Financial Statements

(1) Consolidated financial statements

   (i) Consolidated statement of financial position at December 31, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Thousands of U.S. dollars</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents 6, 33</td>
<td>¥34,095</td>
<td>¥25,919</td>
<td>¥27,402</td>
<td>$301,728</td>
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<tr>
<td>Trade and other receivables 7, 33</td>
<td>50,434</td>
<td>41,498</td>
<td>43,331</td>
<td>446,322</td>
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<tr>
<td>Other short-term financial assets 8, 33</td>
<td>1,698</td>
<td>909</td>
<td>623</td>
<td>15,031</td>
</tr>
<tr>
<td>Inventories 9</td>
<td>30,363</td>
<td>27,181</td>
<td>25,792</td>
<td>268,701</td>
</tr>
<tr>
<td>Income tax refund receivable</td>
<td>359</td>
<td>168</td>
<td>1,172</td>
<td>3,180</td>
</tr>
<tr>
<td>Other current assets 10</td>
<td>2,152</td>
<td>1,913</td>
<td>1,732</td>
<td>19,054</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>119,103</td>
<td>97,591</td>
<td>100,055</td>
<td>1,054,016</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment 11</td>
<td>38,454</td>
<td>35,679</td>
<td>33,563</td>
<td>340,304</td>
</tr>
<tr>
<td>Goodwill and intangible assets 12</td>
<td>67,792</td>
<td>28,098</td>
<td>27,734</td>
<td>599,934</td>
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<tr>
<td>Investments accounted for using the equity method 13</td>
<td>1,198</td>
<td>1,052</td>
<td>958</td>
<td>10,608</td>
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<tr>
<td>Long-term financial assets 8, 33</td>
<td>15,354</td>
<td>12,093</td>
<td>13,225</td>
<td>135,876</td>
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<td>Deferred tax assets 14</td>
<td>1,913</td>
<td>2,253</td>
<td>1,647</td>
<td>16,932</td>
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<tr>
<td>Other non-current assets 10</td>
<td>875</td>
<td>948</td>
<td>930</td>
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<tr>
<td><strong>Total non-current assets</strong></td>
<td>125,588</td>
<td>80,126</td>
<td>78,059</td>
<td>1,111,405</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥244,692</td>
<td>¥177,717</td>
<td>¥178,115</td>
<td>$2,165,421</td>
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<tr>
<td>Notes</td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
<td>Transition date January 1, 2016</td>
<td>December 31, 2017</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
<td>------------------</td>
<td>-------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Liabilities and equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and short-term borrowings</td>
<td>15, 33</td>
<td>¥76,975</td>
<td>¥16,557</td>
<td>¥19,487</td>
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<tr>
<td>Trade and other payables</td>
<td>16, 33</td>
<td>22,624</td>
<td>21,606</td>
<td>20,301</td>
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<tr>
<td>Other short-term financial liabilities</td>
<td>17, 33</td>
<td>573</td>
<td>512</td>
<td>613</td>
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<tr>
<td>Income taxes payable</td>
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<td>1,237</td>
<td>2,090</td>
<td>877</td>
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<td>Provisions</td>
<td>19</td>
<td>1,513</td>
<td>1,247</td>
<td>764</td>
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<tr>
<td>Other current liabilities</td>
<td>20</td>
<td>11,006</td>
<td>8,227</td>
<td>7,310</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td></td>
<td>113,930</td>
<td>50,241</td>
<td>49,356</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and long-term borrowings</td>
<td>15, 33</td>
<td>45,553</td>
<td>53,326</td>
<td>50,756</td>
</tr>
<tr>
<td>Other long-term financial liabilities</td>
<td>17, 33</td>
<td>569</td>
<td>549</td>
<td>465</td>
</tr>
<tr>
<td>Net defined benefit liabilities</td>
<td>21</td>
<td>3,287</td>
<td>3,617</td>
<td>3,504</td>
</tr>
<tr>
<td>Provisions</td>
<td>19</td>
<td>176</td>
<td>89</td>
<td>81</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>14</td>
<td>4,269</td>
<td>1,843</td>
<td>2,599</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>20</td>
<td>117</td>
<td>385</td>
<td>298</td>
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<tr>
<td>Total non-current liabilities</td>
<td></td>
<td>53,974</td>
<td>59,812</td>
<td>57,705</td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td>167,905</td>
<td>110,053</td>
<td>107,061</td>
</tr>
<tr>
<td>Equity</td>
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<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>22</td>
<td>6,544</td>
<td>6,544</td>
<td>6,544</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>22</td>
<td>11,099</td>
<td>11,103</td>
<td>11,091</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>22</td>
<td>(2,543)</td>
<td>(2,578)</td>
<td>(2,306)</td>
</tr>
<tr>
<td>Other components of equity</td>
<td>22</td>
<td>6,268</td>
<td>1,662</td>
<td>3,766</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>22</td>
<td>53,682</td>
<td>49,709</td>
<td>50,646</td>
</tr>
<tr>
<td>Equity attributable to owners of the Company</td>
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<td>75,051</td>
<td>66,441</td>
<td>69,742</td>
</tr>
<tr>
<td>Non-controlling interests</td>
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<td>1,736</td>
<td>1,222</td>
<td>1,310</td>
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<tr>
<td>Total equity</td>
<td></td>
<td>76,787</td>
<td>67,664</td>
<td>71,053</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td></td>
<td>244,692</td>
<td>177,717</td>
<td>178,115</td>
</tr>
</tbody>
</table>
(ii) Consolidated statement of profit or loss and consolidated statement of other comprehensive income

Consolidated statement of profit or loss for the year ended December 31, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended December 31, 2017</td>
<td>Year ended December 31, 2016</td>
</tr>
<tr>
<td>Revenue</td>
<td>24</td>
<td>¥140,912</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>9</td>
<td>(92,304)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>48,608</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>25</td>
<td>(42,218)</td>
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<tr>
<td>Other income</td>
<td>26</td>
<td>2,554</td>
</tr>
<tr>
<td>Other expenses</td>
<td>27</td>
<td>(227)</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td>8,718</td>
</tr>
<tr>
<td>Financial income</td>
<td>28</td>
<td>493</td>
</tr>
<tr>
<td>Financial costs</td>
<td>29</td>
<td>(1,112)</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures accounted for using the equity method</td>
<td>13</td>
<td>210</td>
</tr>
<tr>
<td>Profit before tax</td>
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<td>8,310</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>14</td>
<td>(3,005)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td>5,304</td>
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</tbody>
</table>

Profit for the year attributable to:

<table>
<thead>
<tr>
<th></th>
<th>Owners of the Company</th>
<th>Non-controlling interests</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>¥5,304</td>
<td>¥4,922</td>
<td>45,865</td>
<td>1,079</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td></td>
<td>46,944</td>
</tr>
</tbody>
</table>

Earnings per share

(Yen or U.S. dollars):

<table>
<thead>
<tr>
<th></th>
<th>Yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>31</td>
<td>¥72.82</td>
</tr>
<tr>
<td>Diluted</td>
<td>31</td>
<td>63.97</td>
</tr>
</tbody>
</table>
## Consolidated statement of other comprehensive income for the year ended December 31, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>¥5,304</td>
<td>¥4,922</td>
<td>$46,944</td>
</tr>
</tbody>
</table>

### Other comprehensive income:

- **Items that will not be reclassified subsequently to profit or loss**
  - Financial assets measured at fair value through other comprehensive income
    - Year ended December 31, 2017: ¥1,674
    - Year ended December 31, 2016: ¥66
    - Year ended December 31, 2017 (in U.S. dollars): $14,816
  - Remeasurements of defined benefit pension plans
    - Year ended December 31, 2017: (¥70)
    - Year ended December 31, 2016: (¥244)
    - Year ended December 31, 2017 (in U.S. dollars): (¥628)
  - Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method
    - Year ended December 31, 2017: 0
    - Year ended December 31, 2016: (¥1)
    - Year ended December 31, 2017 (in U.S. dollars): 0

  **Total**
  - Year ended December 31, 2017: ¥1,603
  - Year ended December 31, 2016: (¥178)
  - Year ended December 31, 2017 (in U.S. dollars): $14,188

- **Items that may be reclassified subsequently to profit or loss**
  - Exchange differences on translation of foreign operations
    - Year ended December 31, 2017: ¥3,357
    - Year ended December 31, 2016: (¥1,780)
    - Year ended December 31, 2017 (in U.S. dollars): $29,710
  - Gain (loss) on cash flow hedges
    - Year ended December 31, 2017: 14
    - Year ended December 31, 2016: (86)
    - Year ended December 31, 2017 (in U.S. dollars): 131
  - Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method
    - Year ended December 31, 2017: 31
    - Year ended December 31, 2016: (58)
    - Year ended December 31, 2017 (in U.S. dollars): 281

  **Total**
  - Year ended December 31, 2017: ¥3,403
  - Year ended December 31, 2016: (¥1,925)
  - Year ended December 31, 2017 (in U.S. dollars): $30,122

### Other comprehensive income, net of tax

- Year ended December 31, 2017: ¥12,038 (in U.S. dollars: $123,322)

### Total comprehensive income for the year

- Year ended December 31, 2017: ¥10,311
- Year ended December 31, 2016: ¥2,818
- Year ended December 31, 2017 (in U.S. dollars): $91,254

### Total comprehensive income for the year attributable to:

- **Owners of the Company**
  - Year ended December 31, 2017: 9,717
  - Year ended December 31, 2016: 2,819
  - Year ended December 31, 2017 (in U.S. dollars): 85,999

- **Non-controlling interests**
  - Year ended December 31, 2017: 593
  - Year ended December 31, 2016: (1)
  - Year ended December 31, 2017 (in U.S. dollars): 5,255

### Total comprehensive income for the year

- Year ended December 31, 2017: ¥10,311
- Year ended December 31, 2016: ¥2,818
- Year ended December 31, 2017 (in U.S. dollars): $91,254
(iii) Consolidated statement of changes in equity for the year ended December 31, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Other components of equity</th>
<th>Equity attributable to owners of the Company</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Financial assets measured at fair value through other comprehensive income</td>
<td>Millions of yen</td>
</tr>
<tr>
<td>Balance as of January 1, 2016</td>
<td>¥6,544</td>
<td>¥11,091</td>
<td>¥(2,306)</td>
<td>¥3,973</td>
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<tr>
<td>Profit for the year</td>
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<td>65</td>
<td>¥ (244)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£ (1,798)</td>
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<tr>
<td>Total comprehensive income for the year</td>
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<td></td>
<td></td>
<td>65</td>
<td>(244)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
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<td></td>
<td>(4,939)</td>
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<tr>
<td>Disposal of treasury shares</td>
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<td>2</td>
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<tr>
<td>Retirement of treasury shares</td>
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<td>(5)</td>
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<tr>
<td>Dividends</td>
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<td>15</td>
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<tr>
<td>Share-based payments</td>
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<tr>
<td>Transfer to retained earnings</td>
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<td></td>
<td>(284)</td>
<td>244</td>
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<td>Total transactions with owners</td>
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<td>12</td>
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<tr>
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<td>¥6,544</td>
<td>¥11,103</td>
<td>¥(2,578)</td>
<td>¥3,754</td>
<td>¥ (1,798)</td>
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<tr>
<td>Profit for the year</td>
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<td></td>
<td>1,674</td>
<td>¥ (70)</td>
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<tr>
<td>Total comprehensive income for the year</td>
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<td></td>
<td></td>
<td>1,674</td>
<td>(70)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>23</td>
<td></td>
<td></td>
<td>(0)</td>
<td></td>
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<tr>
<td>Disposal of treasury shares</td>
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</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td>(7)</td>
<td></td>
</tr>
<tr>
<td>Share-based payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td></td>
<td></td>
<td>(3)</td>
<td>34</td>
</tr>
<tr>
<td>Balance as of December 31, 2017</td>
<td>¥6,544</td>
<td>¥11,099</td>
<td>¥(2,543)</td>
<td>¥5,428</td>
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<table>
<thead>
<tr>
<th>Notes</th>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Other components of equity</th>
<th>Equity attributable to owners of the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Financial assets measured at fair value through other comprehensive income</td>
<td>Thousands of U.S. dollars</td>
</tr>
<tr>
<td>Balance as of December 31, 2016</td>
<td>$57,914</td>
<td>$98,264</td>
<td>$(22,818)</td>
<td>$33,223</td>
<td>$ (15,918)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>30</td>
<td></td>
<td></td>
<td>14,815</td>
<td>$(627)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25,813</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td></td>
<td></td>
<td>14,815</td>
<td>$(627)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>23</td>
<td></td>
<td></td>
<td>(6)</td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
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<td></td>
<td>26</td>
<td>312</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td>(62)</td>
<td></td>
</tr>
<tr>
<td>Share-based payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td>(35)</td>
<td>305</td>
<td></td>
<td>627</td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2017</td>
<td>$57,914</td>
<td>$98,229</td>
<td>$(22,512)</td>
<td>$48,039</td>
<td>-</td>
</tr>
</tbody>
</table>
### Equity attributable to owners of the Company

<table>
<thead>
<tr>
<th>Notes</th>
<th>Other components of equity</th>
<th>Profit (loss) in cash flow hedges</th>
<th>Total</th>
<th>Retained earnings</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of January 1, 2016</td>
<td></td>
<td>$(206)</td>
<td>3,766</td>
<td>$50,646</td>
<td>$(69,742)</td>
<td>1,310</td>
<td>$71,053</td>
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<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>4,883</td>
<td>4,883</td>
<td>38</td>
<td>4,922</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>(86)</td>
<td>(2,064)</td>
<td>(2,064)</td>
<td>(39)</td>
<td>(2,104)</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td>(86)</td>
<td>(2,064)</td>
<td>4,883</td>
<td>2,819</td>
<td>(1)</td>
<td>2,818</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>(4,939)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>(4,650)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td>(1,210)</td>
<td>(1,210)</td>
<td>(86)</td>
<td>(1,296)</td>
</tr>
<tr>
<td>Share-based payments</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td></td>
<td>(40)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td>(40)</td>
<td>(5,820)</td>
<td>(6,120)</td>
<td>(86)</td>
<td>(6,207)</td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2016</td>
<td></td>
<td>$(292)</td>
<td>1,662</td>
<td>$49,709</td>
<td>$66,441</td>
<td>1,222</td>
<td>$67,664</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>5,182</td>
<td>5,182</td>
<td>121</td>
<td>5,304</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>14</td>
<td>4,535</td>
<td>4,535</td>
<td>471</td>
<td>5,007</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td>14</td>
<td>4,535</td>
<td>5,182</td>
<td>9,717</td>
<td>593</td>
<td>10,311</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>(0)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td>(1,138)</td>
<td>(1,138)</td>
<td>(80)</td>
<td>(1,218)</td>
</tr>
<tr>
<td>Share-based payments</td>
<td></td>
<td></td>
<td></td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td></td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td>70</td>
<td>(1,209)</td>
<td>(1,108)</td>
<td>(80)</td>
<td>(1,188)</td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2017</td>
<td></td>
<td>$(278)</td>
<td>6,268</td>
<td>$53,682</td>
<td>$75,051</td>
<td>1,736</td>
<td>$76,787</td>
</tr>
</tbody>
</table>

### Other components of equity

<table>
<thead>
<tr>
<th>Notes</th>
<th>Other components of equity</th>
<th>Profit (loss) in cash flow hedges</th>
<th>Total</th>
<th>Retained earnings</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of December 31, 2016</td>
<td></td>
<td>$(2,591)</td>
<td>14,713</td>
<td>$439,903</td>
<td>$587,977</td>
<td>10,821</td>
<td>$598,798</td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td>45,865</td>
<td>45,865</td>
<td>1,079</td>
<td>46,944</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>131</td>
<td>40,134</td>
<td>40,134</td>
<td>4,176</td>
<td>44,310</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td>131</td>
<td>40,134</td>
<td>45,865</td>
<td>85,999</td>
<td>5,255</td>
<td>91,254</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>(7)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares</td>
<td></td>
<td></td>
<td></td>
<td>339</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td>(10,076)</td>
<td>(10,076)</td>
<td>(712)</td>
<td>(10,788)</td>
</tr>
<tr>
<td>Share-based payments</td>
<td></td>
<td></td>
<td></td>
<td>(62)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td></td>
<td>628</td>
<td>(628)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td>628</td>
<td>(10,704)</td>
<td>(9,806)</td>
<td>(712)</td>
<td>(10,518)</td>
<td></td>
</tr>
<tr>
<td>Balance as of December 31, 2017</td>
<td></td>
<td>$(2,460)</td>
<td>55,475</td>
<td>$475,064</td>
<td>$664,170</td>
<td>15,364</td>
<td>$679,534</td>
</tr>
</tbody>
</table>
Consolidated statement of cash flows for the year ended December 31, 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td>¥8,310</td>
<td>¥6,801</td>
<td>$73,540</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5,246</td>
<td>4,766</td>
<td>46,425</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(350)</td>
<td>(295)</td>
<td>(3,101)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>856</td>
<td>693</td>
<td>7,576</td>
</tr>
<tr>
<td>Exchange difference</td>
<td>612</td>
<td>112</td>
<td>5,421</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures accounted for</td>
<td>(210)</td>
<td>(174)</td>
<td>(1,863)</td>
</tr>
<tr>
<td>using equity method</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains on sale and disposal of property, plant and equipment</td>
<td>(1,191)</td>
<td>(238)</td>
<td>(10,545)</td>
</tr>
<tr>
<td>(Increase) decrease in trade and other receivables</td>
<td>(5,375)</td>
<td>742</td>
<td>(47,575)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>2,094</td>
<td>(1,961)</td>
<td>18,533</td>
</tr>
<tr>
<td>(Decrease) increase in trade and other payables</td>
<td>(1,921)</td>
<td>1,888</td>
<td>(17,002)</td>
</tr>
<tr>
<td>Decrease in net defined benefit liabilities</td>
<td>(470)</td>
<td>(206)</td>
<td>(4,167)</td>
</tr>
<tr>
<td>Other</td>
<td>2,098</td>
<td>2,616</td>
<td>18,570</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>9,696</td>
<td>14,744</td>
<td>85,812</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>441</td>
<td>369</td>
<td>3,910</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(688)</td>
<td>(679)</td>
<td>(6,094)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(4,534)</td>
<td>(1,034)</td>
<td>(40,125)</td>
</tr>
<tr>
<td><strong>Net cash generated by operating activities</strong></td>
<td>¥4,915</td>
<td>¥13,400</td>
<td>$43,503</td>
</tr>
</tbody>
</table>

**Investing activities:**

<p>| Payments into time deposits                                          | (467)                        | (500)                        | (4,133)                      |
| Proceeds from withdrawal of time deposits                            | 839                          | 212                          | 7,428                        |
| Purchase of property, plant and equipment                            | (5,604)                      | (6,719)                      | (49,601)                     |
| Proceeds from sale of property, plant and equipment                  | 1,703                        | 613                          | 15,073                       |
| Purchase of intangible assets                                        | (508)                        | (704)                        | (4,504)                      |</p>
<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of intangible assets</td>
<td>¥9</td>
<td>¥9</td>
<td>$88</td>
</tr>
<tr>
<td>Purchase of equity instruments</td>
<td>(1,734)</td>
<td>(148)</td>
<td>(15,345)</td>
</tr>
<tr>
<td>Proceeds from sale of equity instruments</td>
<td>1,058</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for acquisition of subsidiaries</td>
<td>35</td>
<td>(42,299)</td>
<td>(1,753)</td>
</tr>
<tr>
<td>Payments made for short-term loans receivable</td>
<td>(6)</td>
<td>(67)</td>
<td>(61)</td>
</tr>
<tr>
<td>Proceeds from collection of short-term loans receivable</td>
<td>11</td>
<td>10</td>
<td>98</td>
</tr>
<tr>
<td>Payments of made for long-term loans receivable</td>
<td>(1)</td>
<td>(3)</td>
<td>(16)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>¥(48,058)</td>
<td>¥(7,993)</td>
<td>$(425,300)</td>
</tr>
<tr>
<td>Notes</td>
<td>Year ended December 31, 2017</td>
<td>Year ended December 31, 2016</td>
<td>Year ended December 31, 2017</td>
</tr>
<tr>
<td>-------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Thousands of U.S. dollars</td>
<td></td>
</tr>
<tr>
<td>Financing activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from short-term borrowings</td>
<td>¥53,118</td>
<td>¥13,951</td>
<td>$470,077</td>
</tr>
<tr>
<td>Repayments of short-term borrowings</td>
<td>(13,296)</td>
<td>(13,494)</td>
<td>(117,668)</td>
</tr>
<tr>
<td>Repayments of finance lease obligations</td>
<td>(75)</td>
<td>(88)</td>
<td>(666)</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>16,886</td>
<td>8,886</td>
<td>149,441</td>
</tr>
<tr>
<td>Repayments of long-term borrowings</td>
<td>(4,398)</td>
<td>(9,269)</td>
<td>(38,921)</td>
</tr>
<tr>
<td>Payments for purchase of treasury shares</td>
<td>23</td>
<td>(0)</td>
<td>(4,939)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(1,138)</td>
<td>(1,210)</td>
<td>(10,076)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>33</td>
<td>(80)</td>
<td>(86)</td>
</tr>
<tr>
<td>Net cash generated by/ used in financing activities</td>
<td>¥51,015</td>
<td>¥(6,251)</td>
<td>$451,467</td>
</tr>
<tr>
<td>Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies</td>
<td>302</td>
<td>(638)</td>
<td>2,680</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>8,175</td>
<td>(1,482)</td>
<td>72,351</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>25,919</td>
<td>27,402</td>
<td>229,376</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>¥34,095</td>
<td>¥25,919</td>
<td>$301,728</td>
</tr>
</tbody>
</table>
Notes to Consolidated Financial Statements

1. Reporting Entity
NIKKISO CO., LTD. (the “Company”) is a corporation located in Japan. Information on the registered head office of the Company is made available in Japanese on the corporate website (https://www.nikkiso.co.jp/). The Company and domestic and overseas consolidated subsidiaries (collectively the “Group”) engage in business activities in two segments, the Industrial Business and Medical Business. The Industrial Business is categorized into the Industrial Division, Precision Equipment Business Division, Aerospace Division, and the deep ultraviolet LED Division. The Medical Business consists of the Medical Division only. Each of the divisions manufactures, sells, and performs maintenances on the Company’s products in Japan and overseas.
The Company’s consolidated financial statements incorporate the Group’s interests in the Group and its associates. The end of the fiscal year is December 31.

2. Basis for Preparation
(1) Compliance with International Financial Reporting Standards (“IFRS”) and first-time adoption
The Company prepares its consolidated financial statements in conformity with IFRS, established by the International Accounting Standards Board.
To conform to IFRS, the accompanying consolidated financial statements have been prepared by making certain adjustments to the financial statements of the Company and its subsidiaries, which have been prepared in accordance with the accounting principles prevailing in their countries of incorporation.
The Group adopted IFRS for the first time in the fiscal year ended December 31, 2017, with an IFRS transition date of January 1, 2016. In conjunction with the transition to IFRS, the Group has applied IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”). The impact on financial position, operating results and cash flows of the transition to the IFRS for the Group at the transition date and in the comparative year is provided in Note “39. First-Time Adoption of IFRS.” Except for the standards of IFRS that have not been early adopted and exemptions provided in Note “39. First-Time Adoption of IFRS,” the Group’s accounting policies are in accordance with the IFRS effective December 31, 2017.
The Company’s consolidated financial statements were approved on March 22, 2018 by Toshihiko Kai, President and Chief Executive Officer.

(2) Basis of measurement
The consolidated financial statements have been prepared based on historical cost, except for financial instruments measured at fair values as described in Note “3. Significant Accounting Policies.”

(3) Functional currency and presentation currency
These consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency, and figures are rounded to the nearest million yen.
The translation of Japanese yen amounts into U.S. dollar amounts for the year ended December 31, 2017 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥113 to $1, the approximate rate of exchange at December 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(4) Significant accounting judgments, estimates, and assumptions
In preparing the consolidated financial statements in accordance with IFRS, management makes judgments, estimates, and assumptions that affect the application of accounting policies and reporting amounts of assets, liabilities, revenue, and expenses. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions on accounting estimates are recognized in the period in which the estimate is revised and in future periods. Among the items for which estimates and judgments have been made, the items which significantly affect the amounts in the Company’s consolidated financial statements for the year and thereafter are as follows:
• Scope of consolidation – Note “3. Significant Accounting Policies, (1) Basis of consolidation”
• Revenue recognition – Note “3. Significant Accounting Policies, (14) Revenue”
• Recoverability of deferred tax assets – Note “14. Income Taxes”
• Accounting and evaluation for provisions – Note “19. Provisions”
• Determination of defined benefit obligations – Note “21. Employee Benefits”
• Measurement of fair value of financial instruments – Note “33. Financial instruments”

(5) Early adoption of new accounting standards
The Group has early adopted IFRS 9, “Financial Instruments” (revised July 2014).

3. Significant Accounting Policies
   (1) Basis of consolidation
      (i) Subsidiaries
         A subsidiary is an entity controlled by the Group. Whether the Group controls an entity is
determined by whether the Group is exposed, or has rights, to returns that vary as a result of
the entity’s operating performance and has the ability to affect those returns through its power
over the entity, based on comprehensive consideration of various elements indicative of
possible control, including not only ownership of voting rights but also the existence of
substantively exercisable potential voting rights and whether corporate officers and/or
employees dispatched to the entity from the Company or its subsidiaries constitute a majority
of the entity’s board of directors.
Subsidiaries’ financial statements are consolidated into the Group’s consolidated financial
statements from the date of acquisition of control to the date of loss of control.
Transactions that result in changes in the Group’s ownership interest in a subsidiary are
accounted for as equity transactions if the Group retains control of the subsidiary. Differences
between adjustments of non-controlling interests and the fair value of consideration paid or
received are recognized directly in equity and attributed to the Group.
If accounting policies applied by a subsidiary differ from those applied by the Group, the
Group adjusts the subsidiary’s financial statements as necessary. If a subsidiary’s reporting
date differs from the consolidated reporting date, the subsidiary prepares separate financial
statements as of the consolidated reporting date for the purpose of preparing the Group’s
consolidated financial statements.
Intragroup balances, intragroup transactions, and unrealized gains/losses on intragroup
transactions are eliminated in the consolidated financial statements. Comprehensive income is
attributed to owners of the parent and non-controlling interests even if this results in the non-
controlling interests having a deficit balance.
(ii) Associates and joint ventures

An associate is an entity over whose financial and operating policies the Group has significant influence but does not control. The Group determines whether it has significant influence based on comprehensive consideration of various elements, including not only ownership of voting rights but also the existence of substantively exercisable potential voting rights and the percentage of the seats on the entity’s board of directors held by corporate officers and/or employees dispatched to the entity from the Company or its subsidiaries.

A joint venture is an arrangement over which multiple parties, including the Group, share contractually agreed control, wherein decisions regarding relevant activities require the unanimous consent of the parties sharing control and the Group has rights to the arrangement’s net assets.

Investments in associates and joint ventures are accounted for using the equity method. The Group amends associates and joint ventures’ accounting policies as necessary to harmonize them with accounting policies applied by the Group.

The Group’s consolidated financial statements include investments in an associate with a fiscal year-end that differs from the consolidated fiscal year-end because relationships with co-shareholders, among others factors, render synchronization of fiscal year-ends impractical. The Group makes adjustments as necessary for significant transactions and events that occur between its fiscal year-end and the associate’s fiscal year-end. Said associate’s fiscal year-end is March 31.

Equity-method investments are initially measured at cost; their investment carrying amounts are subsequently adjusted in response to post-acquisition changes in the Group’s pro-rata share of associates and joint ventures’ net assets. When adjusting carrying amounts, the Group recognizes its pro-rata share of associates and joint ventures profit or loss in its own profit or loss. Additionally, the Group recognizes its pro-rata share of associates and joint ventures’ other comprehensive income in its own other comprehensive income. The Group recognizes its pro-rata share of associates and joint ventures’ losses in its own profit or loss to the extent that any such losses do not exceed the investment’s carrying amount. Any losses in excess of the carrying amount are recognized only to the extent the Group is legally or constructively obligated to bear the losses or make payments on behalf of the associate or joint venture.

Profits derived from significant intergroup transactions are eliminated to the extent of the Group’s interest in the involved associate or joint venture.

The Group recognizes goodwill to the extent that the consideration it exchanged to acquire its interest in an associate or joint venture exceeds the net fair value of the assets and liabilities recognized on the associate or joint venture’s acquisition date. The goodwill is included in the investment’s carrying amount and not amortized.
Business combinations

Business combinations are accounted for using the acquisition method. Acquisition consideration is measured as the sum of the acquisition-date fair value of assets transferred, liabilities assumed and equity issued by the Company in exchange for control of the acquiree. The acquiree’s identifiable assets and liabilities are measured at fair value at the acquisition date. Acquisition-related costs are expensed. Any excess of acquisition consideration over the identifiable assets and liabilities’ net fair value is recognized as goodwill. Conversely, if the acquisition consideration is less than the identifiable assets and liabilities’ net fair value, the difference is immediately recognized in profit or loss.

Non-controlling interests are measured as their pro-rata share of the difference between the acquiree’s identifiable assets and liabilities. Follow-on acquisitions of non-controlling interests are accounted for as equity transactions. Accordingly, no goodwill is recognized in conjunction with such transactions.

If a business combination’s initial accounting is not complete by the business combination’s reporting date, the Group reports provisional values for items not yet finalized. The provisional values recognized at the acquisition date are retrospectively adjusted to reflect new information obtained during a certain designated period (the “measurement period”) on facts and circumstances that existed at the acquisition date and, if known at the acquisition date, would have affected the measurement of the amounts recognized. When such newly obtained information gives rise to recognition of previously unrecognized assets and/or liabilities, the Group recognizes the additional assets and/or liabilities. The measurement period may not exceed one year.

Business combinations under common control (i.e., transactions in which all of the combining entities and/or businesses are ultimately controlled by the same party or parties both before and after the business combination and the common control is not transitory) are accounted for at book value.

Foreign currency translation

Group companies’ financial statements are prepared in the currency of the primary economic environment in which they operate (functional currency). Transactions in currencies other than their respective functional currencies (foreign currencies) are translated to the functional currency using the exchange rate prevailing at or near the transaction date.

Monetary items denominated in foreign currencies are translated using the exchange rate prevailing at the reporting date. Non-monetary items denominated in foreign currencies are translated at transaction-date exchange rates if measured at historical cost and at measurement-date exchange rates if measured at fair value. Exchange differences arising from translation or settlement are recognized in profit or loss.

The consolidated financial statements are prepared in Japanese yen, the Company’s functional currency and the consolidated financial statements’ presentation currency. Foreign operations’ assets and liabilities are translated to Japanese yen for presentation in the consolidated financial statements using reporting-date exchange rates; their income and expenses are translated at period-average exchange rates, except when the exchange rate varies significantly during the period. Any currency translation differences are recognized in other comprehensive income and accumulated in a separate component of other components of equity.
In the event of loss of control or significant influence over foreign operations, the cumulative amount of currency translation differences associated with those operations is recognized in profit or loss in the reporting period during which the loss of control or significant influence occurred. Goodwill and fair value adjustments that arise due to acquisition of foreign operations are translated to the presentation currency as assets and/or liabilities of the foreign operations as of the end of the reporting period. Any resultant currency translation differences are classified in other components of equity.

(4) Financial instruments

(i) Financial assets

1) Initial recognition and measurement

The Group classifies non-derivative financial assets as either financial assets measured at amortized cost or financial assets measured at fair value and designates the financial assets' classification at the time of initial recognition. Financial assets measured at amortized cost are initially recognized on the date the Group becomes a party to the financial asset’s contractual provisions; other financial assets are initially recognized on their transaction date.

Financial assets that meet the following conditions at the time of initial recognition are classified as financial assets measured at amortized cost and initially measured at fair value plus any transaction costs directly incurred in acquiring them.

- The financial asset is held pursuant to a business model with the objective of holding assets to collect contractual cash flows.
- The financial asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Except for said financial assets measured at amortized cost, financial assets are classified as equity instruments measured at fair value through other comprehensive income (FVTOCI) or financial assets measured at fair value through profit or loss (FVTPL). The Group irrevocably elects to measure FVTOCI-designated equity instruments at fair value and recognizes changes in their carrying amounts through other comprehensive income. Financial assets that are neither equity instruments nor meet the requirements for measurement at amortized cost are measured at fair value with changes in their fair value recognized through profit or loss.

Equity instruments measured at FVTOCI are initially measured at fair value plus transaction costs directly incurred in acquiring them. Financial assets measured at FVTPL are measured at fair value when initially recognized and transaction costs are recognized in profit or loss when incurred.
2) Subsequent measurement

Financial assets measured at amortized cost are measured using the effective interest method. Amounts amortized by the effective interest method and gains and losses on derecognition are recognized in profit or loss.

Gains or losses on the disposal, or changes in the fair value, of equity instruments measured at FVTOCI are recognized in other comprehensive income. Upon derecognition of an equity instrument, the cumulative net change in its fair value included in other components of equity is directly transferred to retained earnings. Dividends on equity instruments are recognized in profit or loss when the right to their receipt is established. Gains or losses on the disposal, or changes in the fair value, of financial assets measured at FVTPL are recognized in profit or loss.

3) Impairment of financial assets measured at amortized cost

To account for impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

At every fiscal year-end, the Group evaluates whether credit risk associated with financial assets has increased significantly since initial recognition. If the credit risk associated with financial assets has not increased significantly since initial recognition, the Group measures the allowance for doubtful accounts for those financial assets at the equivalent of 12 months of expected credit losses. The allowance for doubtful accounts for credit-impaired financial assets, defined as financial assets whose credit risk has increased significantly since initial recognition and are deemed wholly or partially unrecoverable or infeasible to recover, is measured at the equivalent of the assets’ lifetime expected credit losses.

However, the allowance for doubtful accounts for trade receivables and the like are always measured at the equivalent of lifetime expected credit losses.

Expected credit losses on financial instruments are estimated by methods that reflect:

- Significant changes in a financial asset’s external credit rating(s);
- Internal credit rating downgrades;
- Deterioration in the debtor’s operating performance; and
- Past-due information.

For trade receivables, future expected credit losses are estimated using historical data on the percentage of expected credit losses actually incurred on similar receivables. Expected credit losses thus measured are recognized in profit or loss. In the event of a reduction in the recorded allowance for doubtful accounts, the allowance for doubtful accounts is reversed into profit or loss to the extent of the reduction.
4) **Derecognition**
   The Group derecognizes financial assets when the contractual rights to the cash flows from the financial assets expire, or when substantially all the risks and rewards of ownership of the financial assets transfer.

(ii) **Financial liabilities**
1) **Initial recognition and measurement**
   The Group classifies financial liabilities as financial liabilities measured at amortized cost, except for derivatives, and measures them at initial recognition by deducting transaction costs directly attributable to the issuance from the fair value.

2) **Subsequent measurement**
   After initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Amortized cost using the effective interest method and derecognized gains and losses are recognized in profit or loss.

3) **Derecognition**
   The Group derecognizes financial liabilities at the time the obligation specified in contract ceases (i.e., the obligation is discharged, canceled, or expired).

(iii) **Hedge accounting and derivatives**
   The Group utilizes derivatives such as currency swaps, interest rate swaps, and forward currency contracts to hedge interest rate risks and foreign exchange risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value as of the end of the reporting period.
   Derivatives held by the Group for hedging purposes may include some that do not meet hedge accounting requirements. All changes in these non-compliant derivatives’ fair values are immediately recognized in profit or loss.
   The Group only uses cash flow hedges as a hedge accounting method. The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income; the ineffective portion is immediately recognized in profit or loss. A hedging instrument’s net cumulative gain or loss recognized in other comprehensive income is transferred to profit or loss when the hedged transaction affects profit or loss.
   When a hedge accounted for using hedge accounting ceases to meet hedge accounting requirements, or when a hedging instrument expires or is sold, terminated, or exercised, or when a hedge designation is revoked, application of hedge accounting is prospectively discontinued for the hedge in question.

(iv) **Compound financial instruments**
   The liability component of bonds issued by the Company with stock acquisition rights convertible into the Company’s ordinary shares at their holder’s election (the “convertible bonds”) is initially recognized at fair value as implied by the fair value of similar debt instruments without an equity conversion option. The convertible bonds’ equity component is initially recognized as the difference between their total fair value and their liability component’s fair value.
   After initial recognition, the liability component is measured at amortized cost using the effective interest method; the equity component is not remeasured after initial recognition.
(5) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash, subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories
Inventories are stated at the lower of cost or net realizable value. Inventories include costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.
Historical cost is determined at cost mainly by using the moving-average method. Finished goods and work in progress in the Industrial Division are stated at cost determined by the identified cost method.
Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(7) Property, plant and equipment
The Group uses a cost model to measure property, plant and equipment, which are carried at historical cost less accumulated depreciation and accumulated impairment losses.
Historical cost includes costs directly related to an asset’s acquisition, site restoration costs related to the asset’s dismantlement and/or removal and borrowing costs eligible for capitalization. When multiple different significant components can be identified in a unit of property, plant and equipment, each component is accounted for as a separate item of property, plant and equipment.
Property, plant and equipment are derecognized upon their disposal or when no further economic benefit is expected to be derived from their use or disposal. Gains or losses on derecognition of property, plant and equipment are measured as the difference between their net disposal proceeds and carrying amount, and recognized in profit or loss at the time of derecognition.
Items of property, plant and equipment other than land and construction in progress are mostly depreciated by the straight-line method over their respective estimated useful lives. Estimated useful lives for major asset categories are as follows:
- Buildings and structures: 3 to 50 years
- Machinery and vehicles: 4 to 8 years
The estimated useful lives, residual values, and depreciation method are reviewed at each fiscal year-end. If there are any changes made to the estimated useful lives, residual values, or depreciation method, such changes are accounted for as changes in accounting estimates and applied prospectively.

(8) Goodwill and intangible assets
(i) Goodwill
Goodwill arising from business combinations is recorded as intangible assets. Goodwill measurements at initial recognition are presented in Note “3. Significant Accounting Policies, (2) Business combinations.”
Goodwill is not amortized and is tested for impairment each fiscal year, or whenever there is any indication of impairment. Impairment tests for goodwill and measurements for impairment losses are presented in Note “3. Significant Accounting Policies, (10) Impairment of non-financial assets.” Impairment losses on goodwill are recognized in profit or loss and
are not reversed in subsequent periods. Goodwill is recorded at cost less accumulated impairment losses.
On disposal of a cash-generating unit ("CGU"), the amount of allotted goodwill is included in the calculation of profit or loss on disposal.

(ii) Intangible assets
Intangible assets with finite useful lives are carried at historical cost less accumulated amortization and accumulated cumulative impairment losses.
Intangible assets are amortized based on the straight-line method in accordance with their estimated useful lives. The estimated useful lives of major intangible assets are as follows:
- Customer-related assets: 7 to 10 years
- Technological assets: 7 to 17 years
- Software: 5 years
The estimated useful lives, residual values, and amortization method are reviewed at each fiscal year-end. If there are any changes made to the estimated useful lives, residual values, or the amortization method, such changes are accounted for as changes in accounting estimates and applied prospectively.
Intangible assets with indefinite useful lives are not amortized, but are tested for impairment and carried at historical cost less accumulated impairment losses. Impairment tests are performed individually or in CGUs in each fiscal year or whenever there is any indication of impairment.

(iii) Internally-generated intangible assets
Expenditures on research activities are recognized in profit or loss in the fiscal year in which they are incurred.
Internally-generated intangible assets arising from development (or from the development phase of an internal project) are recognized if, and only if, all of the following have been demonstrated:
- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The Company’s intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.
The amount initially recognized for internally-generated intangible assets is the sum of the expenses incurred from the date when the intangible assets first meet all of the recognition criteria listed above to completion of development. Where no internally-generated intangible asset can be recognized, development costs are recognized as profit or loss in the fiscal year in which they are incurred. After initial recognition, internally-generated intangible assets are recorded at amount less accumulated amortization and accumulated impairment losses from acquisition cost.
Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. An operating lease is a lease other than a finance lease. Determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, even if the arrangement does not take the legal form of a lease.

Leased assets and lease obligations through finance lease transactions are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the initial date of the lease terms. Leased assets are depreciated by using the straight-line method based on the accounting policies applied to said assets.

Leased assets are derecognized upon their disposal or when no further economic benefit is expected to be derived from their use or disposal. Gains or losses on derecognition of leased assets are measured as the difference between their net disposal proceeds and carrying amount, and recognized in profit or loss at the time of derecognition.

The amount of lease payments from operating lease transactions is recognized as an expense by using the straight-line method over the lease terms.

Impairment of non-financial assets

At every fiscal year-end, the Group assesses its non-financial assets’ carrying amounts for indications of impairment. When indications of impairment exist, the Group estimates the recoverable value of the asset in question. For goodwill, intangible assets with an indefinite useful life, and intangible assets not ready for use, recoverable value is estimated annually, at the same time of year, even in the absence of indications of impairment.

The recoverable value of assets and CGUs is the greater of their value in use or their fair value less costs to sell. Value in use is measured as estimated future cash flows discounted to present value using a pre-tax discount rate that reflects the time value of money and risks specific to the asset in question.

Assets not individually tested for impairment are grouped into the smallest CGUs that, through ongoing use of their assets, generate cash inflows largely independent of cash inflows from other assets or asset groups. When conducting goodwill impairment tests, CGUs to which goodwill is allocated are aggregated so that the goodwill testing reflects the smallest goodwill-related units.

Goodwill acquired through business combinations is allocated to CGUs expected to benefit from synergies arising from the combination.

The Group’s corporate assets do not generate independent cash inflows. In the event of indications of impairment of corporate assets, the Group estimates the recoverable value of the CGU to which the corporate assets belong.

An impairment loss is recognized in profit or loss when the carrying amount of an asset or a CGU exceeds its estimated recoverable value. Impairment losses recognized with respect to a CGU are allocated to specific assets by first reducing the carrying amount of any goodwill allocated to the CGU and then reducing the carrying amounts of other assets in the CGU on a pro-rata basis.

Goodwill impairment losses are not reversed, but other assets against which impairment losses were previously recognized are assessed at every fiscal year-end for indications that their impairment losses have decreased or ceased to exist. The impairment losses are reversed if the estimates used to determine recoverable value have changed. Impairment losses are reversed up to a maximum of the amount that restores the asset’s carrying amount, net of any required
depreciation or amortization, to what it would have been had the impairment loss not been recognized.

(11) Non-current assets held for sale
An asset or asset group which is expected to be recovered through a sale transaction rather than through continued use is classified as a non-current asset or disposal group held for sale if it is highly probable that the asset or asset group will be sold within one year and the asset or asset group is available for immediate sale in its present condition and the management of the Group is committed to such sale. In such cases, non-current assets are neither depreciated nor amortized, and are measured at carrying amount or fair value less cost of sales, whichever is lower.

(12) Provisions
Provisions are recognized when a present legal or constructive obligation exists as the result of a past event, an outflow of resources embodying economic benefits will likely be required for the Group to settle the obligation, and the amount of the obligation can be reliably estimated. When the effect of the time value of money is significant, provisions are measured at the present value of estimated future cash flows discounted using a pre-tax discount rate that reflects the time value of money and the current market assessment of risks specific to the liability in question. Discounts are recognized as finance costs as they unwind over time.

(13) Employee benefits
(i) Post-employment benefits
The Group has adopted defined benefit pension plans and defined contribution plans. The Company and certain subsidiaries have established defined benefit retirement pension plans and lump-sum retirement benefit plans. Liabilities associated with retirement benefit pension plans are measured at the present value of defined benefit plan obligations less the fair value of the plans’ assets to be used to settle those liabilities. Defined benefit obligation is measured on a plan-by-plan basis as the present value of estimated future benefits payable as compensation for employees’ services rendered in prior fiscal years and the current fiscal year. They are measured annually by a pension actuary using the projected unit credit method. As a discount rate, the Group uses the fiscal-year-end yield of a high-quality corporate bond with a maturity approximately equivalent to the duration of the Group’s defined benefit obligation. Past service cost is recognized in profit or loss when incurred.
Service costs and net interest on net defined benefit liabilities are recognized in profit or loss in the reporting period incurred.
Remeasurements of net defined benefit liabilities are recognized in other comprehensive income and transferred from other components of equity to retained earnings when they occur.
The Company and certain subsidiaries have established defined contribution plans. Employer contributions to defined contribution plans are recognized as expenses in the reporting period in which the beneficiary employees rendered services.
(ii) Other long-term employee benefits
For other long-term employee benefit plans, the Group measures benefit obligations by estimating future benefits based on the plan arrangements and discounting the estimate to present value if the Group has a present constructive obligation to pay benefits contingent on satisfaction of certain conditions and the amount of said benefits can be reliably estimated. As a discount rate, the Group uses the fiscal-year-end yield of a high-quality corporate bond with a maturity approximately equivalent to the duration of the Company’s obligations.

(iii) Short-term employee benefits
Short-term employee benefits are recognized undiscounted as expenses when the services that entitle employees to the benefits are rendered.
For bonuses, the Group recognizes a liability in the estimated amount to be paid based on the bonus arrangements if the Group has a present legal or constructive obligation to pay the bonuses as a result of labor previously provided by employees and the amount payable can be reliably estimated.

(14) Revenue
(i) Sale of goods
The Group recognizes revenue on product sales when the significant risks and rewards of ownership of the goods have transferred to the customer, the Group retains neither continuing managerial involvement with nor effective control of the goods, an inflow of economic benefits related to the transactions is probable, and the cost of goods sold and the amount of revenue related to the transaction can be reliably measured.
In the case of construction contracts, (e.g., infrastructure or systems), the Group measures revenue by multiplying the contract’s estimated total revenue by the ratio of the contract costs incurred to date to the estimated total contract costs, provided that the contract’s outcome can be reliably estimated. If a construction contract's outcome cannot be reliably estimated, the Group recognizes revenue only to the extent of incurred contract costs likely to be recovered. Expected losses on fixed-price contracts are expensed as soon as the loss can be estimated.

(ii) Rendering of services
The Group recognizes revenue from plant/equipment maintenance and operation and other services in accord with the transaction’s stage of completion, provided that the transaction’s stage of completion at the reporting date, the amount of revenue, and costs related to the transaction can all be reliably measured and an inflow of economic benefits related to the transaction is probable.

(15) Government grants
The Group measures and recognizes government grant revenue at fair value if there is reasonable assurance that the Group will comply with the grant’s conditions and receive the grant. Government grants that compensate for expenses already incurred are recognized as revenue in the same reporting period in which the expenses were incurred. Government grants that subsidize acquisition of an asset are deducted from the asset’s acquisition cost in measuring the asset’s carrying amount.
Income taxes

Income tax expense represents the sum of current income taxes and deferred income taxes. Income taxes are recognized in profit or loss, except for taxes arising from business combinations, and taxes arising from items that are recognized directly in equity or other comprehensive income. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. The amount of taxes is calculated based on the tax rates and tax laws that are enacted or substantively enacted at the end of the fiscal year.

Deferred income taxes are recognized on temporary differences between assets and liabilities’ tax bases and carrying amounts at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused deferred tax credits, and unused tax losses to the extent of the probable availability of taxable profits against which the deferred tax assets can be recovered. Deferred tax liabilities are, as a general rule, recognized for taxable temporary differences. Deferred tax assets and liabilities are not recognized for:

- temporary differences arising from initial recognition of goodwill;
- temporary differences arising from initial recognition of an asset or liability in conjunction with a transaction that is not a business combination and has no effect on either accounting profit or taxable profit (or loss) at the time of the transaction;
- deductible temporary differences related to an investment in a subsidiary, an associate, or a joint venture interest if there is a low probability of the temporary difference reversing in the foreseeable future or of sufficient taxable profits being available to utilize the temporary difference; and
- taxable temporary differences related to an investment in a subsidiary, an associate, or a joint venture interest if the timing of the temporary difference’s reversal is within the Group’s control and the temporary difference has a low probability of reversing in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of every reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow part or all of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reviewed at the end of every reporting period and recognized to the extent that their recovery against future taxable profits has become probable.

For uncertain income tax positions, the Group recognizes an asset or a liability in a reasonably estimated amount if the tax position has a high probability of being accepted based on a tax law interpretation.

The Group offsets deferred tax assets and deferred tax liabilities against each other when it has a legally enforceable right to set off current tax assets and current tax liabilities against each other and when the taxes in question are levied by the same taxation authority on the same taxable entity.
(17) Equity
   
   (i) Ordinary shares
       With regard to equity instruments issued by the Company, the issuance value is recorded in share capital and capital surplus, and costs directly attributable to the issue of equity instruments (after tax effect) are deducted from capital surplus.

   (ii) Treasury shares
       When the Group acquires treasury shares, it recognizes the after-tax consideration paid, including direct transaction costs, as a deduction from equity. Any gain or loss on the sale of treasury shares, including treasury shares disposed of in conjunction with the exercise of stock options, is recognized as capital surplus.

(18) Fair value measurement
   
   Certain assets and liabilities are required to be recorded at fair value. The fair value of said assets and liabilities is determined based on market information, such as market price, and calculation procedure, including market approach, income approach, and cost approach. The input information used to measure fair value is classified into the following three levels.

   (i) Level 1
       Market prices of identical assets or liabilities in an active market (a market in which transactions for the asset or liability take place with sufficient frequency and volume on an ongoing basis) accessible to the Group at the measurement date are used without adjustment.

   (ii) Level 2
       Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

   (iii) Level 3
       When sufficient market data are not available, the Group uses unobservable inputs that reflect its judgment regarding assumptions used by market participants in pricing assets and liabilities. The Group measures said inputs based on the best available information, including its own data.

       Transfers of assets and liabilities between levels of the fair value hierarchy are recognized as if they occurred at fiscal year-end.

(19) Share-based payments
   
   The Group has adopted an equity-settled share-based payment plan as a stock compensation plan. Services received in exchange for equity-settled share-based payments and the corresponding increase in equity are measured at the grant-date fair value of the equity instruments involved in the transaction. The measured value of the services is recognized as an expense and an equivalent amount is recognized as an increase in equity.
(20) Earnings per share

Basic earnings per share are calculated by dividing profit/loss for the year attributable to owners of the parent by the weighted-average number of issued ordinary shares less treasury shares during the fiscal year.

Diluted earnings per share are calculated by adjusting profit for the year attributable to owners of the parent and the weighted-average number of issued ordinary shares less treasury shares as if all dilutive potential shares have hypothetically been converted.

4. New Accounting Standards Not Yet Adopted

New accounting standards, interpretations, and amended standards have been issued mainly as follows by the date of approval of the Group’s consolidated financial statements. The Group has not early adopted these standards.

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Name of standard</th>
<th>Mandatory adoption (from the fiscal year beginning on or after)</th>
<th>To be adopted by the Group</th>
<th>Description of new standards and amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 15</td>
<td>Revenue from Contracts with Customers</td>
<td>January 1, 2018</td>
<td>Fiscal year ending December 31, 2018</td>
<td>New requirements in accounting for revenue</td>
</tr>
<tr>
<td>IFRS 16</td>
<td>Leases</td>
<td>January 1, 2019</td>
<td>Fiscal year ending December 31, 2019</td>
<td>New requirements in accounting for lease contracts</td>
</tr>
</tbody>
</table>

The effects of adopting IFRS 15 are insignificant at this time. The effects of adopting IFRS 16 are currently under evaluation and cannot be reasonably estimated.
5. Segment Information

(1) Reportable segments outline

The Group’s reportable segments are Group components for which separate financial information is available which is evaluated regularly by management in deciding how to allocate management resources and in assessing performance.

The Group has two reportable segments, the Industrial Business and Medical Business, based largely on product manufacturing methods or processes and methods of providing services.

The reportable segments’ operations are summarized as follows:

**Industrial Business**

Manufacturing, sales, and maintenance of specialty industrial pumps, mainly non-leakage pumps (Non-Seal Pump), precision metering pumps (LEWA Group products, Milflow Pump), high-speed centrifugal pumps (Sundyne Pump), and cryogenic pumps used for pumping liquified natual gas (LNG) (Nikkiso cryogenic pumps, ACD LNG pumps), etc.; manufacturing, sales, and maintenance of various industrial water conditioning systems, mainly for thermal and nuclear power plants, system products that combine water conditioning systems with automation and/or other functions, warm laminating systems and other electronic component manufacturing equipment, particle size distribution analyzers, and specific surface area analyzers, etc.; manufacturing and sales of carbon fiber reinforced plastic products for various civilian aircraft; and manufacturing and sales of deep ultraviolet LEDs and related products.

**Medical Business**

Manufacturing, sales, and maintenance of products and medical supplies for hemodialysis, peritoneal dialysis, and continuous renal replacement therapy, including dialysis systems, dialyzers, blood tubing lines, and powder-type dialysate; and blood glucose controllers (artificial pancreases).

(2) Segment revenues and performance

Information by the reportable of segment is as follows. Reportable segments’ accounting policies are identical to the Group’s accounting policies disclosed in Note “3. Significant Accounting Policies.”
### Year ended December 31, 2016

<table>
<thead>
<tr>
<th>Reportable segment</th>
<th>Reconciliations (Note 1)</th>
<th>Per consolidated financial statements (Note 2)</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial Business</td>
<td>Medical Business</td>
<td>Total</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td>¥130,045</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>¥75,593</td>
<td>¥54,451</td>
<td>¥130,045</td>
</tr>
<tr>
<td>Intersegment revenue or transfers</td>
<td>72</td>
<td>5</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥(78)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥75,666</td>
<td>¥54,457</td>
<td>¥130,123</td>
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<td></td>
<td></td>
<td></td>
<td>¥(78)</td>
</tr>
<tr>
<td><strong>Segment profit</strong></td>
<td>¥5,932</td>
<td>¥5,209</td>
<td>¥11,142</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>¥(3,024)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥8,117</td>
</tr>
<tr>
<td>Other items</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial income</td>
<td></td>
<td></td>
<td>412</td>
</tr>
<tr>
<td>Financial costs</td>
<td></td>
<td></td>
<td>(1,903)</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures accounted for using the equity method</td>
<td></td>
<td></td>
<td>174</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td>¥6,801</td>
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<tr>
<td>Other items for profit (loss)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Depreciation and amortization</td>
<td>2,642</td>
<td>1,923</td>
<td>4,566</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>199</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,766</td>
</tr>
</tbody>
</table>

**Notes**

1. The segment profit adjustment of ¥(3,024) million consists mostly of corporate expenses not allocated to either reportable segment. The corporate expenses are mainly general and administrative expenses not attributable to the reportable segments.

2. Segment profit is reconciled to operating profit as presented on the consolidated statement of profit or loss.

### Year ended December 31, 2017

<table>
<thead>
<tr>
<th>Reportable segment</th>
<th>Reconciliations (Note 1)</th>
<th>Per consolidated financial statements (Note 2)</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial Business</td>
<td>Medical Business</td>
<td>Total</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td>¥140,912</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>¥85,228</td>
<td>¥55,684</td>
<td>¥140,912</td>
</tr>
<tr>
<td>Intersegment revenue or transfers</td>
<td>69</td>
<td>27</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥(97)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥85,297</td>
<td>¥55,712</td>
<td>¥141,009</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥(97)</td>
</tr>
<tr>
<td><strong>Segment profit</strong></td>
<td>¥7,539</td>
<td>¥3,950</td>
<td>¥11,489</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥(2,771)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥8,718</td>
</tr>
<tr>
<td>Other items</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial income</td>
<td></td>
<td></td>
<td>493</td>
</tr>
<tr>
<td>Financial costs</td>
<td></td>
<td></td>
<td>(1,112)</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures accounted for using the equity method</td>
<td></td>
<td></td>
<td>210</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td>¥8,310</td>
</tr>
<tr>
<td>Other items for profit (loss)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,462</td>
<td>1,540</td>
<td>5,002</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>243</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5,246</td>
</tr>
</tbody>
</table>
# Year ended December 31, 2017

<table>
<thead>
<tr>
<th>Reportable segment</th>
<th>Industrial Business</th>
<th>Medical Business</th>
<th>Total</th>
<th>Reconciliations (Note 1)</th>
<th>Per consolidated financial statements (Note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>$754,233</td>
<td>$492,782</td>
<td>$1,247,015</td>
<td></td>
<td>$1,247,015</td>
</tr>
<tr>
<td>Intersegment revenue or transfers</td>
<td>614</td>
<td>245</td>
<td>859</td>
<td></td>
<td>$(859)</td>
</tr>
<tr>
<td>Total</td>
<td>$754,847</td>
<td>$493,027</td>
<td>$1,247,874</td>
<td>$(859)</td>
<td>$1,247,015</td>
</tr>
<tr>
<td>Segment profit</td>
<td>$66,722</td>
<td>$34,958</td>
<td>$101,680</td>
<td>$(24,529)</td>
<td>$77,151</td>
</tr>
<tr>
<td>Other items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,370</td>
</tr>
<tr>
<td>Financial costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(9,845)</td>
</tr>
<tr>
<td>Share of profit of associates and joint ventures accounted for using the equity method</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,864</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>$73,540</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other items for profit (loss)</td>
<td>30,640</td>
<td>13,632</td>
<td>44,272</td>
<td>2,152</td>
<td>46,425</td>
</tr>
</tbody>
</table>

**Notes**

1. The segment profit adjustment of ¥(2,771) million ($(24,529) thousand) consists mostly of corporate expenses not allocated to either reportable segment. The corporate expenses are mainly general and administrative expenses not attributable to the reportable segments.

2. Segment profit is reconciled to operating profit as presented in the consolidated statement of profit or loss.

(3) Information about products and services

This information is omitted because the classification of products and services is the same as the classification of reportable segments.

(4) Information by geographical area

(i) Revenue from external customers

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year ended December 31, 2017</strong></td>
<td><strong>Year ended December 31, 2016</strong></td>
<td><strong>Year ended December 31, 2017</strong></td>
</tr>
<tr>
<td>Japan</td>
<td>¥55,409</td>
<td>¥51,757</td>
</tr>
<tr>
<td>Asia</td>
<td>¥33,915</td>
<td>¥30,066</td>
</tr>
<tr>
<td>North America</td>
<td>¥20,483</td>
<td>¥16,746</td>
</tr>
<tr>
<td>Europe</td>
<td>¥27,745</td>
<td>¥27,102</td>
</tr>
<tr>
<td>Other</td>
<td>¥3,359</td>
<td>¥4,372</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥140,912</td>
<td>¥130,045</td>
</tr>
</tbody>
</table>

**Note** Revenue is categorized by country or area based on the product’s destination.
(ii) Non-current assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Japan</td>
<td>¥20,164</td>
<td>¥20,644</td>
</tr>
<tr>
<td>Asia</td>
<td>¥9,080</td>
<td>¥8,793</td>
</tr>
<tr>
<td>North America</td>
<td>¥43,245</td>
<td>¥6,659</td>
</tr>
<tr>
<td>Europe</td>
<td>¥33,827</td>
<td>¥28,576</td>
</tr>
<tr>
<td>Other</td>
<td>¥805</td>
<td>¥52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥107,122</td>
<td>¥64,726</td>
</tr>
</tbody>
</table>

Note: Non-current assets are categorized by countries and areas based on the location of the Group’s headquarter. Financial instruments, deferred tax assets, and net defined benefit assets are not included in non-current assets.

(5) Information about major customers

As no revenue from a single external customer exceeds 10% of the consolidated revenue, information on major customers is omitted.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of the following. The balance of cash and cash equivalents presented on the consolidated statement of financial position is equal to cash and cash equivalents’ fiscal-year-end balance on the consolidated statement of cash flows.

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>¥34,095</td>
<td>¥25,303</td>
</tr>
<tr>
<td>Time deposits with maturity periods not exceeding three months</td>
<td>616</td>
<td>163</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥34,095</td>
<td>¥25,919</td>
</tr>
</tbody>
</table>

7. Trade and Other Receivables

Trade and other receivables consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Notes and accounts receivable - trade</td>
<td>¥51,005</td>
<td>¥41,643</td>
</tr>
<tr>
<td>Other</td>
<td>277</td>
<td>523</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(848)</td>
<td>(669)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥50,434</td>
<td>¥41,498</td>
</tr>
</tbody>
</table>

Notes: 1. Presented net of the allowance for doubtful accounts on the consolidated statement of financial position.

2. Refer to Note “33. Financial Instruments” for credit risk management.
The breakdown of other financial assets is as follows:

(1) Current assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Deposits</td>
<td>¥1,099</td>
<td>¥811</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>467</td>
<td>97</td>
</tr>
<tr>
<td>Other</td>
<td>130</td>
<td>97</td>
</tr>
<tr>
<td>Total</td>
<td>¥1,698</td>
<td>¥909</td>
</tr>
</tbody>
</table>

(2) Non-current assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥14,597</td>
<td>¥10,598</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>536</td>
<td>647</td>
</tr>
<tr>
<td>Other</td>
<td>994</td>
<td>1,170</td>
</tr>
<tr>
<td>Allowance for doubtful accounts (Note)</td>
<td>(238)</td>
<td>(211)</td>
</tr>
<tr>
<td>Total</td>
<td>¥15,354</td>
<td>¥12,093</td>
</tr>
</tbody>
</table>

Note  Presented net of the allowance for doubtful accounts on the consolidated statement of financial position.

9. Inventories

Inventories consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Merchandise and finished goods</td>
<td>¥10,924</td>
<td>¥10,238</td>
</tr>
<tr>
<td>Work in process</td>
<td>7,091</td>
<td>7,784</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>12,347</td>
<td>9,158</td>
</tr>
<tr>
<td>Total</td>
<td>¥30,363</td>
<td>¥27,181</td>
</tr>
</tbody>
</table>

Notes 1. The cost of inventories recognized as cost of sales totaled ¥88,751 million ($785,413 thousand) and ¥82,131 million for the years ended December 31, 2017 and 2016, respectively.

2. The cost of inventories recognized as cost of sales includes ¥532 million ($4,713 thousand) and ¥624 million in respect of write-downs of inventory to net realizable value for the years ended December 31, 2017 and 2016, respectively.

3. The cost of inventories recognized as cost of sales has been reduced by ¥64 million ($567 thousand) and ¥226 million in respect of the reversal of such write-downs for the years ended December 31, 2017 and 2016, respectively.

4. No inventories are pledged as collateral for liabilities.
10. Other Assets

Other assets consist of the following:

(1) Current assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Transition date January 1, 2016</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
<td></td>
</tr>
<tr>
<td>Consumption tax refund receivable</td>
<td>¥636</td>
<td>¥452</td>
<td>¥656</td>
</tr>
<tr>
<td>Advance payments</td>
<td>457</td>
<td>395</td>
<td>525</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>637</td>
<td>463</td>
<td>273</td>
</tr>
<tr>
<td>Other</td>
<td>420</td>
<td>601</td>
<td>277</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥2,152</td>
<td>¥1,913</td>
<td>¥1,732</td>
</tr>
</tbody>
</table>

(2) Non-current assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Transition date January 1, 2016</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
<td></td>
</tr>
<tr>
<td>Long-term prepaid expenses</td>
<td>¥853</td>
<td>¥948</td>
<td>¥924</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥875</td>
<td>¥948</td>
<td>¥930</td>
</tr>
</tbody>
</table>
11. Property, Plant and Equipment

(1) Changes in acquisition cost, accumulated depreciation and impairment losses, and carrying amount of property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and structures</th>
<th>Machinery and vehicles</th>
<th>Other</th>
<th>Construction in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition date</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(January 1, 2016)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>¥4,867</td>
<td>¥32,290</td>
<td>¥25,082</td>
<td>¥11,257</td>
<td>¥2,196</td>
<td>¥75,694</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment losses</td>
<td>(15)</td>
<td>(15,795)</td>
<td>(17,536)</td>
<td>(8,783)</td>
<td>(42,131)</td>
<td></td>
</tr>
<tr>
<td>Carrying amount</td>
<td>4,851</td>
<td>16,495</td>
<td>7,546</td>
<td>2,473</td>
<td>2,196</td>
<td>33,563</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>6,253</td>
<td>33,594</td>
<td>25,633</td>
<td>11,478</td>
<td>2,618</td>
<td>79,578</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment losses</td>
<td>(15)</td>
<td>(16,429)</td>
<td>(18,231)</td>
<td>(9,222)</td>
<td>(43,899)</td>
<td></td>
</tr>
<tr>
<td>Carrying amount</td>
<td>6,238</td>
<td>17,165</td>
<td>7,401</td>
<td>2,255</td>
<td>2,618</td>
<td>35,679</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>6,272</td>
<td>35,752</td>
<td>28,004</td>
<td>12,020</td>
<td>3,445</td>
<td>85,496</td>
</tr>
<tr>
<td>Accumulated depreciation and impairment losses</td>
<td>(15)</td>
<td>(17,258)</td>
<td>(20,277)</td>
<td>(9,490)</td>
<td>(47,042)</td>
<td></td>
</tr>
<tr>
<td>Carrying amount</td>
<td>6,257</td>
<td>18,494</td>
<td>7,727</td>
<td>2,530</td>
<td>3,445</td>
<td>38,454</td>
</tr>
</tbody>
</table>

**Millions of yen**

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and structures</th>
<th>Machinery and vehicles</th>
<th>Other</th>
<th>Construction in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2016</td>
<td>¥4,851</td>
<td>¥16,495</td>
<td>¥7,546</td>
<td>¥2,473</td>
<td>¥2,196</td>
<td>¥33,563</td>
</tr>
<tr>
<td>Acquisition</td>
<td>1,386</td>
<td>1,254</td>
<td>1,397</td>
<td>598</td>
<td>1,848</td>
<td>6,485</td>
</tr>
<tr>
<td>Business combinations</td>
<td>202</td>
<td>167</td>
<td>53</td>
<td>171</td>
<td></td>
<td>594</td>
</tr>
<tr>
<td>Sale or disposal</td>
<td>(157)</td>
<td>(235)</td>
<td>(215)</td>
<td>(18)</td>
<td></td>
<td>(626)</td>
</tr>
<tr>
<td>Transfer of accounts (Note 1)</td>
<td>241</td>
<td>690</td>
<td>405</td>
<td>187</td>
<td>(1,523)</td>
<td></td>
</tr>
<tr>
<td>Depreciation (Note 2)</td>
<td>(993)</td>
<td>(1,703)</td>
<td>(938)</td>
<td></td>
<td>(3,635)</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation differences</td>
<td>(84)</td>
<td>(245)</td>
<td>(218)</td>
<td>(77)</td>
<td>(689)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(2)</td>
<td>23</td>
<td>(22)</td>
<td>(10)</td>
<td></td>
<td>(13)</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>¥6,238</td>
<td>¥17,165</td>
<td>¥7,401</td>
<td>¥2,255</td>
<td>¥2,618</td>
<td>¥35,679</td>
</tr>
<tr>
<td>Acquisition</td>
<td>1,390</td>
<td>688</td>
<td>894</td>
<td>561</td>
<td>3,481</td>
<td>7,017</td>
</tr>
<tr>
<td>Business combinations</td>
<td>455</td>
<td>484</td>
<td>122</td>
<td>90</td>
<td></td>
<td>1,017</td>
</tr>
<tr>
<td>Sale or disposal</td>
<td>(1,569)</td>
<td>(304)</td>
<td>(36)</td>
<td>(171)</td>
<td></td>
<td>(2,082)</td>
</tr>
<tr>
<td>Transfer of accounts (Note 1)</td>
<td>53</td>
<td>1,391</td>
<td>1,032</td>
<td>339</td>
<td>(2,816)</td>
<td></td>
</tr>
<tr>
<td>Depreciation (Note 2)</td>
<td>(1,136)</td>
<td>(1,994)</td>
<td>(767)</td>
<td></td>
<td>(3,898)</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation differences</td>
<td>138</td>
<td>173</td>
<td>28</td>
<td>95</td>
<td>69</td>
<td>506</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>161</td>
<td>(48)</td>
<td>95</td>
<td>1</td>
<td>214</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>¥6,257</td>
<td>¥18,494</td>
<td>¥7,727</td>
<td>¥2,530</td>
<td>¥3,445</td>
<td>¥38,454</td>
</tr>
</tbody>
</table>
The carrying amounts (net of accumulated depreciation and accumulated impairment losses) of assets included in property, plant and equipment that are leased under finance leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and vehicles</td>
<td>¥125</td>
<td>¥145</td>
<td>¥171</td>
<td>¥1,110</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>16</td>
<td>17</td>
<td>114</td>
</tr>
<tr>
<td>Total</td>
<td>¥138</td>
<td>¥162</td>
<td>¥189</td>
<td>¥1,224</td>
</tr>
</tbody>
</table>

(2) Commitments

Contractual commitments related to acquisition of property, plant and equipment are as follows:

<table>
<thead>
<tr>
<th>Commitments for acquisition of property, plant and equipment</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
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<tr>
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</table>
12. Goodwill and Intangible Assets
   (1) Changes in acquisition cost, accumulated amortization and impairment losses, and carrying
   amount of goodwill and intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Intangible assets</th>
<th></th>
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<tbody>
<tr>
<td></td>
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<td>Trade-marks</td>
<td>Customer-related assets</td>
<td>Technological assets</td>
<td>Software</td>
<td>Other (Note 1)</td>
</tr>
<tr>
<td>Transition date (January 1, 2016)</td>
<td></td>
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<tr>
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<td>¥2,083</td>
<td>¥3,905</td>
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<td>¥2,021</td>
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<tr>
<td>Accumulated amortization and impairment losses</td>
<td>(853)</td>
<td>(972)</td>
<td>(2,703)</td>
<td>(1,359)</td>
<td>(5,889)</td>
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<td>1,229</td>
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<td>661</td>
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<td></td>
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<td></td>
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<tr>
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<td>(30)</td>
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<tr>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition cost</td>
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<td>5,957</td>
<td>5,399</td>
<td>3,536</td>
<td>4,734</td>
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<td>(1,690)</td>
<td>(244)</td>
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<td>(7,376)</td>
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<tr>
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<td>52,604</td>
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<td>3,709</td>
<td>3,292</td>
<td>1,398</td>
<td>1,915</td>
<td>67,792</td>
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<table>
<thead>
<tr>
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<th>Intangible assets</th>
<th></th>
<th></th>
<th></th>
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<th>Total</th>
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<tbody>
<tr>
<td></td>
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<td>Trade-marks</td>
<td>Customer-related assets</td>
<td>Technological assets</td>
<td>Software</td>
<td>Other (Note 1)</td>
</tr>
<tr>
<td>January 1, 2016</td>
<td>¥21,411</td>
<td>¥2,083</td>
<td>¥3,905</td>
<td>¥4,203</td>
<td>¥2,021</td>
<td>¥33,624</td>
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<tr>
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<td>(3)</td>
<td>(9)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Transfer of accounts (Note 2)</td>
<td>102</td>
<td>(102)</td>
<td></td>
<td></td>
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<tr>
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<td>(65)</td>
<td>32</td>
<td>(24)</td>
<td>(83)</td>
<td>(455)</td>
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<td>Other</td>
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<td>1</td>
<td>(172)</td>
<td></td>
<td></td>
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<tr>
<td>December 31, 2016</td>
<td>¥22,100</td>
<td>¥2,026</td>
<td>¥2,505</td>
<td>¥494</td>
<td>¥1,372</td>
<td>¥661</td>
<td>¥28,098</td>
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<tr>
<td>Acquisition</td>
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<td>476</td>
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<td>Business combinations</td>
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<td>56</td>
<td>1,338</td>
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<td>Sale or disposal</td>
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<td>(290)</td>
<td></td>
<td></td>
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<td>(213)</td>
<td>(650)</td>
<td>(81)</td>
<td>(1,347)</td>
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<td>6</td>
<td>29</td>
<td>88</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation differences</td>
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<td>(2)</td>
<td>(30)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>December 31, 2017</td>
<td>¥52,604</td>
<td>¥4,872</td>
<td>¥3,709</td>
<td>¥3,292</td>
<td>¥1,398</td>
<td>¥1,915</td>
<td>¥67,792</td>
</tr>
</tbody>
</table>
### Intangible assets

<table>
<thead>
<tr>
<th>Date</th>
<th>Goodwill</th>
<th>Trademarks</th>
<th>Customer-related assets</th>
<th>Technological assets</th>
<th>Software</th>
<th>Other (Note 1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2016</td>
<td>$195,579</td>
<td>$8,197</td>
<td>$22,175</td>
<td>$4,372</td>
<td>$12,145</td>
<td>$6,186</td>
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<tr>
<td>Acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Business combinations</td>
<td>266,885</td>
<td>34,563</td>
<td>13,204</td>
<td>26,600</td>
<td>495</td>
<td>11,842</td>
<td>353,592</td>
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<td>Sale or disposal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(10)</td>
<td>(88)</td>
<td>(98)</td>
</tr>
<tr>
<td>Transfer of accounts (Note 2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization (Note 3)</td>
<td>3,060</td>
<td>(248)</td>
<td>(3,301)</td>
<td>(1,889)</td>
<td>(5,760)</td>
<td>(722)</td>
<td>(11,921)</td>
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<td>750</td>
<td>54</td>
<td>262</td>
<td>780</td>
<td>5,756</td>
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<tr>
<td>Other</td>
<td>(245)</td>
<td></td>
<td></td>
<td></td>
<td>(25)</td>
<td></td>
<td>(271)</td>
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<tr>
<td>December 31, 2017</td>
<td>$465,524</td>
<td>$43,116</td>
<td>$32,830</td>
<td>$29,138</td>
<td>$12,375</td>
<td>$16,950</td>
<td>$599,934</td>
</tr>
</tbody>
</table>

**Notes**

1. Software in progress is included in other.
2. Transfer of software in progress upon completion.
3. Amortization is included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.
4. No intangible assets are subject to title restrictions or pledged as collateral for liabilities.
5. There are no individually significant intangible assets.

Of the preceding intangible assets, those with an indefinite useful life had a carrying value of ¥4,750 million ($42,035 thousand), ¥806 million, and ¥1,083 million at December 31, 2017, 2016, and the transition date respectively. Because these intangible assets are mainly trademarks acquired in conjunction with business combinations and will exist basically as long as business operations continue, the Group deems them as having an indefinite useful life.

The carrying amounts (net of accumulated amortization and accumulated impairment losses) of intangible assets leased under finance leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>¥52</td>
<td>$46</td>
</tr>
<tr>
<td></td>
<td>¥46</td>
<td>$96</td>
</tr>
<tr>
<td></td>
<td>¥96</td>
<td>$468</td>
</tr>
</tbody>
</table>

(2) Impairment tests for goodwill

CGUs to which goodwill has been allocated are tested for goodwill impairment annually and whenever indications of impairment are evident.

Significant goodwill carried on the consolidated statement of financial position is mainly goodwill allocated to the Industrial Business segment’s industrial pump business. Said goodwill’s carrying amount at December 31, 2017 was ¥51,478 million ($455,558 thousand).

The recoverable value of CGUs to which goodwill has been allocated is measured based on value in use. Value in use is measured at the present value of estimated future cash flows based on a business plan approved by management. Said cash flows are discounted to present value using a discount rate calculated based on weighted-average cost of capital.

Business plans are formulated based on forecasts with a maximum five-year horizon that have been approved by management. Forecasts of post-business-plan cash flows are estimates based on
the long-term average growth rate of the market(s) in which the CGU in question operates. The long-term average growth rate used in the fiscal year ended December 31, 2017 to estimate post-business-plan cash flows was 3.7%.

The discount rate is calculated based on historical weighted-average cost of capital and also reflects current market assessments of the time value of money, risks specific to the assets in question, and other relevant factors. A pre-tax discount rate of 9.1% was used for value-in-use measurements in the fiscal year ended December 31, 2017.

In the Group’s assessment, the value in use of the CGUs in question is sufficiently above their carrying amount and has a low probability of falling below said carrying amount even if the discount rate and/or growth rate used to measure value in use were to change to a reasonable extent.

(3) Research and development expenditures

Research and development expenditures recognized in profit or loss for the year ended December 31, 2017 and 2016 is as follows. These figures are included in cost of sales and selling, general and administrative expenses in the consolidated statement of profit or loss.

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development expenditure</td>
<td>¥2,435</td>
<td>$21,557</td>
</tr>
<tr>
<td></td>
<td>¥1,679</td>
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</tbody>
</table>

13. Investments Accounted for Using the Equity Method

Carrying amounts and summary of financial data for individually insignificant investments in associates and joint ventures are as follows.

The values are prorated based on the Group’s percentage ownership interests.

(1) Investments in associates

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Carrying amount of investments</td>
<td>¥411</td>
<td>¥425</td>
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</table>

<table>
<thead>
<tr>
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<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended December 31, 2017</td>
<td>Year ended December 31, 2016</td>
</tr>
<tr>
<td>Profit for the year</td>
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<td>¥118</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>7</td>
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</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>¥104</td>
<td>¥115</td>
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</table>
(2) Investments in joint ventures

<table>
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<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount of investments</td>
<td>¥787</td>
<td>¥627</td>
</tr>
<tr>
<td></td>
<td>¥659</td>
<td>$6,967</td>
</tr>
<tr>
<td></td>
<td>December 31, 2017</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, 2016</td>
<td></td>
</tr>
<tr>
<td>Transition date</td>
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<tr>
<td>January 1, 2016</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
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<tr>
<td>Other comprehensive income</td>
<td>23</td>
<td>210</td>
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<tr>
<td>Total comprehensive income</td>
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<td>$1,221</td>
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<tr>
<td>for the year</td>
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14. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

Changes in deferred tax asset and deferred tax liability balances broken down by major causative factor are as follows:

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Year ended December 31, 2016</td>
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</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>¥363</td>
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<tr>
<td>Accrued expenses</td>
<td>651</td>
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<tr>
<td>Provisions</td>
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<td>Net defined benefit liabilities</td>
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<td>Tax loss carryforwards</td>
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<tr>
<td>Other</td>
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<tr>
<td>Total</td>
<td>¥4,188</td>
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<tr>
<td>Deferred tax liabilities</td>
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<tr>
<td>Inventories</td>
<td>¥(230)</td>
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<tr>
<td>Property, plant and equipment</td>
<td>(624)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(665)</td>
</tr>
<tr>
<td>Investment in equity instruments</td>
<td>(1,892)</td>
</tr>
<tr>
<td>Reserve for advanced depreciation</td>
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<tr>
<td>Non-current assets</td>
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<tr>
<td>Other</td>
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</tr>
<tr>
<td>Total</td>
<td>¥(5,141)</td>
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<tr>
<td>Net amount</td>
<td>(952)</td>
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</table>

<table>
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<tbody>
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<td>Year ended December 31, 2017</td>
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</tr>
<tr>
<td>Beginning balance</td>
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<td>Recognized in profit or loss</td>
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</tr>
<tr>
<td>Recognized in other comprehensive income</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation</td>
<td></td>
</tr>
<tr>
<td>differences</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Ending balance</td>
<td>¥361</td>
</tr>
<tr>
<td></td>
<td>¥627</td>
</tr>
<tr>
<td></td>
<td>¥56</td>
</tr>
<tr>
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<td>¥106</td>
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<tr>
<td></td>
<td>¥109</td>
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<td>(19)</td>
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<td>(4)</td>
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<td></td>
<td>(131)</td>
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<td></td>
<td>¥12</td>
</tr>
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<td></td>
<td>(19)</td>
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<td></td>
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<td></td>
<td>(10)</td>
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<tr>
<td>Net defined benefit liabilities</td>
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</tr>
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<td></td>
<td>¥12</td>
</tr>
<tr>
<td></td>
<td>(18)</td>
</tr>
<tr>
<td></td>
<td>(10)</td>
</tr>
<tr>
<td>Tax loss carryforwards</td>
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</tr>
<tr>
<td></td>
<td>(23)</td>
</tr>
<tr>
<td>Other</td>
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<tr>
<td>Total</td>
<td>¥1,093</td>
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<tr>
<td>Net amount</td>
<td>¥(54)</td>
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<td>¥(4,987)</td>
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</table>
Year ended December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Beginning balance</th>
<th>Recognized in profit or loss</th>
<th>Recognized in other comprehensive income</th>
<th>Foreign currency translation differences</th>
<th>Other (Note)</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred tax assets</strong></td>
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<td></td>
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<td></td>
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<tr>
<td>Trade and other receivables</td>
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<td>596</td>
<td>(52)</td>
<td></td>
<td></td>
<td></td>
<td>501</td>
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<tr>
<td>Accrued expenses</td>
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<td>(184)</td>
<td></td>
<td></td>
<td></td>
<td>674</td>
</tr>
<tr>
<td>Provisions</td>
<td>551</td>
<td>(10)</td>
<td></td>
<td></td>
<td></td>
<td>527</td>
</tr>
<tr>
<td>Net defined benefit liabilities</td>
<td>975</td>
<td>(144)</td>
<td>¥25</td>
<td></td>
<td>5</td>
<td>852</td>
</tr>
<tr>
<td>Tax loss carryforwards</td>
<td>771</td>
<td>325</td>
<td></td>
<td></td>
<td>(2)</td>
<td>1,094</td>
</tr>
<tr>
<td>Other</td>
<td>877</td>
<td>(279)</td>
<td>(6)</td>
<td>(17)</td>
<td>(146)</td>
<td>427</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥4,987</td>
<td>¥(560)</td>
<td>¥19</td>
<td>¥(24)</td>
<td>¥(215)</td>
<td>¥4,205</td>
</tr>
<tr>
<td><strong>Deferred tax liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>¥(274)</td>
<td>¥231</td>
<td></td>
<td></td>
<td>(89)</td>
<td>¥132</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(599)</td>
<td>78</td>
<td>(19)</td>
<td>(2,048)</td>
<td>(14)</td>
<td>(527)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(607)</td>
<td>162</td>
<td></td>
<td>(2,513)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in equity instruments</td>
<td>(1,663)</td>
<td>¥(738)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve for advanced depreciation of non-current assets</td>
<td>(766)</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td>(695)</td>
</tr>
<tr>
<td>Other</td>
<td>(665)</td>
<td>187</td>
<td>21</td>
<td>42</td>
<td>121</td>
<td>(292)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥(4,576)</td>
<td>¥730</td>
<td>¥(717)</td>
<td>¥31</td>
<td>¥(2,030)</td>
<td>¥(6,562)</td>
</tr>
<tr>
<td><strong>Net amount</strong></td>
<td>410</td>
<td>170</td>
<td>(698)</td>
<td>6</td>
<td>(2,245)</td>
<td>(2,356)</td>
</tr>
</tbody>
</table>
### Year ended December 31, 2017

#### Thousands of U.S. dollars

<table>
<thead>
<tr>
<th></th>
<th>Beginning balance</th>
<th>Recognized in profit or loss</th>
<th>Recognized in other comprehensive income</th>
<th>Foreign currency translation differences</th>
<th>Other (Note)</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred tax assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>$3,200</td>
<td>$(1,902)</td>
<td>$6</td>
<td>$(163)</td>
<td>$1,139</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>5,275</td>
<td>(460)</td>
<td>12</td>
<td>(393)</td>
<td>4,433</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>7,557</td>
<td>(1,630)</td>
<td>(93)</td>
<td>133</td>
<td>5,966</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>4,878</td>
<td>(90)</td>
<td>(25)</td>
<td>(92)</td>
<td>4,670</td>
<td></td>
</tr>
<tr>
<td>Net defined benefit liabilities</td>
<td>8,633</td>
<td>(1,274)</td>
<td>$225</td>
<td>51</td>
<td>(93)</td>
<td>7,544</td>
</tr>
<tr>
<td>Tax loss carryforwards</td>
<td>6,824</td>
<td>2,876</td>
<td>(17)</td>
<td></td>
<td>9,683</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>7,763</td>
<td>(2,476)</td>
<td>(55)</td>
<td>(154)</td>
<td>(1,293)</td>
<td>3,785</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$44,134</td>
<td>$(4,956)</td>
<td>$170</td>
<td>$(220)</td>
<td>$(1,904)</td>
<td>$37,220</td>
</tr>
</tbody>
</table>

#### Deferred tax liabilities

<table>
<thead>
<tr>
<th></th>
<th>Recognized in profit or loss</th>
<th>Recognized in other comprehensive income</th>
<th>Foreign currency translation differences</th>
<th>Other (Note)</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>$2,052</td>
<td>$6</td>
<td>$789</td>
<td>(1,168)</td>
<td>$(4,956)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>693</td>
<td>79</td>
<td>(128)</td>
<td>(4,664)</td>
<td>$(1,843)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,436</td>
<td>(173)</td>
<td>(18,128)</td>
<td>(22,239)</td>
<td>$(2,599)</td>
</tr>
<tr>
<td>Investment in equity instruments</td>
<td>$(6,539)</td>
<td>$(6,539)</td>
<td>(21,259)</td>
<td>(6,153)</td>
<td>$(2,590)</td>
</tr>
<tr>
<td>Reserve for advanced depreciation of non-current assets</td>
<td>626</td>
<td>379</td>
<td>1,078</td>
<td>(19,871)</td>
<td>$(2,590)</td>
</tr>
<tr>
<td>Other</td>
<td>1,657</td>
<td>186</td>
<td>58</td>
<td>(19,871)</td>
<td>$(2,590)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$(4,466)</td>
<td>$(6,352)</td>
<td>$278</td>
<td>$(17,967)</td>
<td>$(58,073)</td>
</tr>
</tbody>
</table>

**Net amount**

<table>
<thead>
<tr>
<th></th>
<th>Recognized in profit or loss</th>
<th>Recognized in other comprehensive income</th>
<th>Foreign currency translation differences</th>
<th>Other (Note)</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>$1,506</td>
<td>$1,506</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,506</td>
<td>1,506</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,506</td>
<td>1,506</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
<tr>
<td>Investment in equity instruments</td>
<td>1,506</td>
<td>1,506</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
<tr>
<td>Reserve for advanced depreciation of non-current assets</td>
<td>1,506</td>
<td>1,506</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
<tr>
<td>Other</td>
<td>1,506</td>
<td>1,506</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,635</td>
<td>3,635</td>
<td>58</td>
<td>(19,871)</td>
<td>$(20,853)</td>
</tr>
</tbody>
</table>

**Note**

The breakdown of other consists mainly of deferred tax assets and deferred tax liabilities which were recognized at time of the business combinations.

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
<td>Transition date January 1, 2016</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>¥1,913</td>
<td>¥2,253</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(4,269)</td>
<td>(1,843)</td>
</tr>
<tr>
<td><strong>Net amount</strong></td>
<td>¥(2,356)</td>
<td>¥410</td>
</tr>
</tbody>
</table>

In recognizing deferred tax assets, the Group takes into account the probability of its being able to partially or fully utilize deductible temporary differences and unused tax losses against future taxable profits. In assessing recoverability, the Group takes into account scheduled reversals of deferred tax liabilities, expected future taxable profits and tax planning. In the Group’s judgment, realization of tax benefits from recognized deferred tax assets is probable based on past levels of taxable profits and the expectation that future taxable profits during the period in which the deferred tax assets remain can be recognized.
Deductible temporary differences and tax loss carryforwards not recognized as deferred tax assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible temporary differences</td>
<td>¥7,340</td>
<td>¥5,385</td>
<td>¥4,939</td>
<td>$64,958</td>
</tr>
<tr>
<td>Unused tax losses</td>
<td>3,136</td>
<td>4,167</td>
<td>4,133</td>
<td>27,754</td>
</tr>
<tr>
<td>Total</td>
<td>¥10,476</td>
<td>¥9,552</td>
<td>¥9,072</td>
<td>$92,712</td>
</tr>
</tbody>
</table>

Tax loss carryforwards not recognized as deferred tax assets are scheduled to expire as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st year</td>
<td>¥631</td>
<td>¥612</td>
<td>¥734</td>
<td>$5,592</td>
</tr>
<tr>
<td>2nd year</td>
<td>512</td>
<td>512</td>
<td>612</td>
<td>4,533</td>
</tr>
<tr>
<td>3rd year</td>
<td>524</td>
<td>524</td>
<td>512</td>
<td>4,641</td>
</tr>
<tr>
<td>4th year</td>
<td>314</td>
<td>314</td>
<td>524</td>
<td>2,783</td>
</tr>
<tr>
<td>5th year and thereafter</td>
<td>1,152</td>
<td>2,203</td>
<td>1,749</td>
<td>10,204</td>
</tr>
<tr>
<td>Total</td>
<td>¥3,136</td>
<td>¥4,167</td>
<td>¥4,133</td>
<td>$27,753</td>
</tr>
</tbody>
</table>

Taxable temporary differences related to investments in associates that were not recognized as deferred tax liabilities totaled ¥27,032 million ($239,222 thousand), ¥20,785 million, and ¥25,538 million at December 31, 2017, 2016, and the transition date, respectively. These taxable temporary differences were not recognized as deferred tax liabilities because the timing of their reversal is within the Group’s control and they had a high probability of not reversing within a foreseeable timeframe.
(2) Income tax expenses

Income tax expenses consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax expense</td>
<td>¥3,175</td>
<td>¥2,972</td>
<td>$28,102</td>
</tr>
<tr>
<td>Deferred tax expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Origination and reversal of temporary differences and others</td>
<td>(420)</td>
<td>(1,137)</td>
<td>(3,724)</td>
</tr>
<tr>
<td>Change in tax rates</td>
<td>209</td>
<td>97</td>
<td>1,855</td>
</tr>
<tr>
<td>Assessment of recoverability of deferred tax assets</td>
<td>40</td>
<td>(53)</td>
<td>363</td>
</tr>
<tr>
<td>Total deferred tax expense</td>
<td>(170)</td>
<td>(1,093)</td>
<td>(1,506)</td>
</tr>
<tr>
<td>Total income tax expenses</td>
<td>3,005</td>
<td>1,878</td>
<td>26,595</td>
</tr>
<tr>
<td>Income taxes relating to other comprehensive income</td>
<td>¥698</td>
<td>¥(232)</td>
<td>$6,182</td>
</tr>
</tbody>
</table>

Current tax expense includes tax benefits arising from tax loss carryforwards, tax credits, and/or prior-period temporary differences not previously recognized as deferred tax assets. Said tax benefits reduced current tax expense by ¥24 million ($215 thousand) and ¥30 million for the years ended December 31, 2017 and 2016, respectively.

The Company’s effective statutory tax rates were 30.9% and 33.1% for the years ended December 31, 2017 and 2016, respectively. Taxes in other tax jurisdictions were calculated based on those tax jurisdictions’ respective general tax rates.

Factors of difference between the average effective tax rate and effective statutory tax rate in the consolidated statements of profit or loss are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective statutory tax rate</td>
<td>30.9</td>
<td>33.1</td>
</tr>
<tr>
<td>Non-tax-deductible expenses</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Non-taxable income</td>
<td>(1.2)</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Tax credit</td>
<td>(2.0)</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Difference on applicable tax rates for overseas subsidiaries</td>
<td>(3.1)</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Income taxes for prior periods</td>
<td>3.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Share of profit (loss) of associates and joint ventures accounted for using the equity method</td>
<td>(0.6)</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Effect of change in tax rates</td>
<td>1.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Unrecognized deferred tax assets</td>
<td>6.9</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Other</td>
<td>(1.5)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Average effective tax rate</td>
<td>36.2</td>
<td>27.6</td>
</tr>
</tbody>
</table>
15. Bonds and Borrowings

(1) Breakdown of bonds and borrowings

Bonds and borrowings consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>Average interest rate (%) (Note 2)</th>
<th>Maturity</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>With collateral</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>¥214</td>
<td>¥214</td>
<td>220</td>
<td>2.3</td>
<td></td>
<td>$1,896</td>
</tr>
<tr>
<td>Long-term borrowings to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>be repaid within one year</td>
<td>¥214</td>
<td>¥214</td>
<td>220</td>
<td>2.3</td>
<td></td>
<td>$1,896</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>160</td>
<td>375</td>
<td>609</td>
<td>2.3</td>
<td>September 2019</td>
<td>1,422</td>
</tr>
<tr>
<td>Without collateral</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>52,674</td>
<td>12,560</td>
<td>10,072</td>
<td>0.7</td>
<td></td>
<td>466,149</td>
</tr>
<tr>
<td>Long-term borrowings to</td>
<td>9,129</td>
<td>3,782</td>
<td>9,121</td>
<td>0.7</td>
<td></td>
<td>80,790</td>
</tr>
<tr>
<td>be repaid within one year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>45,392</td>
<td>38,068</td>
<td>35,337</td>
<td>0.8</td>
<td></td>
<td>401,708</td>
</tr>
<tr>
<td>Convertible bonds (Note 3)</td>
<td>14,956</td>
<td>14,882</td>
<td>14,809</td>
<td>0.5</td>
<td>August 2018</td>
<td>132,360</td>
</tr>
<tr>
<td>Total</td>
<td>¥122,528</td>
<td>¥69,884</td>
<td>¥70,244</td>
<td></td>
<td></td>
<td>$1,084,325</td>
</tr>
</tbody>
</table>

Notes

1. The Group is subject to certain externally-imposed capital restrictions in the form of bank financial covenants pertaining to a portion of its borrowings. To comply with these capital restrictions, the Group is periodically evaluated and monitored. The Group has been in compliance with said capital restrictions through the fiscal year ended December 31, 2017.

2. Average interest rates are weighted-average interest rates weighted based on borrowings balances at fiscal year-end.

3. The convertible bonds are yen-denominated convertible bonds maturing in 2018 that were issued by the Company on August 2, 2013.

(2) Assets pledged as collateral

Contractual terms for bank loans customarily require the borrower to pledge collateral or furnish a guarantee against existing or future liabilities if requested to do so by the bank and to grant the bank the right to offset debts against the borrower’s bank deposits on the debt’s due date or in the event of default.

Assets pledged as collateral for borrowings are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>¥28</td>
<td>¥79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td></td>
<td></td>
<td></td>
<td>53</td>
</tr>
<tr>
<td>Buildings</td>
<td></td>
<td></td>
<td></td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>¥28</td>
<td>¥186</td>
</tr>
</tbody>
</table>

Note
In addition to the above assets, the Group has pledged shares of consolidated subsidiaries as follows (carrying amounts are before eliminations).
16. Trade and Other Payables

The breakdown of trade and other payables consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Notes and accounts payable trade</td>
<td>¥21,079</td>
<td>¥19,387</td>
</tr>
<tr>
<td>Other</td>
<td>1,544</td>
<td>2,218</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥22,624</strong></td>
<td><strong>¥21,606</strong></td>
</tr>
</tbody>
</table>

17. Lease Transactions

(1) Finance leases (lessee)

The breakdown of finance lease obligations is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Minimum lease payments</th>
<th>Present value of minimum lease payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 1 year</td>
<td>¥67</td>
<td>¥69</td>
</tr>
<tr>
<td>1–5 years</td>
<td>130</td>
<td>129</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥202</td>
<td>¥199</td>
</tr>
<tr>
<td>Deduction: future finance costs</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td>Present value of minimum lease payments</td>
<td>¥197</td>
<td>¥194</td>
</tr>
<tr>
<td>Amounts in the consolidated statement of financial position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease obligations (current)</td>
<td>¥67</td>
<td>¥68</td>
</tr>
<tr>
<td>Lease obligations (non-current)</td>
<td>¥130</td>
<td>¥125</td>
</tr>
</tbody>
</table>
### Minimum lease payments

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within 1 year</strong></td>
<td>¥923</td>
<td>¥669</td>
<td>¥602</td>
<td>$8,171</td>
</tr>
<tr>
<td><strong>1–5 years</strong></td>
<td>1,383</td>
<td>820</td>
<td>913</td>
<td>12,243</td>
</tr>
<tr>
<td><strong>Over 5 years</strong></td>
<td>115</td>
<td>348</td>
<td>172</td>
<td>1,020</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥2,422</td>
<td>¥1,837</td>
<td>¥1,688</td>
<td>$21,434</td>
</tr>
</tbody>
</table>

### Present value of minimum lease payments

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within 1 year</strong></td>
<td>$599</td>
<td>$593</td>
</tr>
<tr>
<td><strong>1–5 years</strong></td>
<td>1,154</td>
<td>1,120</td>
</tr>
<tr>
<td><strong>Over 5 years</strong></td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,787</td>
<td>$1,745</td>
</tr>
</tbody>
</table>

Deduction: future finance costs: (42)

The group has operating lease contracts mainly for land, buildings, and office equipment, etc.

Lease payments expensed totaled ¥2,183 million ($19,324 thousand) and ¥2,137 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments based on non-cancelable operating leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within 1 year</strong></td>
<td>¥923</td>
<td>$8,171</td>
</tr>
<tr>
<td><strong>1–5 years</strong></td>
<td>1,383</td>
<td>12,243</td>
</tr>
<tr>
<td><strong>Over 5 years</strong></td>
<td>115</td>
<td>1,020</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥2,422</td>
<td>$21,434</td>
</tr>
</tbody>
</table>
18. Other Financial Liabilities

Other financial liabilities consist of the following:

(1) Current liabilities

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits received</td>
<td>¥492</td>
<td>¥443</td>
<td>¥498</td>
<td>¥4,360</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>67</td>
<td>68</td>
<td>91</td>
<td>593</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>2</td>
<td>23</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td></td>
<td>99</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥573</td>
<td>¥512</td>
<td>¥613</td>
<td>¥5,071</td>
</tr>
</tbody>
</table>

(2) Non-current liabilities

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative liabilities</td>
<td>¥398</td>
<td>¥421</td>
<td>¥295</td>
<td>¥3,527</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>130</td>
<td>125</td>
<td>166</td>
<td>1,152</td>
</tr>
<tr>
<td>Other</td>
<td>41</td>
<td>2</td>
<td>4</td>
<td>363</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥569</td>
<td>¥549</td>
<td>¥465</td>
<td>¥5,042</td>
</tr>
</tbody>
</table>


Changes in provisions are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Provision for loss on orders received</th>
<th>Provision for product warranties</th>
<th>Asset retirement obligations</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2016</td>
<td>¥492</td>
<td>¥237</td>
<td>¥78</td>
<td>¥38</td>
<td>¥846</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>698</td>
<td>490</td>
<td>8</td>
<td></td>
<td>1,197</td>
</tr>
<tr>
<td>Decrease during the year (utilization)</td>
<td>(510)</td>
<td>(114)</td>
<td>(24)</td>
<td></td>
<td>(649)</td>
</tr>
<tr>
<td>Decrease during the year (reversal)</td>
<td>(8)</td>
<td>(29)</td>
<td>(11)</td>
<td></td>
<td>(49)</td>
</tr>
<tr>
<td>Interest expense over the discount period</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Foreign currency translation differences</td>
<td>(2)</td>
<td>(2)</td>
<td>(3)</td>
<td></td>
<td>(8)</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>¥669</td>
<td>¥579</td>
<td>¥79</td>
<td>¥8</td>
<td>¥1,337</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>484</td>
<td>309</td>
<td></td>
<td></td>
<td>794</td>
</tr>
<tr>
<td>Decrease during the year (utilization)</td>
<td>(273)</td>
<td>(463)</td>
<td>(8)</td>
<td></td>
<td>(746)</td>
</tr>
<tr>
<td>Decrease during the year (reversal)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense over the discount period</td>
<td></td>
<td>3</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Foreign currency translation differences</td>
<td>21</td>
<td>38</td>
<td>0</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>Other (Note)</td>
<td>162</td>
<td>78</td>
<td></td>
<td></td>
<td>240</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>¥901</td>
<td>¥626</td>
<td>¥161</td>
<td>-</td>
<td>¥1,690</td>
</tr>
</tbody>
</table>
Note: Increase is mainly the result of business combinations.

Provisions in consolidated statements of financial position consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>¥1,513</td>
<td>¥1,247</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>176</td>
<td>89</td>
</tr>
<tr>
<td>Total</td>
<td>¥1,690</td>
<td>¥1,337</td>
</tr>
</tbody>
</table>

Changes in provisions are as follows:

(1) Provision for loss on orders received
As a provision for future losses on orders received from customers on which the Group expects to incur a loss in a future fiscal year in conjunction with execution of the order agreement, the Group recognizes such losses in advance if the amount of the loss can be reasonably estimated. Such loss provisions are generally expended within one year of loss recognition.

(2) Provision for product warranties
As a provision for costs to be incurred in repairing sold products free of charge, the Group recognizes future product warranty expenses based on the warranty claim history of previously sold products. Such warranty expense provisions are generally expended within one year of recognition.

(3) Asset retirement obligations
Based on past experience and other relevant factors, the Group reasonably estimates and recognizes liabilities arising pursuant to statutorily, regulatorily, or contractually prescribed legal obligations, or other obligations analogous thereto, related to future retirement of property, plant, equipment or other fixed assets used by the Group. Payments to settle such liabilities are mostly expected to occur more than one year from recognition, but their timing is influenced by future business plans and other factors.
20. Other Liabilities

Other liabilities consist of the following:

(1) Current liabilities

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>¥4,702</td>
<td>¥3,568</td>
</tr>
<tr>
<td>Advances received</td>
<td>2,935</td>
<td>1,428</td>
</tr>
<tr>
<td>Accrued bonuses</td>
<td>1,610</td>
<td>1,150</td>
</tr>
<tr>
<td>Accrued paid absences</td>
<td>977</td>
<td>792</td>
</tr>
<tr>
<td>Other</td>
<td>781</td>
<td>1,288</td>
</tr>
<tr>
<td>Total</td>
<td>¥11,006</td>
<td>¥8,227</td>
</tr>
</tbody>
</table>

(2) Non-current liabilities

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Long-term advances received</td>
<td>¥60</td>
<td>¥66</td>
</tr>
<tr>
<td>Long-term employee obligations</td>
<td>¥182</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>56</td>
<td>319</td>
</tr>
<tr>
<td>Total</td>
<td>¥117</td>
<td>¥385</td>
</tr>
</tbody>
</table>

21. Employee Benefits

(1) Post-employment benefits

The Company and its consolidated subsidiaries adopt defined benefit pension plans and defined contribution plans to cover post-employment benefits for employees. The Company has introduced a funded cash balance plan in defined benefit pension plans, and provides lump-sum money or pensions based on salary and service period. Under the plan, a virtual individual account, which is equivalent to a source of funds for the reserve fund and pension amount, has been set up for each participant, and interest credits mainly based on trends in market interest rate and contribution credits based on the salary level and other factors accumulate in the account. On April 1, 2017, some of the defined benefit corporate pension plans were changed to defined contribution pension plans.

In the contract-type defined benefit corporate pension plan, the Company is responsible for complying with laws, regulations, and terms and for carrying out operations related to management and investment of reserve funds faithfully for participants, and is required to make a contribution. The Company and the managing trustee of plan assets are required to behave in a way that gives utmost priority to the interest of plan participants and have a responsibility to invest plan assets in accordance with predetermined policies. In domestic corporate pension plans, the Company makes an actuarial review every five years based on the Company’s financial conditions, outlook for investment operations, and other factors and increases contributions if the reserve amount is less than the funding standard.

Although the Company basically makes sound investments of plan assets, the plans are exposed to investment risk on financial instruments. In addition, since defined benefit obligations are
measured based on various actuarial assumptions, including discount rate, the plans are exposed to risk of fluctuation in regard to these assumptions.
Investments of plan assets have been designed to promote optimization of investment return under tolerable risk to ensure payment of future benefits for employees. Investments of plan assets have been broadly diversified, principally in domestic and foreign shares and bonds. For investments, the Company prepares an optimal basic portfolio and endeavors to maintain the asset allocation of the portfolio in order to ensure payment of pension benefits and others in the future while making it a rule to consider whether or not to rebalance the allocation when necessary.

(i) Defined benefit pension plans

1) Reconciliation of defined benefit obligations and plan assets

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Ending balance of present value of defined benefit obligations</td>
<td>¥16,478</td>
<td>¥18,412</td>
</tr>
<tr>
<td>Ending balance of plan assets</td>
<td>13,190</td>
<td>14,795</td>
</tr>
<tr>
<td>Net amount of defined benefit obligations and assets</td>
<td>¥3,287</td>
<td>¥3,617</td>
</tr>
</tbody>
</table>

Amounts in the consolidated statement of financial position

Net defined benefit liabilities | ¥3,287 | ¥3,617 | ¥3,504 | $29,093 |

2) Changes in defined benefit obligations

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended December 31, 2017</td>
<td>Year ended December 31, 2016</td>
</tr>
<tr>
<td>Beginning balance of present value of defined benefit obligations</td>
<td>¥18,412</td>
<td>¥18,459</td>
</tr>
<tr>
<td>Service cost</td>
<td>637</td>
<td>682</td>
</tr>
<tr>
<td>Interest expenses related to defined benefit obligations</td>
<td>114</td>
<td>174</td>
</tr>
<tr>
<td>Actuarial changes (in demographics)</td>
<td>32</td>
<td>6</td>
</tr>
<tr>
<td>Actuarial changes (in finance)</td>
<td>340</td>
<td>267</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,181)</td>
<td>(1,118)</td>
</tr>
<tr>
<td>Transfer of assets due to changes to defined contribution pension plans (Note)</td>
<td>(1,951)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>73</td>
<td>(59)</td>
</tr>
<tr>
<td>Ending balance of present value of defined benefit obligations</td>
<td>¥16,478</td>
<td>¥18,412</td>
</tr>
</tbody>
</table>

Note The Company changed some defined benefit corporate pension plans to defined contribution pension plans and recognized gains or losses on settlement in the fiscal year ended December 31, 2017 due to this change.
3) Changes in fair value of plan assets

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance of fair value of plan assets</td>
<td>¥14,795</td>
<td>¥14,954</td>
<td>$130,930</td>
</tr>
<tr>
<td>Interest income for plan assets</td>
<td>88</td>
<td>138</td>
<td>783</td>
</tr>
<tr>
<td>Return on plan assets other than interest</td>
<td>283</td>
<td>(80)</td>
<td>2,513</td>
</tr>
<tr>
<td>Contributions (Note 1)</td>
<td>838</td>
<td>894</td>
<td>7,421</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,181)</td>
<td>(1,094)</td>
<td>(10,452)</td>
</tr>
<tr>
<td>Transfer of assets due to change to defined contribution pension plans (Note 2)</td>
<td>(1,671)</td>
<td></td>
<td>(14,794)</td>
</tr>
<tr>
<td>Other</td>
<td>37</td>
<td>(18)</td>
<td>331</td>
</tr>
<tr>
<td>Ending balance of fair value of plan assets</td>
<td>¥13,190</td>
<td>¥14,795</td>
<td>$116,732</td>
</tr>
</tbody>
</table>

Notes
1. The amount of contributions to be made by the Group in the following fiscal year is ¥438 million ($3,878 thousand).
2. The Company changed some defined benefit corporate pension plans to defined contribution pension plans and recognized gains or losses on settlement in the fiscal year ended December 31, 2017 due to this change.
4) Major breakdown of plan assets

Fair values of plan assets on the IFRS transition date and in the fiscal years ended December 31, 2016 and 2017 are as follows:

<table>
<thead>
<tr>
<th>Asset category</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Plan assets with quoted market prices in active markets</td>
<td>Plan assets without quoted market prices in active markets</td>
<td>Total</td>
</tr>
<tr>
<td>Equity instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese equity securities</td>
<td>¥83</td>
<td>¥162</td>
<td>¥246</td>
</tr>
<tr>
<td>Overseas equity securities</td>
<td>186</td>
<td>155</td>
<td>342</td>
</tr>
<tr>
<td>Commingled funds (domestic)</td>
<td>370</td>
<td>370</td>
<td>740</td>
</tr>
<tr>
<td>Commingled funds (overseas)</td>
<td>18</td>
<td>762</td>
<td>781</td>
</tr>
<tr>
<td>Total equity instruments</td>
<td>¥288</td>
<td>¥1,451</td>
<td>¥1,740</td>
</tr>
<tr>
<td>Debt instruments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese debt securities</td>
<td>¥247</td>
<td>¥1,001</td>
<td>¥1,249</td>
</tr>
<tr>
<td>Overseas debt securities</td>
<td>344</td>
<td>142</td>
<td>487</td>
</tr>
<tr>
<td>Commingled funds (domestic)</td>
<td>2,438</td>
<td>2,438</td>
<td>4,876</td>
</tr>
<tr>
<td>Commingled funds (overseas)</td>
<td>2,834</td>
<td>2,834</td>
<td>5,668</td>
</tr>
<tr>
<td>Total debt instruments</td>
<td>¥591</td>
<td>¥6,417</td>
<td>¥7,009</td>
</tr>
<tr>
<td>Other (Note)</td>
<td>88</td>
<td>4,352</td>
<td>4,441</td>
</tr>
<tr>
<td>Total</td>
<td>¥968</td>
<td>¥12,222</td>
<td>¥13,190</td>
</tr>
</tbody>
</table>
Thousands of U.S. dollars

| Asset category | December 31, 2017 | | | |
|---|---|---|---|
| | Plan assets with quoted market prices in active markets | Plan assets without quoted market prices in active markets | Total |
| Equity instruments | | | |
| Japanese equity securities | $741 | $1,439 | $2,180 |
| Overseas equity securities | 1,651 | 1,377 | 3,028 |
| Commingled funds (domestic) | | 3,275 | 3,275 |
| Commingled funds (overseas) | 161 | 6,752 | 6,913 |
| Total equity instruments | $2,554 | $12,843 | $15,398 |
| Debt instruments | | | |
| Japanese debt securities | $2,187 | $8,866 | $11,053 |
| Overseas debt securities | 3,044 | 1,265 | 4,311 |
| Commingled funds (domestic) | | 21,581 | 21,581 |
| Commingled funds (overseas) | 25,081 | | 25,081 |
| Total debt instruments | $5,232 | $56,794 | $62,026 |
| Other (Note) | 784 | 38,521 | 39,305 |
| Total | $8,571 | $108,159 | $116,731 |

Note: “Other” mainly includes cash equivalents.

5) Actuarial assumptions
The main actuarial assumption used in each fiscal year is as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>0.6</td>
<td>0.6</td>
</tr>
</tbody>
</table>

6) Sensitivity analysis
The estimated impact on the defined benefit obligation of changes in the main assumption used in actuarial calculations is as follows. The following analysis provides a rough estimate of the defined benefit obligation’s sensitivity to the main actuarial assumption. It does not take into account all forecasted cash-flow information impacts.

<table>
<thead>
<tr>
<th>Impact on defined benefit obligation at December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate decreases by 0.5%</td>
</tr>
<tr>
<td>Discount rate increases by 0.5%</td>
</tr>
</tbody>
</table>
7) Information on defined benefit obligation duration analysis
The defined benefit obligation’s weighted-average duration was 11.4 years and 11.9 years in the years ended December 31, 2017 and 2016, respectively.

(ii) Defined contribution plans
The Company and certain subsidiaries have adopted defined contribution pension plans. Expenses recognized in connection with the defined contribution plans in the fiscal years ended December 31, 2017 and 2016 were ¥1,156 million ($10,234 thousand) and ¥879 million, respectively.

(2) Defined benefits costs
Defined benefits costs recognized as expenses in the fiscal years ended December 31, 2017 and 2016 totaled ¥36,681 million ($324,614 thousand) and ¥32,542 million, respectively. Defined benefits costs are included in cost of sales and selling, general and administrative expenses on the consolidated statement of profit or loss.

22. Equity and Other Equity Items
(1) Total number of authorized shares and total number of issued shares
Changes in the total number of authorized shares and the total number of issued shares are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Authorized shares (Shares)</th>
<th>Issued shares (Shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition date (January 1, 2016)</td>
<td>249,500,000</td>
<td>80,286,464</td>
</tr>
<tr>
<td>Increase (Decrease) (Note 3)</td>
<td></td>
<td>(6,000,000)</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>249,500,000</td>
<td>74,286,464</td>
</tr>
<tr>
<td>Increase (Decrease)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>249,500,000</td>
<td>74,286,464</td>
</tr>
</tbody>
</table>

Notes
1. Shares issued by the Company are ordinary shares with no par value.
2. Issued shares are fully paid.
3. The decrease in the number of issued shares is a decrease due to cancellation of treasury shares based on resolution of the Board of Directors.

(2) Capital surplus
Details of capital surplus are as follows:
(i) Capital reserves
The Companies Act allows for paid-in capital for issuance of shares or at least 50% of the contribution for share issue to be credited to share capital, and for the remainder to be credited to capital reserves included in capital surplus.

(ii) Other capital surplus
This is surplus arising from certain capital transactions and the reversal of share capital and capital reserves and others.
(iii) Stock acquisition rights

The Company has adopted an equity-settled stock option plan for certain executives, and these rights represent the portion of capital increase in the share-based compensation.

(3) Treasury shares

The Companies Act allows for an entity to determine the number of shares acquired, the total amount of acquisition cost and others, and acquire treasury shares by resolution at the General Meeting of Shareholders to the extent of the distributable amount. In addition, in the case of acquisition through market transactions or tender offer, treasury shares may be acquired by resolution of the Board of Directors to the extent of requirements stipulated in the Companies Act, pursuant to provisions of the Articles of Incorporation. The breakdown of changes in treasury shares during the period is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of shares (Shares)</th>
<th>Amount (Millions of yen)</th>
<th>Amount (Thousands of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition date (January 1, 2016)</td>
<td>3,154,202</td>
<td>¥2,306</td>
<td></td>
</tr>
<tr>
<td>Increase (Decrease) (Note 1)</td>
<td>(13,439)</td>
<td>272</td>
<td></td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>3,140,763</td>
<td>¥2,578</td>
<td>$22,818</td>
</tr>
<tr>
<td>Increase (Decrease) (Note 2)</td>
<td>(42,274)</td>
<td>(34)</td>
<td>(306)</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>3,098,489</td>
<td>¥2,543</td>
<td>$22,512</td>
</tr>
</tbody>
</table>

Notes
1. This consists of an increase of 6,000,000 shares due to acquisition of treasury shares based on the resolution of the Board of Directors, an increase of 561 shares due to the purchase of shares less than one unit, a decrease of 6,000,000 shares due to cancellation of treasury shares based on the resolution of the Board of Directors, and a decrease of 14,000 shares due to the exercise of stock options.
2. This consists of an increase of 726 shares due to the purchase of shares less than one unit and a decrease of 43,000 shares due to the exercise of stock options.

(4) Retained earnings

Details of retained earnings are as follows:

(i) Retained legal reserves

The Companies Act stipulates that 10% of the amount paid as dividends of surplus shall be appropriated as capital reserves or retained legal reserves until the aggregate amount of the capital reserves and the retained legal reserves equals 25% of share capital. The accumulated retained legal reserves may be used to compensate for a deficit, or may also be reversed upon resolution at the General Meeting of Shareholders.

(ii) Other retained earnings

This represents accumulated earnings earned by the Group.

(5) Other components of equity

Details of other components of equity are as follows:

(i) Gain or loss on investment in financial assets measured through other comprehensive income

This is the cumulative amount of valuation gain or loss on financial assets measured at fair value through other comprehensive income.
(ii) Remeasurements of defined benefit pension plans
Remeasurements of defined benefit pension plans consist of the effect of differences between
the actuarial assumptions at the beginning of the period and the actual result and the effect of
changes in actuarial assumptions, and are recognized in other comprehensive income when
they are incurred and immediately transferred from other components of equity to retained
earnings.

(iii) Exchange differences on translation of foreign operations
These exchange differences are translation differences arising from translation of financial
statements of the Group’s foreign operations from their functional currencies to Japanese yen,
which is the Group’s presentation currency.

(iv) Profit (loss) in cash flow hedges
This profit (loss) is the cumulative amount of the hedge-effective portion of gain or loss
arising from changes in fair value of the hedging instrument in cash flow hedges.
23. Dividends

Dividends paid in the fiscal years ended December 31, 2017 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Class of shares</th>
<th>Total dividends (Millions of yen)</th>
<th>Dividends per share (Yen or U.S. dollars)</th>
<th>Record date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors Meeting held on February 24, 2016</td>
<td>Ordinary shares</td>
<td>¥617</td>
<td>¥8.00</td>
<td>December 31, 2015</td>
<td>March 14, 2016</td>
</tr>
<tr>
<td>Board of Directors Meeting held on August 8, 2016</td>
<td>Ordinary shares</td>
<td>¥593</td>
<td>¥8.00</td>
<td>June 30, 2016</td>
<td>September 6, 2016</td>
</tr>
<tr>
<td>Board of Directors Meeting held on February 24, 2017</td>
<td>Ordinary shares</td>
<td>¥569</td>
<td>¥8.00/ $0.07</td>
<td>December 31, 2016</td>
<td>March 13, 2017</td>
</tr>
<tr>
<td>Board of Directors Meeting held on August 7, 2017</td>
<td>Ordinary shares</td>
<td>¥569</td>
<td>¥8.00/ $0.07</td>
<td>June 30, 2017</td>
<td>September 5, 2017</td>
</tr>
</tbody>
</table>

Of dividends for which the record date falls in the fiscal year ended December 31, 2017, the total amount of dividends for which the effective date falls in the following fiscal year is as follows:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Class of shares</th>
<th>Source of dividends</th>
<th>Total dividends (Millions of yen)</th>
<th>Dividends per share (Yen or U.S. dollars)</th>
<th>Record date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors Meeting held on February 23, 2018</td>
<td>Ordinary shares</td>
<td>Retained earnings</td>
<td>¥569</td>
<td>¥8.00/ $0.07</td>
<td>December 31, 2017</td>
<td>March 12, 2018</td>
</tr>
</tbody>
</table>

24. Revenue

(1) Breakdown of revenue

Revenue consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended</td>
<td></td>
</tr>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Revenue from sales of products</td>
<td>¥131,934</td>
<td>¥120,346</td>
</tr>
<tr>
<td>Revenue from sales of services</td>
<td>8,978</td>
<td>9,698</td>
</tr>
<tr>
<td>Total</td>
<td>¥140,912</td>
<td>¥130,045</td>
</tr>
</tbody>
</table>

(2) Construction contracts

The total amount of cost incurred and income recognized and the amount of advances received for construction contracts in progress on the transaction date and in the fiscal years ended December 31, 2017 and 2016 are as follows:
The gross amount due from and gross amount due to ordering parties for construction work under construction contracts on the transaction date and in the fiscal years ended December 31, 2016 and 2017 are as follows:

Construction contract revenue recognized in the fiscal years ended December 31, 2017 and 2016 was ¥13,488 million ($119,015 thousand) and ¥15,949 million, respectively.

25. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefits costs</td>
<td>¥20,387</td>
<td>¥18,099</td>
<td>$180,421</td>
</tr>
<tr>
<td>Transportation and warehousing expenses</td>
<td>3,289</td>
<td>3,019</td>
<td>29,106</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,135</td>
<td>1,851</td>
<td>18,897</td>
</tr>
<tr>
<td>Traveling and transportation expenses</td>
<td>1,867</td>
<td>1,673</td>
<td>16,525</td>
</tr>
<tr>
<td>Research and development costs</td>
<td>2,177</td>
<td>1,298</td>
<td>19,272</td>
</tr>
<tr>
<td>Sales commissions</td>
<td>884</td>
<td>1,222</td>
<td>7,828</td>
</tr>
<tr>
<td>Other</td>
<td>11,476</td>
<td>10,210</td>
<td>101,561</td>
</tr>
<tr>
<td>Total</td>
<td>¥42,218</td>
<td>¥37,374</td>
<td>$373,610</td>
</tr>
</tbody>
</table>
26. Other Income

Other income consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on disposal of fixed assets</td>
<td>¥1,283</td>
<td>$11,356</td>
</tr>
<tr>
<td>Rental income</td>
<td>¥178</td>
<td>$1,583</td>
</tr>
<tr>
<td>Government grant income (Note)</td>
<td>¥71</td>
<td>$632</td>
</tr>
<tr>
<td>Insurance claim income</td>
<td>¥178</td>
<td>$1,577</td>
</tr>
<tr>
<td>Gain on revision to retirement benefit plan</td>
<td>275</td>
<td>$2,441</td>
</tr>
<tr>
<td>Other</td>
<td>¥567</td>
<td>$5,021</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥2,554</td>
<td><strong>$22,610</strong></td>
</tr>
</tbody>
</table>

Note: Government grant income principally represents Ishikawa prefecture’s grant for promoting the establishment of new business facilities related to the expansion of job opportunities, a grant for advanced facilities and a grant for promoting the establishment of new facilities for creative industries and others. There are no unexecuted incidental conditions or other contingencies.

27. Other Expenses

Other expenses consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>¥91</td>
<td>$812</td>
</tr>
<tr>
<td>Loss on disposal of inventories</td>
<td>¥78</td>
<td>75</td>
</tr>
<tr>
<td>Other</td>
<td>¥135</td>
<td>$1,201</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥227</strong></td>
<td><strong>$2,013</strong></td>
</tr>
</tbody>
</table>

28. Finance Income

Finance income consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets measured at amortized cost</td>
<td>¥102</td>
<td>$911</td>
</tr>
<tr>
<td>Dividend income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets measured at fair value through other comprehensive income</td>
<td>247</td>
<td>2,190</td>
</tr>
<tr>
<td>Other finance income</td>
<td>¥143</td>
<td>$1,269</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥493</strong></td>
<td><strong>$4,370</strong></td>
</tr>
</tbody>
</table>
29. Finance Costs

Finance costs consist of the following:

<table>
<thead>
<tr>
<th>Interest expenses and discounts paid</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ended December 31, 2017</td>
<td>Year ended December 31, 2016</td>
<td>Year ended December 31, 2017</td>
</tr>
<tr>
<td>Financial liabilities measured at amortized cost</td>
<td>¥820</td>
<td>¥619</td>
</tr>
<tr>
<td>Net interest of defined benefit pension plans</td>
<td>23</td>
<td>37</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>36</td>
</tr>
<tr>
<td>Exchange difference losses (Note)</td>
<td>252</td>
<td>1,170</td>
</tr>
<tr>
<td>Other finance costs</td>
<td>4</td>
<td>38</td>
</tr>
<tr>
<td>Total</td>
<td>¥1,112</td>
<td>¥1,903</td>
</tr>
</tbody>
</table>

Note Exchange difference losses include gains or losses on currency-related derivative transactions.
30. Other Comprehensive Income

The breakdown of each item of other comprehensive income (including non-controlling interests) is as follows:

<table>
<thead>
<tr>
<th>Items that will not be reclassified subsequently to profit or loss</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets measured at fair value through other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥2,413 (738)</td>
<td>¥(30) 97 $(6,540)</td>
</tr>
<tr>
<td>Income taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥1,674</td>
<td>¥66</td>
</tr>
<tr>
<td>Remeasurements of defined benefit pension plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>(96) (350)</td>
<td>$(853)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>25 106</td>
<td>226</td>
</tr>
<tr>
<td>Total</td>
<td>¥(70)</td>
<td>¥(244)</td>
</tr>
<tr>
<td>Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>0 (1)</td>
<td>$1</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>(1)</td>
</tr>
<tr>
<td>Items that may be reclassified subsequently to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥3,357 (1,780)</td>
<td>$29,710</td>
</tr>
<tr>
<td>Total</td>
<td>¥3,357</td>
<td>¥(1,780)</td>
</tr>
<tr>
<td>Gain (loss) in cash flow hedges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥(47) (224)</td>
<td>$(416)</td>
</tr>
<tr>
<td>Reclassification amount to profit or loss</td>
<td>68 109</td>
<td>603</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(6) 28</td>
<td>(56)</td>
</tr>
<tr>
<td>Total</td>
<td>¥14</td>
<td>¥(86)</td>
</tr>
<tr>
<td>Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount arising during the year</td>
<td>¥31 (58)</td>
<td>$280</td>
</tr>
<tr>
<td>Total</td>
<td>¥31</td>
<td>¥(58)</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>¥5,007</td>
<td>¥(2,104)</td>
</tr>
</tbody>
</table>
### 31. Earnings per Share

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Millions of yen</td>
<td>Thousands of U.S. dollars</td>
</tr>
<tr>
<td>Profit for the year attributable to owners of the parent</td>
<td>¥5,182</td>
<td>¥4,883</td>
<td>$45,865</td>
</tr>
<tr>
<td>Profit (loss) adjusted for the effect of dilution</td>
<td>¥(29)</td>
<td>¥(81)</td>
<td>$(265)</td>
</tr>
<tr>
<td>Diluted profit for the year</td>
<td>¥5,152</td>
<td>¥4,802</td>
<td>$45,600</td>
</tr>
<tr>
<td>Weighted-average number of ordinary shares outstanding (Thousands of shares)</td>
<td>71,177</td>
<td>73,905</td>
<td></td>
</tr>
<tr>
<td>Increase in weighted-average number of ordinary shares due to dilution (Thousands of shares)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase of convertible bonds with stock acquisition rights</td>
<td>9,287</td>
<td>9,287</td>
<td></td>
</tr>
<tr>
<td>Increase from stock options</td>
<td>89</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>Diluted weighted-average number of ordinary shares (Thousands of shares)</td>
<td>80,555</td>
<td>83,291</td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>¥72.82</td>
<td>¥66.08</td>
<td>$0.64</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>¥63.97</td>
<td>¥57.66</td>
<td>$0.56</td>
</tr>
<tr>
<td>Diluted potential ordinary shares not included in the calculation of diluted earnings per share because their inclusion would have been anti-dilutive</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
32. Share Based Payment

The Group has adopted an equity-settled share based payment plan (stock option plan) for certain executives and employees, for the purpose of improving the Group’s medium- to long-term business performance and corporate value, based on the resolution of the Company’s Board of Directors. Expenses recorded in relation to the equity-settled share based payment were ¥31 million ($276 thousand) and ¥24 million in the years ended December 31, 2017 and 2016, respectively.

(1) Details of the stock option plan

<table>
<thead>
<tr>
<th>Company name</th>
<th>Filing company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution date</td>
<td>July 2, 2012</td>
</tr>
<tr>
<td>Category and number of persons granted</td>
<td>Six directors of the Company (excluding outside directors)</td>
</tr>
<tr>
<td>Class and number of share options granted (shares)</td>
<td>Ordinary shares: 20,000 shares</td>
</tr>
<tr>
<td>Grant date</td>
<td>July 18, 2012</td>
</tr>
</tbody>
</table>
| Vesting conditions | (1) Any allottee of stock acquisition rights may exercise the stock acquisition rights only during 10 days from the day following the day on which the allottee loses the status of Company director. 
(2) In the event that a holder of stock acquisition rights dies, his or her heir shall be able to exercise his or her stock acquisition rights. Conditions for the exercise of stock acquisition rights by such heirs shall be stipulated in the stock acquisition rights allotment agreement. 
(3) Conditions for the exercise of stock acquisition rights in other than the above conditions shall be stipulated in the stock acquisition rights allotment agreement. |
| Target service period | There is no provision for the requisite service period. |
| Exercise period | July 19, 2012 to July 18, 2042 |

<table>
<thead>
<tr>
<th>Company name</th>
<th>Filing company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution date</td>
<td>July 1, 2013</td>
</tr>
<tr>
<td>Category and number of persons granted</td>
<td>Six directors of the Company (excluding outside directors)</td>
</tr>
<tr>
<td>Class and number of share options granted (shares)</td>
<td>Ordinary shares: 20,000 shares</td>
</tr>
<tr>
<td>Grant date</td>
<td>July 18, 2013</td>
</tr>
</tbody>
</table>
| Vesting conditions | (1) Any allottee of stock acquisition rights may exercise the stock acquisition rights only during 10 days from the day following the day on which the allottee loses the status of Company director. 
(2) In the event that a holder of stock acquisition rights dies, his or her heir shall be able to exercise his or her stock acquisition rights. Conditions for the exercise of stock acquisition rights by such heirs shall be stipulated in the stock acquisition rights allotment agreement. 
(3) Conditions for the exercise of stock acquisition rights in other than the above conditions shall be stipulated in the stock acquisition rights allotment agreement. |
<p>| Target service period | There is no provision for the requisite service period. |
| Exercise period | July 19, 2013 to July 18, 2043 |</p>
<table>
<thead>
<tr>
<th>Company name</th>
<th>Filing company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution date</td>
<td>July 7, 2014</td>
</tr>
<tr>
<td>Category and number of persons granted</td>
<td>Five directors of the Company (excluding outside directors)</td>
</tr>
<tr>
<td>Class and number of share options granted (shares)</td>
<td>Ordinary shares: 30,000 shares</td>
</tr>
<tr>
<td>Grant date</td>
<td>July 23, 2014</td>
</tr>
</tbody>
</table>
| Vesting conditions | (1) Any allottee of stock acquisition rights may exercise the stock acquisition rights only during 10 days from the day following the day on which the allottee loses the status of Company director.  
(2) In the event that a holder of stock acquisition rights dies, his or her heir shall be able to exercise his or her stock acquisition rights. Conditions for the exercise of stock acquisition rights by such heirs shall be stipulated in the stock acquisition rights allotment agreement.  
(3) Conditions for the exercise of stock acquisition rights in other than the above conditions shall be stipulated in the stock acquisition rights allotment agreement. |
| Target service period | There is no provision for the requisite service period. |
| Exercise period | July 24, 2014 to July 23, 2044 |

<table>
<thead>
<tr>
<th>Company name</th>
<th>Filing company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution date</td>
<td>July 6, 2015</td>
</tr>
<tr>
<td>Category and number of persons granted</td>
<td>Five directors of the Company (excluding outside directors)</td>
</tr>
<tr>
<td>Class and number of share options granted (shares)</td>
<td>Ordinary shares: 28,000 shares</td>
</tr>
<tr>
<td>Grant date</td>
<td>July 23, 2015</td>
</tr>
</tbody>
</table>
| Vesting conditions | (1) Any allottee of stock acquisition rights may exercise the stock acquisition rights only during 10 days from the day following the day on which the allottee loses the status of Company director.  
(2) In the event that a holder of stock acquisition rights dies, his or her heir shall be able to exercise his or her stock acquisition rights. Conditions for the exercise of stock acquisition rights by such heirs shall be stipulated in the stock acquisition rights allotment agreement.  
(3) Conditions for the exercise of stock acquisition rights in other than the above conditions shall be stipulated in the stock acquisition rights allotment agreement. |
<p>| Target service period | There is no provision for the requisite service period. |
| Exercise period | July 24, 2015 to July 23, 2045 |</p>
<table>
<thead>
<tr>
<th>Company name</th>
<th>Filing company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution date</td>
<td>April 4, 2016</td>
</tr>
<tr>
<td>Category and number of persons granted</td>
<td>Six directors of the Company (excluding outside directors)</td>
</tr>
<tr>
<td>Class and number of share options granted (shares)</td>
<td>Ordinary shares: 37,000 shares</td>
</tr>
<tr>
<td>Grant date</td>
<td>April 21, 2016</td>
</tr>
</tbody>
</table>

**Vesting conditions**

1. Any allottee of stock acquisition rights may exercise the stock acquisition rights only during 10 days from the day following the day on which the allottee loses the status of Company director.
2. In the event that a holder of stock acquisition rights dies, his or her heir shall be able to exercise his or her stock acquisition rights. Conditions for the exercise of stock acquisition rights by such heirs shall be stipulated in the stock acquisition rights allotment agreement.
3. Conditions for the exercise of stock acquisition rights in other than the above conditions shall be stipulated in the stock acquisition rights allotment agreement.

**Target service period**

There is no provision for the requisite service period.

**Exercise period**

April 22, 2016 to April 21, 2046

---

<table>
<thead>
<tr>
<th>Company name</th>
<th>Filing company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution date</td>
<td>April 10, 2017</td>
</tr>
<tr>
<td>Category and number of persons granted</td>
<td>Six directors of the Company (excluding outside directors)</td>
</tr>
<tr>
<td>Class and number of share options granted (shares)</td>
<td>Ordinary shares: 34,000 shares</td>
</tr>
<tr>
<td>Grant date</td>
<td>April 28, 2017</td>
</tr>
</tbody>
</table>

**Vesting conditions**

1. Any allottee of stock acquisition rights may exercise the stock acquisition rights only during 10 days from the day following the day on which the allottee loses the status of Company director.
2. In the event that a holder of stock acquisition rights dies, his or her heir shall be able to exercise his or her stock acquisition rights. Conditions for the exercise of stock acquisition rights by such heirs shall be stipulated in the stock acquisition rights allotment agreement.
3. Conditions for the exercise of stock acquisition rights in other than the above conditions shall be stipulated in the stock acquisition rights allotment agreement.

**Target service period**

There is no provision for the requisite service period.

**Exercise period**

April 29, 2017 to April 28, 2047
(2) Number of share options

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance – Outstanding</td>
<td>99,000</td>
<td>79,000</td>
</tr>
<tr>
<td>Granted</td>
<td>34,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Exercised</td>
<td>(43,000)</td>
<td>(14,000)</td>
</tr>
<tr>
<td>Forfeited</td>
<td></td>
<td>(3,000)</td>
</tr>
<tr>
<td>Ending balance – Outstanding</td>
<td>90,000</td>
<td>99,000</td>
</tr>
</tbody>
</table>

Ending balance – Exercisable

Notes
1. The weighted-average exercise price was ¥1 for both fiscal years.
2. The weighed-average share price at the time of exercise in the fiscal years ended December 31, 2017 and 2016 was ¥1,205 ($10.66) and ¥657, respectively.
3. The weighted-average remaining term for outstanding stock options was 27.9 years and 27.5 years as of December 31, 2017 and 2016, respectively.

(3) Fair value measurement of stock options

For stock options granted during the period, the Black-Scholes model is used for valuation of options. Fair value of stock options granted during the period is measured based on the following premises. The weighted-average fair value per share was ¥649 and ¥920 ($8.14) in the years ended December 31, 2017 and 2016, respectively.

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock price at grant date</td>
<td>¥1,137</td>
<td>¥859</td>
<td>¥1,137</td>
<td>¥859</td>
<td>$10.06</td>
<td>$10.06</td>
</tr>
<tr>
<td>Exercise price</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Expected volatility (%) (Note 1)</td>
<td>35.20</td>
<td>34.65</td>
<td>35.20</td>
<td>34.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated remaining outstanding period (year) (Note 2)</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution ratio (%) (Note 3)</td>
<td>1.41</td>
<td>1.86</td>
<td>1.41</td>
<td>1.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-free rate (%) (Note 4)</td>
<td>0.291</td>
<td>0.034</td>
<td>0.291</td>
<td>0.034</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes
1. Expected volatility was determined based on the stock price fluctuation rate, which was calculated based on the closing price of shares of the Company and others on the final trading day of each week for 15 years.
2. The figure was estimated based on actual services rendered and term of office.
3. The figure was calculated based on actual dividends paid for the last two fiscal years.
4. The rate is based on the interest rate of government bonds corresponding to the expected remaining life.
33. Financial Instruments

(1) Classification of financial instruments

The carrying amount of financial assets by category is as follows:

<table>
<thead>
<tr>
<th>Financial assets measured at amortized cost</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>¥34,095</td>
<td>¥25,919</td>
<td>¥27,402</td>
<td>$301,728</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>50,434</td>
<td>41,498</td>
<td>43,331</td>
<td>446,322</td>
</tr>
<tr>
<td>Other</td>
<td>1,693</td>
<td>1,372</td>
<td>1,051</td>
<td>14,990</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial assets measured at fair value through profit or loss</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td>467</td>
<td>536</td>
<td>647</td>
<td>4,141</td>
</tr>
<tr>
<td>Other</td>
<td>293</td>
<td>496</td>
<td>565</td>
<td>2,594</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial assets measured at fair value through other comprehensive income</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>14,597</td>
<td>10,598</td>
<td>11,584</td>
<td>129,183</td>
</tr>
</tbody>
</table>

| Total                                                                       | ¥101,582          | ¥80,421           | ¥84,582                     | $898,958          |

Because shares are principally held for policy investment purposes and not aimed at profit taking through their sale and purchase in the short term, shares are designated as financial assets measured at fair value through other comprehensive income.

Major components and fair values of financial assets measured at fair value through other comprehensive income are as follows:

<table>
<thead>
<tr>
<th>Transition date January 1, 2016</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>JGC CORPORATION</td>
<td>¥2,097</td>
</tr>
<tr>
<td>Sumitomo Realty &amp; Development Co., Ltd.</td>
<td>1,062</td>
</tr>
<tr>
<td>TAIHEI DENGYO KAISHA, LTD.</td>
<td>928</td>
</tr>
<tr>
<td>Okuma Corporation</td>
<td>783</td>
</tr>
<tr>
<td>Iwatani Corporation</td>
<td>772</td>
</tr>
<tr>
<td>Mizuho Financial Group, Inc.</td>
<td>711</td>
</tr>
<tr>
<td>NIHON KOHDEN CORPORATION</td>
<td>663</td>
</tr>
<tr>
<td>Seika Corporation</td>
<td>476</td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group, Inc.</td>
<td>379</td>
</tr>
<tr>
<td>Daifuku Co., Ltd.</td>
<td>303</td>
</tr>
</tbody>
</table>
### Dividend income on financial assets measured at fair value through other comprehensive income

### Millions of yen

<table>
<thead>
<tr>
<th>Stock name</th>
<th>Amount</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>JGC CORPORATION</td>
<td>¥2,295</td>
<td>$19,692</td>
</tr>
<tr>
<td>Sumitomo Realty &amp; Development Co., Ltd.</td>
<td>930</td>
<td></td>
</tr>
<tr>
<td>TAIHEI DENGYO KAISHA, LTD.</td>
<td>864</td>
<td></td>
</tr>
<tr>
<td>Okuma Corporation</td>
<td>823</td>
<td></td>
</tr>
<tr>
<td>Iwatani Corporation</td>
<td>752</td>
<td></td>
</tr>
<tr>
<td>NIHON KOHDEN CORPORATION</td>
<td>615</td>
<td></td>
</tr>
<tr>
<td>Seika Corporation</td>
<td>549</td>
<td></td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group, Inc.</td>
<td>361</td>
<td></td>
</tr>
<tr>
<td>Daifuku Co., Ltd.</td>
<td>355</td>
<td></td>
</tr>
<tr>
<td>SHIN NIPPON AIR TECHNOLOGIES Co., LTD.</td>
<td>306</td>
<td></td>
</tr>
</tbody>
</table>

### December 31, 2017

<table>
<thead>
<tr>
<th>Stock name</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>JGC CORPORATION</td>
<td>¥2,225</td>
<td>$19,692</td>
</tr>
<tr>
<td>Weihai Weigao Blood Purification Product Co., Ltd.</td>
<td>1,731</td>
<td>15,324</td>
</tr>
<tr>
<td>Sumitomo Realty &amp; Development Co., Ltd.</td>
<td>1,089</td>
<td>9,638</td>
</tr>
<tr>
<td>Okuma Corporation</td>
<td>1,082</td>
<td>9,580</td>
</tr>
<tr>
<td>TAIHEI DENGYO KAISHA, LTD.</td>
<td>1,043</td>
<td>9,233</td>
</tr>
<tr>
<td>Seika Corporation</td>
<td>914</td>
<td>8,095</td>
</tr>
<tr>
<td>Daifuku Co., Ltd.</td>
<td>910</td>
<td>8,059</td>
</tr>
<tr>
<td>Iwatani Corporation</td>
<td>848</td>
<td>7,505</td>
</tr>
<tr>
<td>NIHON KOHDEN CORPORATION</td>
<td>630</td>
<td>5,577</td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group, Inc.</td>
<td>398</td>
<td>3,524</td>
</tr>
</tbody>
</table>

### Financial assets measured at fair value through other comprehensive income are sold in order to increase efficiency and utility of assets held. Information on financial assets measured at fair value through other comprehensive income that were disposed of during the period is as follows:

<table>
<thead>
<tr>
<th>Stock name</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>JGC CORPORATION</td>
<td>¥29</td>
<td></td>
</tr>
<tr>
<td>Weihai Weigao Blood Purification Product Co., Ltd.</td>
<td>221</td>
<td>$2,190</td>
</tr>
<tr>
<td>Sumitomo Realty &amp; Development Co., Ltd.</td>
<td>247</td>
<td>221</td>
</tr>
<tr>
<td>Okuma Corporation</td>
<td>284</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stock name</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value at time of sale</td>
<td>¥1,059</td>
<td></td>
</tr>
<tr>
<td>Cumulative gains</td>
<td>425</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income transferred to retained earnings (net of tax)</td>
<td>284</td>
<td></td>
</tr>
</tbody>
</table>
The carrying amount of financial liabilities by category is as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial liabilities measured at amortized cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings</td>
<td>¥122,528</td>
<td>¥69,884</td>
<td>¥70,244</td>
<td>$1,084,325</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>22,624</td>
<td>21,606</td>
<td>20,301</td>
<td>200,215</td>
</tr>
<tr>
<td>Other</td>
<td>742</td>
<td>640</td>
<td>761</td>
<td>6,568</td>
</tr>
<tr>
<td><strong>Financial liabilities measured at fair value through profit or loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>400</td>
<td>421</td>
<td>318</td>
<td>3,546</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥146,295</td>
<td>¥92,552</td>
<td>¥91,625</td>
<td>$1,294,654</td>
</tr>
</tbody>
</table>

(2) Financial risk management policy

The basic capital policy of the Group is to achieve sustainable growth and improve corporate value in the medium to long term while seeking an optimal balance among financial health, capital efficiency, and return of profits to its shareholders. Based on the recognition that continuous and stable return of profits to shareholders who support the Group is an important pillar of the Company’s capital policy, the Group promotes the growth of existing businesses and appropriately applies internal reserves to reinvestments for development of new businesses and promotion and improvement of productivity in order to achieve sustainable development from a longer-term perspective. As of December 31, 2017, no capital control was externally imposed on the Group.

The Group is exposed to financial risks (credit risk, liquidity risk, foreign exchange risk, interest rate risk, market price fluctuation risk) in the course of operating activities and conducts risk management based on a certain policy to mitigate these financial risks. The fund management policy has been approved by management, and transactions and risk management during the period have been conducted principally in accordance with internal management regulations. The Group uses derivatives to mitigate the risks stated below and does not perform any speculative transactions, as a matter of policy.

(i) Credit risk management

The Group is exposed to the credit risk of customers in association with notes and accounts receivable, which are trade receivables. Shares and others held for policy purposes are exposed to the credit risk of issuers. Furthermore, derivative transactions conducted for the purpose of mitigating market risk are exposed to the credit risk of financial institutions that are counterparties to the transactions.

Based on the policy of credit management, the Group manages due dates and balances by counterparty for trade receivables. With regard to counterparties for which the Group particularly has concerns about credit risk, the Group early captures concerns about collection due to deterioration of financial conditions, etc. by regularly monitoring such conditions, and examines and implements protection measures on an individual basis. In addition, the Group monitors economic conditions, market trends, and others surrounding debtors and examines future trends in credit risk. The Group does not have any credit risk that is overly concentrated.
in a sole counterparty or group to which the counterparty belongs. Since derivative transactions are restricted to financial institutions with high credit ratings as counterparties to mitigate counterparty risk, the Company deems there to be hardly any credit risk. These financial instruments are considered to be debt defaults when all or part of the instruments cannot be collected or it is considered extremely difficult to collect them.
1) Maximum exposure to credit risk
The Group’s exposure to credit risk by rating is as follows. The Group does not have anything deemed to be collateral or credit enhancement.

Transition date January 1, 2016

<table>
<thead>
<tr>
<th>Days in arrears</th>
<th>Financial assets measured at the amount equivalent to 12-month expected credit losses</th>
<th>Financial assets measured at the amount equivalent to lifetime expected credit losses</th>
<th>Financial assets of which credit risk has increased significantly since the initial recognition</th>
<th>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</th>
<th>Total</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>No arrears</td>
<td>1,024</td>
<td>34,757</td>
<td></td>
<td></td>
<td></td>
<td>¥35,781</td>
</tr>
<tr>
<td>Within 1 month</td>
<td>2</td>
<td>0</td>
<td></td>
<td>3,935</td>
<td>3,938</td>
<td></td>
</tr>
<tr>
<td>Over 1 month but within 2 months</td>
<td>3</td>
<td>1</td>
<td>892</td>
<td></td>
<td>897</td>
<td></td>
</tr>
<tr>
<td>Over 2 months but within 3 months</td>
<td>0</td>
<td>0</td>
<td>1,229</td>
<td></td>
<td>1,231</td>
<td></td>
</tr>
<tr>
<td>Over 3 months</td>
<td>21</td>
<td>212</td>
<td>2,521</td>
<td></td>
<td>2,756</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,052</td>
<td>215</td>
<td>43,337</td>
<td></td>
<td>¥44,604</td>
<td></td>
</tr>
</tbody>
</table>

December 31, 2016

<table>
<thead>
<tr>
<th>Days in arrears</th>
<th>Financial assets measured at the amount equivalent to 12-month expected credit losses</th>
<th>Financial assets measured at the amount equivalent to lifetime expected credit losses</th>
<th>Financial assets of which credit risk has increased significantly since the initial recognition</th>
<th>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</th>
<th>Total</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>No arrears</td>
<td>1,054</td>
<td>32,331</td>
<td></td>
<td></td>
<td></td>
<td>¥33,386</td>
</tr>
<tr>
<td>Within 1 month</td>
<td>2</td>
<td>5,412</td>
<td></td>
<td></td>
<td>5,414</td>
<td></td>
</tr>
<tr>
<td>Over 1 month but within 2 months</td>
<td>1</td>
<td>1,186</td>
<td></td>
<td></td>
<td>1,188</td>
<td></td>
</tr>
<tr>
<td>Over 2 months but within 3 months</td>
<td>0</td>
<td>2</td>
<td>398</td>
<td></td>
<td>401</td>
<td></td>
</tr>
<tr>
<td>Over 3 months</td>
<td>6</td>
<td>214</td>
<td>2,335</td>
<td></td>
<td>2,556</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,065</td>
<td>216</td>
<td>41,664</td>
<td></td>
<td>¥42,947</td>
<td></td>
</tr>
</tbody>
</table>
### Financial Assets

#### December 31, 2017

<table>
<thead>
<tr>
<th>Days in arrears</th>
<th>Financial assets measured at the amount equivalent to 12-month expected credit losses</th>
<th>Financial assets measured at the amount equivalent to lifetime expected credit losses</th>
<th>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No arrears</td>
<td>798</td>
<td>41,783</td>
<td>¥42,581</td>
<td>¥42,581</td>
</tr>
<tr>
<td>Within 1 month</td>
<td>1</td>
<td>0</td>
<td>3,393</td>
<td>3,395</td>
</tr>
<tr>
<td>Over 1 month but within 2 months</td>
<td></td>
<td></td>
<td>1,265</td>
<td>1,265</td>
</tr>
<tr>
<td>Over 2 months but within 3 months</td>
<td>7</td>
<td>837</td>
<td>844</td>
<td>844</td>
</tr>
<tr>
<td>Over 3 months</td>
<td>56</td>
<td>222</td>
<td>4,030</td>
<td>4,030</td>
</tr>
<tr>
<td>Total</td>
<td>863</td>
<td>222</td>
<td>51,030</td>
<td>¥52,117</td>
</tr>
</tbody>
</table>

#### December 31, 2017

<table>
<thead>
<tr>
<th>Days in arrears</th>
<th>Financial assets measured at the amount equivalent to 12-month expected credit losses</th>
<th>Financial assets measured at the amount equivalent to lifetime expected credit losses</th>
<th>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No arrears</td>
<td>7,065</td>
<td>369,763</td>
<td>$376,828</td>
<td>$376,828</td>
</tr>
<tr>
<td>Within 1 month</td>
<td>12</td>
<td>5</td>
<td>30,043</td>
<td>30,043</td>
</tr>
<tr>
<td>Over 1 month but within 2 months</td>
<td></td>
<td></td>
<td>11,198</td>
<td>11,198</td>
</tr>
<tr>
<td>Over 2 months but within 3 months</td>
<td>66</td>
<td>7,408</td>
<td>7,474</td>
<td>7,474</td>
</tr>
<tr>
<td>Over 3 months</td>
<td>501</td>
<td>1,968</td>
<td>35,672</td>
<td>35,672</td>
</tr>
<tr>
<td>Total</td>
<td>7,644</td>
<td>1,973</td>
<td>451,598</td>
<td>$461,215</td>
</tr>
</tbody>
</table>
2) Changes in allowance for doubtful accounts

Changes in allowance for doubtful accounts of the Group’s credit risk by rating are as follows. If trade and other receivables are impaired, the Group records an allowance for doubtful accounts, instead of directly reducing the carrying amount.

<table>
<thead>
<tr>
<th></th>
<th>Financial assets measured at the amount equivalent to 12-month expected credit losses</th>
<th>Financial assets measured at the amount equivalent to lifetime expected credit losses</th>
<th>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial assets of which credit risk has increased significantly since the initial recognition</td>
<td>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 1, 2016</td>
<td>0</td>
<td>212</td>
<td>584</td>
<td>¥797</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>13</td>
<td>172</td>
<td>(0)</td>
<td>185</td>
</tr>
<tr>
<td>Decrease during the year (Utilization)</td>
<td>0</td>
<td>(0)</td>
<td>(0)</td>
<td></td>
</tr>
<tr>
<td>Decrease during the year (Reversal)</td>
<td>0</td>
<td>(63)</td>
<td>(63)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>(14)</td>
<td>(17)</td>
<td>(30)</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>14</td>
<td>198</td>
<td>675</td>
<td>¥887</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>5</td>
<td>186</td>
<td>(47)</td>
<td>191</td>
</tr>
<tr>
<td>Decrease during the year (Utilization)</td>
<td>(3)</td>
<td>(43)</td>
<td>(47)</td>
<td></td>
</tr>
<tr>
<td>Decrease during the year (Reversal)</td>
<td>(14)</td>
<td>(44)</td>
<td>(44)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(14)</td>
<td>19</td>
<td>98</td>
<td>103</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>1</td>
<td>217</td>
<td>872</td>
<td>¥1,091</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Financial assets measured at the amount equivalent to 12-month expected credit losses</th>
<th>Financial assets measured at the amount equivalent to lifetime expected credit losses</th>
<th>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial assets of which credit risk has increased significantly since the initial recognition</td>
<td>Financial assets in which an allowance for doubtful accounts are always measured at the amount equal to lifetime expected credit losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>127</td>
<td>1,753</td>
<td>5,977</td>
<td>$7,857</td>
</tr>
<tr>
<td>Increase during the year</td>
<td>45</td>
<td>1,649</td>
<td>1,694</td>
<td></td>
</tr>
<tr>
<td>Decrease during the year (Utilization)</td>
<td>(33)</td>
<td>(388)</td>
<td>(421)</td>
<td></td>
</tr>
<tr>
<td>Decrease during the year (Reversal)</td>
<td>(126)</td>
<td>(390)</td>
<td>(390)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(126)</td>
<td>175</td>
<td>869</td>
<td>918</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>13</td>
<td>1,928</td>
<td>7,717</td>
<td>$9,658</td>
</tr>
</tbody>
</table>
(ii) Liquidity risk management

While most of trade liabilities of the Group are due within one year and funds are raised through borrowings and convertible bonds, the Group is exposed to liquidity risk of failure to repay on the due date resulting from deterioration of the financing environment, etc. The Group manages liquidity risk by developing and updating a funding plan in a timely manner based on reports from each department and other means.

Balances of financial liabilities by due date are as follows:

Transition date January 1, 2016

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Contract amount</th>
<th>Within 1 year</th>
<th>Over 1 year but within 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-derivative financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings (Note)</td>
<td>¥70,244</td>
<td>¥70,434</td>
<td>¥22,821</td>
<td>¥36,890</td>
<td>¥10,722</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>20,301</td>
<td>20,301</td>
<td>20,301</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>761</td>
<td>767</td>
<td>591</td>
<td>167</td>
<td>9</td>
</tr>
<tr>
<td><strong>Derivative financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>318</td>
<td>318</td>
<td>23</td>
<td>123</td>
<td>171</td>
</tr>
</tbody>
</table>

December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Contract amount</th>
<th>Within 1 year</th>
<th>Over 1 year but within 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-derivative financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings (Note)</td>
<td>¥69,884</td>
<td>¥70,001</td>
<td>¥17,792</td>
<td>¥38,365</td>
<td>¥13,843</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>21,606</td>
<td>21,606</td>
<td>21,606</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>640</td>
<td>645</td>
<td>513</td>
<td>131</td>
<td></td>
</tr>
<tr>
<td><strong>Derivative financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>421</td>
<td>421</td>
<td>5</td>
<td>112</td>
<td>303</td>
</tr>
</tbody>
</table>

December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Contract amount</th>
<th>Within 1 year</th>
<th>Over 1 year but within 5 years</th>
<th>Over 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-derivative financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings (Note)</td>
<td>¥122,528</td>
<td>¥122,572</td>
<td>¥78,046</td>
<td>¥27,677</td>
<td>¥16,847</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>22,624</td>
<td>22,624</td>
<td>22,624</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>742</td>
<td>746</td>
<td>574</td>
<td>130</td>
<td>42</td>
</tr>
<tr>
<td><strong>Derivative financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>400</td>
<td>400</td>
<td>2</td>
<td>142</td>
<td>255</td>
</tr>
</tbody>
</table>
To prepare for liquidity risk, the Group has credit lines such as commitment line contracts with several financial institutions in an effort to reduce liquidity risk. Credit lines held by the Group are as follows:

<table>
<thead>
<tr>
<th>Credit lines</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
<td>Transition date January 1, 2016</td>
</tr>
<tr>
<td>Credit lines</td>
<td>¥60,595</td>
<td>¥24,196</td>
</tr>
<tr>
<td>Credit lines used</td>
<td>(49,259)</td>
<td>(12,981)</td>
</tr>
<tr>
<td>Credit lines unused</td>
<td>¥11,335</td>
<td>¥11,215</td>
</tr>
</tbody>
</table>

(iii) Currency risk management

The Group enters into transactions in foreign currencies because of its global business development, and is exposed to risk that profit or loss, cash flows, and others are subject to fluctuations in foreign exchange rates.
To mitigate the risk of fluctuations in foreign exchange rates, the Group principally uses foreign exchange forward contracts for the position of trade receivables and payables in foreign currency netted, and utilizes currency swaps as derivative transactions for borrowings in foreign currencies. The Group performs risk management based on the derivative transaction management regulations that provide for authority for transactions, amount limits and others, and reports trading conditions to management.
Consolidated subsidiaries also perform risk management in accordance with the derivative transaction management regulations.

The impact of a 1% appreciation of the Japanese yen against the US Dollar on profit before tax in each fiscal year is as follows. In this analysis, translation was made with foreign exchange rates at the end of the fiscal year adjusted for 1% fluctuation, based on the assumption that other variable factors (such as balances and interest rate) are constant.
(iv) Interest rate risk management

The Group is exposed to the risk of interest rate fluctuations mainly related to long-term borrowings, and manages changes in cash flows principally by entering into interest rate swap contracts to minimize the effects of these changes. Interest rate swap contracts are contracts with receivable floating rates and payable fixed rates, and long-term liabilities on a floating interest rate basis are treated as long-term liabilities on a fixed interest rate basis by receiving the portion of the floating rate paid on borrowings and by paying the fixed rate.

The Group performs risk management in accordance with the derivative transaction management regulations that provide for authority for transactions, amount limits and others, and reports trading conditions to management. Consolidated subsidiaries also conduct investments in accordance with the derivative transaction management regulations.

For financial instruments held by the Group as of December 31, 2016 and December 31, 2017, the impact of a 1% increase in the interest rate on profit before tax is as follows. However, this analysis is based on the assumption that other variable factors (such as balances) are constant. In the analysis, the amount of impact was calculated by multiplying the net balance of financial instruments that are affected by fluctuations in interest rates at the end of each reporting period by 1%.

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>¥(510)</td>
<td>¥(100)</td>
</tr>
</tbody>
</table>

(v) Market price fluctuation risk management

The Group is exposed to risk of fluctuations in share prices arising from equity instruments (shares).

The Group holds shares of business partners and others through the establishment of stable and long-term transaction relationships and business alliances and strengthening transaction relationships with business partners and others from a standpoint of pursuing sustainable growth and improvement in corporate value in the medium to long term and examines medium- to long-term economic rationality and the effects of the shareholding from a perspective of maintaining and enhancing relationships with business partners and others each fiscal period. No equity instruments are held for the purpose of short-term trading, and the Group does not sell these equity instruments actively.

In the fiscal years ended December 31, 2016 and 2017, the impact on other comprehensive income before tax, on the assumption that share prices decrease by 1%, is as follows. Since marketable shares held by the Group have been designated as financial assets measured at fair value through other comprehensive income, there is no impact on profit before tax on the assumption that share prices decrease by 1%.

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2017</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Other comprehensive income before tax</td>
<td>¥(127)</td>
<td>¥(104)</td>
</tr>
</tbody>
</table>
(3) Fair values of financial instruments

Fair values of financial instruments are as follows. Fair values are classified into three levels based on valuation techniques used, and the details have been provided in “3. Significant Accounting Policies (18) Fair value measurements.”

(i) Fair values of financial instruments measured at amortized cost

Carrying amounts and fair values of financial instruments measured at amortized cost as of the transition date and in the fiscal years ended December 31, 2016 and 2017 are as follows. A note has been omitted with regard to financial assets and liabilities with fair values that approximate the carrying amount.

Fair values of bonds and long-term borrowings for which the contract term is over one year were determined based on the present value, which was calculated by discounting the total sum of principal and interest using the interest rate assumed to be applied for a new, similar borrowing.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
<th>Transition date January 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying amount</td>
<td>Fair value</td>
<td>Carrying amount</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>¥14,956</td>
<td>¥15,037</td>
<td>¥14,882</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>53,868</td>
<td>53,963</td>
<td>41,205</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying amount</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>$132,360</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>476,715</td>
</tr>
</tbody>
</table>

Note The fair value measurement level of bonds and borrowings is Level 2.

(ii) Fair values of financial instruments measured at fair values on a recurring basis

The fair value hierarchy of financial instruments measured at fair value on a recurring basis on the transition date and in the fiscal years ended December 31, 2016 and 2017 is as follows. There is no significant financial instrument measured at fair value on a non-recurring basis. Derivatives are principally transactions related to foreign exchange forward contracts, interest rate swaps, cross-currency interest rate swaps, and interest rate caps. Their fair value is calculated based on observable market data presented by financial institutions and others with which the Group has transactions.

Fair value of listed shares is based on prices at the stock exchange.

Fair value measurements of unlisted shares and others is calculated using a valuation technique based on discounted future cash flows, a valuation technique based on the market prices of comparable companies, a valuation technique based on net asset value and other valuation techniques. In the measurement of fair value of unlisted shares, unobservable
inputs, such as discount rate and valuation multiples, are used, and certain non-current discounts and non-controlling interest discount are taken into account where necessary. The Group measures fair value related to Level 3 financial instruments in accordance with relevant internal regulations, and uses valuation techniques and inputs that must appropriately reflect the nature, characteristics, and risks of the financial instrument to be measured. Results of the measurement are reviewed by senior executives. Of unobservable inputs that are used to determine fair value of equity instruments classified as Level 3, the major input is the price-book value ratio in the comparable company analysis method. Fair value increases (decreases) due to an increase (decrease) in the price-bookvalue ratio. For financial instruments classified as Level 3, a significant increase or decrease in fair value is not expected in cases where unobservable inputs are changed to reasonably possible alternative assumptions.
### Transition date January 1, 2016

<table>
<thead>
<tr>
<th>Fair value</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other short-term financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>¥647</td>
<td></td>
<td>647</td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>¥11,377</td>
<td>206</td>
<td>11,584</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
<td>478</td>
<td>498</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥11,377</td>
<td>¥667</td>
<td>¥751</td>
<td>¥12,797</td>
</tr>
<tr>
<td>Other short-term financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>23</td>
<td></td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Other long-term financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>295</td>
<td></td>
<td>295</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>-</td>
<td>¥318</td>
<td>-</td>
<td>¥318</td>
</tr>
</tbody>
</table>

### December 31, 2016

<table>
<thead>
<tr>
<th>Fair value</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other short-term financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>¥536</td>
<td></td>
<td>536</td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>¥10,408</td>
<td>189</td>
<td>10,598</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>441</td>
<td>459</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥10,408</td>
<td>¥553</td>
<td>¥668</td>
<td>¥11,630</td>
</tr>
<tr>
<td>Other long-term financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>421</td>
<td></td>
<td>421</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>-</td>
<td>¥421</td>
<td>-</td>
<td>¥421</td>
</tr>
</tbody>
</table>

### December 31, 2017

<table>
<thead>
<tr>
<th>Fair value</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other short-term financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>¥467</td>
<td></td>
<td>467</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>¥64</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>¥12,797</td>
<td>1,800</td>
<td>14,597</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>212</td>
<td>228</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥12,797</td>
<td>¥484</td>
<td>¥2,076</td>
<td>¥15,358</td>
</tr>
<tr>
<td>Other short-term financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>2</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Other long-term financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td>398</td>
<td></td>
<td>398</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>-</td>
<td>¥400</td>
<td>-</td>
<td>¥400</td>
</tr>
</tbody>
</table>
December 31, 2017

### Fair value

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other short-term financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td></td>
<td>$4,141</td>
<td></td>
<td>$4,141</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td>$569</td>
</tr>
<tr>
<td><strong>Long-term financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>$113,250</td>
<td></td>
<td>15,933</td>
<td>129,183</td>
</tr>
<tr>
<td>Other</td>
<td>148</td>
<td></td>
<td>1,877</td>
<td>2,025</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$113,250</td>
<td>$4,289</td>
<td>$18,379</td>
<td>$135,918</td>
</tr>
<tr>
<td><strong>Other short-term financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td></td>
<td></td>
<td></td>
<td>19</td>
</tr>
<tr>
<td><strong>Other long-term financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives designated as hedge</td>
<td></td>
<td></td>
<td></td>
<td>3,527</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td>$3,546</td>
</tr>
</tbody>
</table>

**Changes in financial instruments classified as Level 3 from the beginning to the end of the fiscal year are as follows:**

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2017</th>
<th>Year ended December 31, 2016</th>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>¥668</td>
<td>¥751</td>
<td>$5,919</td>
</tr>
<tr>
<td>Gains or losses recognized as profit or loss</td>
<td>(19)</td>
<td>(33)</td>
<td>(176)</td>
</tr>
<tr>
<td>Gains or losses recognized as other comprehensive income</td>
<td>41</td>
<td>(16)</td>
<td>364</td>
</tr>
<tr>
<td>Purchases</td>
<td>1,777</td>
<td>79</td>
<td>15,726</td>
</tr>
<tr>
<td>Effects of change in scope of consolidation</td>
<td>(162)</td>
<td>(73)</td>
<td>(1,437)</td>
</tr>
<tr>
<td>Sales</td>
<td>(247)</td>
<td>(73)</td>
<td>(2,191)</td>
</tr>
<tr>
<td>Transfer to (from) Level 3</td>
<td>19</td>
<td>(38)</td>
<td>173</td>
</tr>
<tr>
<td>Ending balance</td>
<td>$2,076</td>
<td>¥668</td>
<td>$18,378</td>
</tr>
</tbody>
</table>

(4) **Hedge accounting**

Changes in fair value of interest rate swap contracts designated against interest rate cash flows related to borrowings and currency swap contracts designated against fluctuations in foreign exchange rates of borrowings in foreign currency are treated as other comprehensive income and treated as finance costs over the period during which interest on the borrowings affects the consolidated statement of profit or loss. In the fiscal years ended December 31, 2016 and 2017, there was no significant amount recognized as profit or loss with regard to the ineffective portion of hedges and the portion excluded from assessment of hedge effectiveness. There is no amount that was reclassified from valuation difference on cash flow hedges to profit or loss because a forecast transaction was no longer expected to occur.
As of December 31, 2017, the period in which cash flows of hedged items are expected to occur and in which these cash flows are expected to affect profit or loss was from March 2018 to March 2025.

(i) Hedging instruments

<table>
<thead>
<tr>
<th>Transition date January 1, 2016</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk classification</td>
<td>Hedging instruments</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2016</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk classification</td>
<td>Hedging instruments</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2017</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk classification</td>
<td>Hedging instruments</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2017</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk classification</td>
<td>Hedging instruments</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
</tr>
</tbody>
</table>
(ii) Hedged items

Transition date January 1, 2016

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedged items</th>
<th>Reserve of cash flow hedges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Borrowings</td>
<td>¥206</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Borrowings</td>
<td></td>
</tr>
</tbody>
</table>

December 31, 2016

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedged items</th>
<th>Changes in fair value used in calculation of ineffective portion of hedges</th>
<th>Reserve of cash flow hedges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Borrowings</td>
<td>¥(105)</td>
<td>¥292</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Borrowings</td>
<td>(109)</td>
<td></td>
</tr>
</tbody>
</table>

December 31, 2017

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedged items</th>
<th>Changes in fair value used in calculation of ineffective portion of hedges</th>
<th>Reserve of cash flow hedges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Borrowings</td>
<td>¥15</td>
<td>¥278</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Borrowings</td>
<td>(68)</td>
<td></td>
</tr>
</tbody>
</table>

December 31, 2017

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedged items</th>
<th>Changes in fair value used in calculation of ineffective portion of hedges</th>
<th>Reserve of cash flow hedges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Borrowings</td>
<td>$138</td>
<td>$2,460</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Borrowings</td>
<td>(603)</td>
<td></td>
</tr>
</tbody>
</table>
(iii) Effect of consolidated statement of profit or loss and consolidated statement of comprehensive income

**Year ended December 31, 2016**

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedging instruments</th>
<th>Gains or losses on hedges recognized in other comprehensive income</th>
<th>Amount transferred from reserve of cash flow hedges to profit or loss</th>
<th>Line item in profit or loss affected by the transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
<td>¥(105)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
<td>(109)</td>
<td>¥(109)</td>
<td>Finance costs</td>
</tr>
</tbody>
</table>

**Note**  The figure represents an amount before tax effect adjustments.

**Year ended December 31, 2017**

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedging instruments</th>
<th>Gains or losses on hedges recognized in other comprehensive income</th>
<th>Amount transferred from reserve of cash flow hedges to profit or loss</th>
<th>Line item in profit or loss affected by the transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
<td>¥15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
<td>(68)</td>
<td>¥(68)</td>
<td>Finance costs</td>
</tr>
</tbody>
</table>

**Note**  The figure represents an amount before tax effect adjustments.

**Year ended December 31, 2017**

<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Hedging instruments</th>
<th>Gains or losses on hedges recognized in other comprehensive income</th>
<th>Amount transferred from reserve of cash flow hedges to profit or loss</th>
<th>Line item in profit or loss affected by the transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>Interest rate swaps</td>
<td>$138</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency risk</td>
<td>Cross-currency interest rate swaps</td>
<td>(603)</td>
<td>$(603)</td>
<td>Finance costs</td>
</tr>
</tbody>
</table>

**Note**  Figures represent amounts before tax effect adjustments.
(5) Changes in liabilities arising from financing activities

Year ended December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Beginning balance</th>
<th>Cash flows</th>
<th>Non-cash flows</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Changes in</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>fair value</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Foreign</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>currency</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>translation</td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>¥13,479</td>
<td>¥457</td>
<td>(140)</td>
<td>¥13,795</td>
</tr>
<tr>
<td>Bonds and long-term</td>
<td>56,764</td>
<td>(383)</td>
<td>(366)</td>
<td>¥73</td>
</tr>
<tr>
<td>borrowings</td>
<td></td>
<td></td>
<td></td>
<td>56,088</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>258</td>
<td>(88)</td>
<td>26</td>
<td>194</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>647</td>
<td></td>
<td>(111)</td>
<td>536</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>318</td>
<td>99</td>
<td>12</td>
<td>421</td>
</tr>
</tbody>
</table>

Note: Other includes changes and others in amortized cost.

Year ended December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Beginning balance</th>
<th>Cash flows</th>
<th>Non-cash flows</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Changes in</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>fair value</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Foreign</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>currency</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>translation</td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>¥13,795</td>
<td>¥39,821</td>
<td>150</td>
<td>¥53,703</td>
</tr>
<tr>
<td>Bonds and long-term</td>
<td>56,088</td>
<td>12,488</td>
<td>174</td>
<td>68,825</td>
</tr>
<tr>
<td>borrowings</td>
<td></td>
<td></td>
<td>73</td>
<td>197</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>194</td>
<td>(75)</td>
<td>76</td>
<td>467</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>536</td>
<td></td>
<td>(68)</td>
<td></td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>421</td>
<td>73</td>
<td>(88)</td>
<td>400</td>
</tr>
</tbody>
</table>

Note: Other includes changes and others in amortized cost.

Year ended December 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Beginning balance</th>
<th>Cash flows</th>
<th>Non-cash flows</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Changes in</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>fair value</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Foreign</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>currency</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>translations</td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>$122,083</td>
<td>$352,402</td>
<td>$1,332</td>
<td>$475,249</td>
</tr>
<tr>
<td>Bonds and long-term</td>
<td>496,359</td>
<td>110,519</td>
<td>1,542</td>
<td>609,075</td>
</tr>
<tr>
<td>borrowings</td>
<td></td>
<td></td>
<td>655</td>
<td>1,745</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,720</td>
<td>(666)</td>
<td>$680</td>
<td>4,141</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>4,744</td>
<td></td>
<td>$(603)</td>
<td>3,546</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>3,728</td>
<td>647</td>
<td>(785)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Other includes changes and others in amortized cost.
34. Related-party Disclosures

(1) Transactions with related parties

<table>
<thead>
<tr>
<th>Type</th>
<th>Related-party transactions</th>
<th>Amount of transaction (Millions of yen)</th>
<th>Account title</th>
<th>Outstanding balance (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint ventures</td>
<td>Sale of goods</td>
<td>¥2,084</td>
<td>Trade receivables</td>
<td>¥861</td>
</tr>
<tr>
<td></td>
<td>Purchase of goods</td>
<td>6</td>
<td>Trade payables</td>
<td></td>
</tr>
<tr>
<td>Associates</td>
<td>Sale of goods</td>
<td>586</td>
<td>Trade receivables</td>
<td>515</td>
</tr>
<tr>
<td></td>
<td>Purchase of goods</td>
<td>201</td>
<td>Trade payables</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Deposit of funds</td>
<td>0</td>
<td>Deposits received</td>
<td>53</td>
</tr>
</tbody>
</table>

Note: The price of transactions with related parties has been determined through negotiations, taking the prevailing market price into account.

<table>
<thead>
<tr>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>Joint ventures</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Associates</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>Joint ventures</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Associates</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Note: The price of transactions with related parties has been determined through negotiations, taking the prevailing market price into account.

(2) Remuneration for management personnel

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended Dec 31, 2017</td>
<td>Year ended Dec 31, 2016</td>
</tr>
<tr>
<td>Basic remuneration and bonuses</td>
<td>¥133</td>
<td>¥126</td>
</tr>
<tr>
<td>Share-based payment</td>
<td>31</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>¥164</td>
<td>¥150</td>
</tr>
</tbody>
</table>
35. Business Combinations
Year ended December 31, 2017

(1) Outline of the business combinations

(i) Names and business descriptions of acquiree
The Company acquired all shares of a total of 21 companies consisting of ACD, LLC, Cosmodyne, LLC, Cryoquip, LLC, CIS and their 17 subsidiaries which served as operating companies under the control of Cryogenic Industries group through NIKKISO INTERNATIONAL Co., Ltd., a consolidated subsidiary of the Company and the newly established Cryogenic Industries Holdings, Inc. (the company name was changed to Cryogenic Industries, Inc. as of September 27, 2017).
Name and business description of major acquirees are as follows.

<table>
<thead>
<tr>
<th>Name of acquiree</th>
<th>Business description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACD, LLC</td>
<td>Manufacturing and sales of industrial gas, centrifugal pumps for energy industries, reciprocating pumps, and turbo expanders, etc.</td>
</tr>
<tr>
<td>Cosmodyne, LLC</td>
<td>EPC for industrial gas, air separation for energy industries, gas purifying and gas liquidation plants</td>
</tr>
<tr>
<td>Cryoquip, LLC</td>
<td>Manufacturing and sale of heat exchangers for industrial gas and energy industries</td>
</tr>
<tr>
<td>Cryogenic Industries AG</td>
<td>Business management of subsidiaries</td>
</tr>
</tbody>
</table>

(ii) Main reasons for the business combinations
With ACD, Cosmodyne, and Cryoquip, CIS under the control of Cryogenic Industries group, is one of the world’s leading companies providing a wide range of products and services for plants in fields of industrial gases such as oxygen, nitrogen, and argon, and of natural gases such as methane. The Group, including LEWA and Geveke, which became subsidiaries of the Company, has established a strong position in the market as one of world’s rare pump and system manufactures with various products and services for upstream fields, such as development of crude oil and natural gas, to the downstream fields including transportation of liquefied natural gas (LNG), petroleum refinery, and petroleum chemistry. Cryogenic Industries group’s core technology, centrifugal and reciprocating pumps, is a common element in the Group’s technology, moreover, the company has vaporization and liquefaction technologies which are expected to enhance the Company’s existing business. The combination of each operating company under the control of Cryogenic Industries group will create business synergy effects to improve products, services, and network for services. It is also expected to create opportunities to join growing markets, such as industrial gas and clean energy, including hydrogen.

(iii) Date of business combinations
August 21, 2017

(iv) Legal form of business combinations
Acquisition of shares

(v) Ratio of voting rights of major companies acquired

<table>
<thead>
<tr>
<th>Company name</th>
<th>Ratio of voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACD, LLC</td>
<td>100%</td>
</tr>
<tr>
<td>Cosmodyne, LLC</td>
<td>100%</td>
</tr>
<tr>
<td>Cryoquip, LLC</td>
<td>100%</td>
</tr>
<tr>
<td>Cryogenic Industries AG</td>
<td>100%</td>
</tr>
</tbody>
</table>
(2) Breakdown of fair value of assets and liabilities and consideration for acquisition as of the acquisition date

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>¥5,715</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>3,077</td>
</tr>
<tr>
<td>Other short-term financial assets</td>
<td>616</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,541</td>
</tr>
<tr>
<td>Other current assets</td>
<td>391</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>895</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>9,434</td>
</tr>
<tr>
<td>Long-term financial assets</td>
<td>35</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>2</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(2,044)</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(1,520)</td>
</tr>
<tr>
<td>Other long-term financial liabilities</td>
<td>(18)</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(2,148)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>28,863</td>
</tr>
<tr>
<td>Total</td>
<td>¥47,840</td>
</tr>
</tbody>
</table>

Notes
1. The fair value of trade and other receivables is largely the same as the carrying amount.
2. No contingent liabilities other than liabilities assumed have been identified.

Major components of goodwill are synergy effects with the existing business that are expected to arise from the acquisition and excess earnings power, which do not meet the recognition criteria individually. The goodwill is not deductible for tax purposes. Acquisition-related costs associated with the business combinations were ¥948 million ($8,393 thousand), fully expensed in “selling, general and administrative expenses.”

(3) Cash flows associated with the acquisition

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total consideration transferred</td>
<td>¥47,840</td>
</tr>
<tr>
<td>Cash and cash equivalents that were held by the acquired companies at the time of the acquisition</td>
<td>(5,715)</td>
</tr>
<tr>
<td>Payments for acquisition of subsidiaries</td>
<td>¥42,125</td>
</tr>
</tbody>
</table>

(4) Impact on the financial results of the Group

The consolidated statement of profit or loss includes ¥5,498 million ($48,655 thousand) of revenue and ¥268 million ($2,374 thousand) of loss for the year from Cryogenic Industries group on and after the acquisition date. On the assumption that the business combinations had been conducted at the beginning of the fiscal year, revenue would have been ¥13,877 million ($122,808 thousand) and profit for the year would have been ¥1,133 million ($10,027 thousand). The Company has not received an audit certificate for these estimated amounts.
36. Information on Affiliates

In the fiscal years ended December 31, 2017 and 2016, there were no affiliates that had individually significant non-controlling interests, and there were no material restrictions, etc. on the ability to access or use assets of affiliates and settle their liabilities.

37. Contingent Liabilities

The Group has provided debt guarantees on borrowings of the following entities accounted for using the equity method. If the borrower becomes unable to repay, the Group may cover the amount that the borrower fails to repay and bear an accompanying loss.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikkiso-KSB GmbH</td>
<td>¥131</td>
<td></td>
</tr>
</tbody>
</table>

38. Events after the Reporting Period

Not applicable

39. First-Time Adoption of IFRS

The Company prepared its consolidated financial statements in accordance with IFRS from the Annual Securities Report for the fiscal year ended December 31, 2017. The IFRS transition date is January 1, 2016.

In principal, IFRS requires a company adopting IFRS for the first time (hereinafter, the “first-time adopter”) to apply retrospectively the standards required under IFRS effective as of first-time reporting date. However, IFRS 1 stipulates standards which are required to adopt mandatory exceptions and standards for which the first-time adopters may adopt exceptions voluntarily relating to certain standards required under IFRS. Effects associated with transition to IFRS were adjusted with retained earnings as of the IFRS transition date. Major exemptions adopted by the Group are as follows in accordance with the transition from Japanese GAAP to IFRS.

- Business combinations
  
  It is allowed for a first-time adopter to choose not to apply IFRS 3, “Business Combinations” retrospectively to business combinations occurring before the IFRS transition date. The Group has applied this exemption and did not apply IFRS 3 retrospectively to business combinations that occurred before the transition date. As a result, the amount of goodwill arising from the business combinations before the transition date is based on the carrying amount as of the transition date under Japanese GAAP. However, goodwill is tested for impairment as of the transition date irrespective of whether there is any indication of impairment.

- Cumulative amount of exchange differences on translation of foreign operations
  
  Under IFRS 1, it is allowed for a first-time adopter to deem the cumulative amount of exchange differences on translation of foreign operations to be zero as of the transition date. The Group has applied this exemption and deemed the cumulative amount of all exchange differences on translation of foreign operations to be zero as of the transition date.

Retrospective application of IFRS is prohibited for estimates, derecognition of financial assets and financial liabilities, hedge accounting, non-controlling interests, and classification and measurement of financial assets. The Group has applied IFRS to these items prospectively from the transition date.
Reconciliations from Japanese GAAP to IFRS
Reconciliations required to be disclosed in the first-time adoption of IFRS are as follows. In the reconciliation below, Reclassification includes items that do not affect retained earnings and comprehensive income, while Differences in recognition and measurement includes items that affect retained earnings and comprehensive income.

(1) Reconciliation of equity
(i) Reconciliation of equity
IFRS transition date as of January 1, 2016

<table>
<thead>
<tr>
<th>Presentation under Japanese GAAP</th>
<th>Japanese GAAP</th>
<th>Reclassification</th>
<th>Differences in recognition and measurement</th>
<th>IFRS</th>
<th>Notes</th>
<th>Presentation under IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>27,992</td>
<td>(590)</td>
<td>27,402</td>
<td></td>
<td></td>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>Notes and accounts receivable</td>
<td>41,353</td>
<td>6</td>
<td>1,971</td>
<td>43,331</td>
<td>A</td>
<td>Trade and other receivables</td>
</tr>
<tr>
<td>trade</td>
<td></td>
<td></td>
<td></td>
<td>623</td>
<td></td>
<td>Other short-term financial assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>29,059</td>
<td>(3,266)</td>
<td>Inventories</td>
</tr>
<tr>
<td>Merchandise and finished goods</td>
<td>10,179</td>
<td>(10,179)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Work in process</td>
<td>10,154</td>
<td>(10,154)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>8,735</td>
<td>(8,735)</td>
<td>1,172</td>
<td>1,732</td>
<td></td>
<td>Other current assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>1,948</td>
<td>(1,948)</td>
<td></td>
<td>1,172</td>
<td></td>
<td>Income tax refund receivable</td>
</tr>
<tr>
<td>Other</td>
<td>3,400</td>
<td>(1,667)</td>
<td></td>
<td>1,732</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(574)</td>
<td>572</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>103,191</td>
<td>(1,842)</td>
<td>(1,293)</td>
<td>100,055</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>31,770</td>
<td>1,793</td>
<td>33,563</td>
<td>B</td>
<td></td>
<td>Goodwill and intangible assets</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>28,634</td>
<td>(774)</td>
<td>(125)</td>
<td>27,734</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments and other assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>12,668</td>
<td>(97)</td>
<td>654</td>
<td>13,225</td>
<td>D</td>
<td>Long-term financial assets</td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>214</td>
<td>(214)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>370</td>
<td>469</td>
<td>807</td>
<td>1,647</td>
<td></td>
<td>Deferred tax assets</td>
</tr>
<tr>
<td>Claims provable in bankruptcy,</td>
<td>12</td>
<td>(12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>claims provable in rehabilitation and other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,009</td>
<td>(42)</td>
<td>(36)</td>
<td>930</td>
<td></td>
<td>Other non-current assets</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(225)</td>
<td>225</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>74,455</td>
<td>511</td>
<td>3,093</td>
<td>78,059</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>177,646</td>
<td>(1,330)</td>
<td>1,799</td>
<td>178,115</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presentation under Japanese GAAP</td>
<td>Japanese GAAP</td>
<td>Reclassification</td>
<td>Differences in recognition and measurement</td>
<td>IFRS</td>
<td>Notes</td>
<td>Presentation under IFRS</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---------------</td>
<td>------------------</td>
<td>------------------------------------------</td>
<td>------</td>
<td>-------</td>
<td>------------------------</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans payable</td>
<td>13,479</td>
<td>6,008</td>
<td></td>
<td>19,487</td>
<td></td>
<td>Bonds and short-term borrowings</td>
</tr>
<tr>
<td>Notes and accounts payable trade</td>
<td>18,158</td>
<td>2,166</td>
<td>(22)</td>
<td>20,301</td>
<td></td>
<td>Trade and other payables</td>
</tr>
<tr>
<td>Current portion of long-term loans payable</td>
<td>9,342</td>
<td>(9,342)</td>
<td>590</td>
<td>23</td>
<td>613</td>
<td>Other short-term financial liabilities</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>91</td>
<td>(91)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable other</td>
<td>2,145</td>
<td>(2,145)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued consumption taxes</td>
<td>88</td>
<td>(88)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>806</td>
<td>71</td>
<td>877</td>
<td></td>
<td></td>
<td>Income taxes payable</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>3,129</td>
<td>(3,129)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bonuses</td>
<td>1,181</td>
<td>(1,181)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for directors’ bonuses</td>
<td>53</td>
<td>(53)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for plant restructuring expenses within one year</td>
<td>30</td>
<td>(30)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loss on orders received</td>
<td>300</td>
<td>(300)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable facilities</td>
<td>43</td>
<td>(43)</td>
<td>764</td>
<td>764</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,121</td>
<td>3,379</td>
<td>(190)</td>
<td>7,310</td>
<td>E</td>
<td>Other current liabilities</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>52,971</td>
<td>(3,425)</td>
<td>(190)</td>
<td>49,356</td>
<td></td>
<td>Total current liabilities</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible bond-type bonds with subscription rights to shares</td>
<td>15,077</td>
<td>35,278</td>
<td>400</td>
<td>50,756</td>
<td>D, F</td>
<td>Bonds and long-term borrowings</td>
</tr>
<tr>
<td>Long-term loans payable</td>
<td>31,944</td>
<td>(31,944)</td>
<td>170</td>
<td>295</td>
<td>465</td>
<td>D</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>166</td>
<td>(166)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>3,258</td>
<td>246</td>
<td>3,504</td>
<td></td>
<td>G</td>
<td>Net defined benefit liabilities</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>2,783</td>
<td>(1,242)</td>
<td>1,058</td>
<td>2,599</td>
<td></td>
<td>Provisions</td>
</tr>
<tr>
<td>Provision for directors’ retirement benefits</td>
<td>16</td>
<td>(16)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>285</td>
<td>(30)</td>
<td>43</td>
<td>298</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>53,531</td>
<td>2,094</td>
<td>2,078</td>
<td>57,705</td>
<td></td>
<td>Total non-current liabilities</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>106,503</td>
<td>(1,330)</td>
<td>1,888</td>
<td>107,061</td>
<td></td>
<td>Total liabilities</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock</td>
<td>6,544</td>
<td></td>
<td>6,544</td>
<td></td>
<td></td>
<td>Share capital</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>10,663</td>
<td>77</td>
<td>350</td>
<td>11,091</td>
<td>F</td>
<td>Capital surplus</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(2,306)</td>
<td>(2,306)</td>
<td></td>
<td></td>
<td></td>
<td>Treasury shares</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>49,794</td>
<td>851</td>
<td>50,646</td>
<td></td>
<td>H</td>
<td>Retained earnings</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>5,061</td>
<td>(1,294)</td>
<td>3,766</td>
<td>D, G, I</td>
<td>Other components of equity</td>
<td></td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>77</td>
<td>(77)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>1,306</td>
<td>4</td>
<td>1,310</td>
<td></td>
<td></td>
<td>Non-controlling interests</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>71,142</td>
<td>(89)</td>
<td>71,053</td>
<td></td>
<td></td>
<td>Total equity</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>177,646</td>
<td>(1,330)</td>
<td>1,799</td>
<td>178,115</td>
<td></td>
<td>Total liabilities and equity</td>
</tr>
</tbody>
</table>

(Millions of yen)
Year ended December 31, 2016

(Millions of yen)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Presentation under Japanese GAAP</th>
<th>Reclassification Differences in recognition and measurement</th>
<th>IFRS</th>
<th>Notes</th>
<th>Presentation under IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>26,731</td>
<td>(811)</td>
<td>25,919</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts receivable trade</td>
<td>40,792</td>
<td>(145)</td>
<td>851</td>
<td>41,498</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandise and finished goods</td>
<td>10,394</td>
<td>(10,394)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work in process</td>
<td>9,875</td>
<td>(9,875)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>8,799</td>
<td>(8,799)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>2,393</td>
<td>(2,393)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,705</td>
<td>(817)</td>
<td>25</td>
<td></td>
<td>1,913</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(676)</td>
<td>676</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>101,015</td>
<td>(2,393)</td>
<td>(1,030)</td>
<td>97,591</td>
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<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
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<tr>
<td>Property, plant and equipment</td>
<td>33,859</td>
<td>1,819</td>
<td>35,679</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>27,008</td>
<td>(728)</td>
<td>1,818</td>
<td>28,098</td>
<td>C</td>
</tr>
<tr>
<td>Investments and other assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>11,696</td>
<td>(51)</td>
<td>448</td>
<td>12,093</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Investments accounted for using the equity method</td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>199</td>
<td>(199)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>709</td>
<td>623</td>
<td>920</td>
<td>2,253</td>
<td></td>
</tr>
<tr>
<td>Claims provable in bankruptcy, claims provable in rehabilitation and other</td>
<td>20</td>
<td>(20)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,166</td>
<td>(222)</td>
<td>4</td>
<td>948</td>
<td>Other non-current assets</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(218)</td>
<td>211</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>74,441</td>
<td>623</td>
<td>5,061</td>
<td>80,126</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>175,457</td>
<td>(1,770)</td>
<td>4,031</td>
<td>177,717</td>
<td></td>
</tr>
</tbody>
</table>
### Presentation under Japanese GAAP

<table>
<thead>
<tr>
<th>Presentation under Japanese GAAP</th>
<th>Japanese GAAP</th>
<th>Reclassification</th>
<th>Differences in recognition and measurement</th>
<th>IFRS</th>
<th>Notes</th>
<th>Presentation under IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans payable</td>
<td>13,795</td>
<td>2,762</td>
<td>16,557</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payable trade</td>
<td>19,368</td>
<td>2,238</td>
<td>21,606</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of long-term loans payable</td>
<td>3,997</td>
<td>(3,997)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease obligations</td>
<td>64</td>
<td>(64)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable other</td>
<td>2,127</td>
<td>(2,127)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued consumption taxes</td>
<td>856</td>
<td>(856)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>2,126</td>
<td>(36)</td>
<td>2,090</td>
<td></td>
<td></td>
<td>Income taxes payable</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>3,962</td>
<td>(3,962)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bonuses</td>
<td>1,150</td>
<td>(1,150)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for directors’ bonuses</td>
<td>71</td>
<td>(71)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loss on orders received</td>
<td>389</td>
<td>857</td>
<td>1,247</td>
<td></td>
<td></td>
<td>Provisions</td>
</tr>
<tr>
<td>Provision for product warranties</td>
<td>174</td>
<td>(174)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable facilities</td>
<td>48</td>
<td>(48)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>3,753</td>
<td>4,643</td>
<td>(169)</td>
<td>8,227</td>
<td></td>
<td>Other current liabilities</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>51,886</td>
<td>(1,479)</td>
<td>(165)</td>
<td>50,241</td>
<td></td>
<td>Total current liabilities</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible bond-type bonds with subscription rights to shares</td>
<td>15,047</td>
<td>37,882</td>
<td>395</td>
<td>53,326</td>
<td>D, F</td>
<td>Bonds and long-term borrowings</td>
</tr>
<tr>
<td>Long-term loans payable</td>
<td>36,648</td>
<td>(36,648)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease obligations</td>
<td>129</td>
<td>(129)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>2,395</td>
<td>(1,536)</td>
<td>984</td>
<td>1,843</td>
<td></td>
<td>Deferred tax liabilities</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>3,450</td>
<td>166</td>
<td>3,617</td>
<td></td>
<td></td>
<td>Net defined benefit liabilities</td>
</tr>
<tr>
<td></td>
<td>53</td>
<td>36</td>
<td>89</td>
<td></td>
<td></td>
<td>Provisions</td>
</tr>
<tr>
<td>Provision for directors’ retirement benefits</td>
<td>16</td>
<td>(16)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>349</td>
<td>(29)</td>
<td>66</td>
<td>385</td>
<td></td>
<td>Other non-current liabilities</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>58,036</td>
<td>(291)</td>
<td>2,066</td>
<td>59,812</td>
<td></td>
<td>Total non-current liabilities</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>109,923</td>
<td>(1,770)</td>
<td>1,900</td>
<td>110,053</td>
<td></td>
<td>Total liabilities</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock</td>
<td>6,544</td>
<td>6,544</td>
<td></td>
<td></td>
<td></td>
<td>Share capital</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>10,660</td>
<td>86</td>
<td>357</td>
<td>11,103</td>
<td>F</td>
<td>Capital surplus</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(2,578)</td>
<td>(2,578)</td>
<td></td>
<td></td>
<td></td>
<td>Treasury shares</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>46,663</td>
<td>3,045</td>
<td>49,709</td>
<td></td>
<td></td>
<td>Retained earnings</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>2,915</td>
<td>(1,252)</td>
<td>1,662</td>
<td>D, G, I</td>
<td>Other components of equity</td>
<td></td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>86</td>
<td>(86)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>1,242</td>
<td>(19)</td>
<td>1,222</td>
<td></td>
<td></td>
<td>Non-controlling interests</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>65,533</td>
<td>2,130</td>
<td>67,664</td>
<td></td>
<td></td>
<td>Total equity</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>175,457</td>
<td>(1,770)</td>
<td>4,031</td>
<td>177,717</td>
<td></td>
<td>Total liabilities and equity</td>
</tr>
</tbody>
</table>

(Millions of yen)
(ii) Notes on reconciliation of equity

Reclassification

The following items represent major items that were reclassified to comply with IFRS.

- Although “Merchandise and finished goods,”“Work in process,” and “Raw materials and supplies” were presented separately under Japanese GAAP, they are presented collectively as “Inventories” under IFRS.
- Although “Investments accounted for using the equity method” was included in “Investment securities” under Japanese GAAP, it is presented as “Investments accounted for using the equity method” under IFRS.
- “Deferred tax assets” and “Deferred tax liabilities” are classified as non-current under IFRS.
- Although “Accounts payable other” was included in “Other current liabilities” under Japanese GAAP, it has been included in “Trade and other payables” under IFRS.
- “Provision for bonuses” and “Accrued expenses,” presented separately under Japanese GAAP, have been included in “Other current liabilities” under IFRS.

Differences in recognition and measurement

A Revenue Recognition

Although in certain transactions of goods, revenue were recognized at the time of shipping under Japanese GAAP, revenue is recognized when significant risks and economic value incidental to ownership of the goods substantially have been transferred to customers under IFRS. As a result, “Trade and other receivables” decreased, but “Inventories” increased.

When the outcome of construction contracts cannot be estimated reliably, revenue was recognized with the completed contract method under Japanese GAAP; however, revenue is recognized with the cost recovery method under IFRS. As a result, “Trade and other receivables” increased but “Inventories” decreased.

B Property, plant and equipment

The declining-balance method was mainly adopted for the depreciation method of property, plant and equipment under Japanese GAAP. However, as a result of adoption of the straight-line method under IFRS, the balance of property, plant and equipment has increased.

C Goodwill and intangible assets

Although goodwill was amortized over a specified period under Japanese GAAP, it is not amortized under IFRS. Consequently, there has been an increase in “Goodwill and intangible assets.”

D Financial instruments

Under Japanese GAAP, the deferral hedge accounting and special accounting methods were adopted for derivative transactions to prevent interest risk and currency risk of long-term loans payable; however, the derivative transactions are measured at fair value at the end of the fiscal year under IFRS. Accordingly, financial assets and financial liabilities are recognized.

E Paid absences liabilities

Unused paid absences, for which accounting treatment was not required under Japanese GAAP, are recognized as liabilities under IFRS.

F Convertible bond-type bonds with subscription rights to shares

Although convertible bond-type bonds with subscription rights to shares were recorded in liabilities by the lump-sum method under Japanese GAAP, under IFRS they are recorded separately as bonds, which are liabilities, and subscription rights to shares, which are equity.
G Post-employment benefits
For mortality rate, which is one of the major assumptions required to calculate defined
benefit obligations, figures with expected future changes are used. Accordingly,
retirement benefit liability increases.
Under Japanese GAAP, actuarial gains and losses in defined benefit obligations were
recognized as other comprehensive income at the time of occurrence and amortized
proportionally over a certain number of years within the average remaining service period
of employees, starting from the year following the fiscal year in which they occurred.
However, under IFRS, actuarial gains and losses in defined benefit obligations are
recognized as other comprehensive income at the time of occurrence, and immediately
transferred to retained earnings.

H Retained earnings
Major items of difference in recognition and measurement of retained earnings are as
follows. The amounts below are the amounts after adjustment for related tax effects.

(Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>As of December 31, 2016</th>
<th>IFRS transition date As of January 1, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue recognition</td>
<td>(52)</td>
<td>(181)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,247</td>
<td>1,213</td>
</tr>
<tr>
<td>Adjustments to goodwill</td>
<td>1,939</td>
<td></td>
</tr>
<tr>
<td>Paid absence liabilities</td>
<td>(542)</td>
<td>(540)</td>
</tr>
<tr>
<td>Convertible bond-type bonds with subscription rights to shares</td>
<td>(243)</td>
<td>(168)</td>
</tr>
<tr>
<td>Post-employment benefits</td>
<td>(1,898)</td>
<td>(1,861)</td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td>2,699</td>
<td>2,774</td>
</tr>
<tr>
<td>Other</td>
<td>(104)</td>
<td>(384)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,045</strong></td>
<td><strong>851</strong></td>
</tr>
</tbody>
</table>

I Exchange differences on translation of foreign operations
The Group has applied the exemption set forth under IFRS 1 and transferred the
cumulative amount of all exchange differences on translation of foreign operations to
retained earnings as of the transition date of January 1, 2016.
Reconciliations of profit or loss and comprehensive income

Year ended December 31, 2016

(Millions of yen)

<table>
<thead>
<tr>
<th>Presentation under Japanese GAAP</th>
<th>Japanese GAAP</th>
<th>Differences in recognition and measurement</th>
<th>IFRS</th>
<th>Notes</th>
<th>Presentation under IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>132,890</td>
<td>(2,845)</td>
<td>130,045</td>
<td>A</td>
<td>Revenue</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(87,665)</td>
<td>20</td>
<td>2,454</td>
<td>(85,189)</td>
<td>A, C</td>
</tr>
<tr>
<td>Gross profit</td>
<td>45,225</td>
<td>20</td>
<td>(390)</td>
<td>44,855</td>
<td>Gross profit</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>(40,332)</td>
<td>5</td>
<td>2,952</td>
<td>(37,374)</td>
<td>B, C</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,002</td>
<td>(63)</td>
<td>939</td>
<td>Other income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(243)</td>
<td>(58)</td>
<td>(302)</td>
<td>Other expenses</td>
</tr>
<tr>
<td>Operating income</td>
<td>4,893</td>
<td>785</td>
<td>2,439</td>
<td>8,117</td>
<td>Operating profit</td>
</tr>
<tr>
<td>Non-operating income</td>
<td>1,536</td>
<td>(1,536)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>(2,228)</td>
<td>2,228</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraordinary income</td>
<td>711</td>
<td>(287)</td>
<td>(424)</td>
<td></td>
<td>D</td>
</tr>
<tr>
<td>Extraordinary losses</td>
<td>(43)</td>
<td>43</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>412</td>
<td></td>
<td>412</td>
<td>Finance income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1,823)</td>
<td>(80)</td>
<td>(1,903)</td>
<td>Finance costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>176</td>
<td>(2)</td>
<td>174</td>
<td>Share of profit of associates and joint ventures accounted for using the equity method</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>4,869</td>
<td>1,931</td>
<td>6,801</td>
<td></td>
<td>Profit before tax</td>
</tr>
<tr>
<td>Income taxes current</td>
<td>(3,152)</td>
<td>1,090</td>
<td>182</td>
<td>(1,878)</td>
<td>Income tax expenses</td>
</tr>
<tr>
<td>Income taxes deferred</td>
<td>1,090</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>2,808</td>
<td>2,114</td>
<td>4,922</td>
<td></td>
<td>Profit for the year</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>(205)</td>
<td>272</td>
<td>66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans, net of tax</td>
<td>(104)</td>
<td>(139)</td>
<td>(244)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(1,832)</td>
<td>51</td>
<td>(1,780)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred gains or losses on hedges</td>
<td>(7)</td>
<td>(79)</td>
<td>(86)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of other comprehensive income of entities accounted for using equity method</td>
<td>(61)</td>
<td>2</td>
<td>(59)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>(2,212)</td>
<td>107</td>
<td>(2,104)</td>
<td></td>
<td>Other comprehensive income, net of tax</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>596</td>
<td></td>
<td>2,221</td>
<td>2,818</td>
<td>Total comprehensive income for the year</td>
</tr>
</tbody>
</table>
(ii) Notes on reconciliations of profit or loss and comprehensive income

**Reclassification**
To comply with the standards of IFRS, the items which were presented in “Non-operating income”, “Non-operating expenses,” “Extraordinary income,” and “Extraordinary losses” under Japanese GAAP and the items relating to finance under IFRS are presented as “Finance income” or “Finance costs,” and other items are presented as “Other expenses.”

**Differences in recognition and measurement**
Major adjustments for total comprehensive income for the fiscal year ended December 31, 2016 are as follows. The related tax effects for the respective adjustments were recorded and proportional division for non-controlling interests was performed.

**A Revenue recognition**
Although in certain transactions of goods, revenue was recognized at the time of shipping under Japanese GAAP, revenue is recognized when significant risks and economic value incidental to ownership of the goods substantially have been transferred to customers under IFRS. As a result, “Revenue” and “Cost of sales” decreased.

When the outcome of construction contracts cannot be estimated reliably, revenue was recognized with the completed contract method under Japanese GAAP; however, under IFRS, revenue is recognized with the cost recovery method. As a result, “Revenue” and “Cost of sales” increased.

**B Goodwill and intangible assets**
Although goodwill was amortized over a specified period under Japanese GAAP, it is not amortized under IFRS. Consequently, “Selling, general and administrative expenses” decreased.

**C Post-employment benefits**
Under Japanese GAAP, for actuarial gains and losses of post-employment benefits, the amount proportionally divided by the straight-line method over a certain number of years within the average remaining service period of employees was amortized, starting from the year following each fiscal year in which they occurred, respectively. However, under IFRS, when actuarial gains and losses of post-employment benefits occur, their amounts are recognized as other components of equity through other comprehensive income and immediately transferred to retained earnings. As a result, “Cost of sales” and “Selling, general and administrative expenses” decreased.

**D Financial instruments**
A gain or loss on sale of shares was recognized as profit or loss under Japanese GAAP; however, it is recognized as other comprehensive income under IFRS.

**E Exchange on translation of foreign operations**
Income and expenses of foreign operations are translated at the closing rate under Japanese GAAP; however, under IFRS, they are translated at the average rate during the period unless exchange rates fluctuate significantly.

(3) Reconciliations of consolidated statements of cash flows
For the fiscal year ended December 31, 2016, there were no material differences between the consolidated statement of cash flows for the fiscal year ended December 31, 2016 disclosed in accordance with Japanese GAAP and the consolidated statement of cash flows for the fiscal year ended December 31, 2016 disclosed in accordance with IFRS.
### Quarterly Information

Quarterly financial information for the year ended December 31, 2017

<table>
<thead>
<tr>
<th>(Cumulative)</th>
<th>First quarter</th>
<th>Second quarter</th>
<th>Third quarter</th>
<th>Year total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (Millions of yen)</td>
<td>¥29,929</td>
<td>¥63,306</td>
<td>¥98,318</td>
<td>¥143,327</td>
</tr>
<tr>
<td>Profit before income taxes (Millions of yen)</td>
<td>305</td>
<td>651</td>
<td>2,191</td>
<td>5,637</td>
</tr>
<tr>
<td>Profit attributable to owners of parent (Millions of yen)</td>
<td>75</td>
<td>162</td>
<td>1,128</td>
<td>2,591</td>
</tr>
<tr>
<td>Earnings per share (Yen)</td>
<td>1.06</td>
<td>2.28</td>
<td>15.86</td>
<td>36.41</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Cumulative)</th>
<th>First quarter</th>
<th>Second quarter</th>
<th>Third quarter</th>
<th>Year total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (Thousands of U.S. dollars)</td>
<td>$264,866</td>
<td>$560,232</td>
<td>$870,078</td>
<td>$1,268,381</td>
</tr>
<tr>
<td>Profit before income taxes (Thousands of U.S. dollars)</td>
<td>2,705</td>
<td>5,769</td>
<td>19,392</td>
<td>49,892</td>
</tr>
<tr>
<td>Profit attributable to owners of parent (Thousands of U.S. dollars)</td>
<td>665</td>
<td>1,437</td>
<td>9,986</td>
<td>22,935</td>
</tr>
<tr>
<td>Earnings per share (U.S. dollars)</td>
<td>0.00</td>
<td>0.02</td>
<td>0.14</td>
<td>0.32</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Accounting period)</th>
<th>First quarter</th>
<th>Second quarter</th>
<th>Third quarter</th>
<th>Fourth quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share (Yen)</td>
<td>¥1.06</td>
<td>¥1.22</td>
<td>¥13.57</td>
<td>¥20.55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Accounting period)</th>
<th>First quarter</th>
<th>Second quarter</th>
<th>Third quarter</th>
<th>Fourth quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share (U.S. dollars)</td>
<td>$0.00</td>
<td>$0.01</td>
<td>$0.12</td>
<td>$0.18</td>
</tr>
</tbody>
</table>

(Notes)
1. Quarterly financial information for the fiscal year ended December 31, 2017 is prepared under Japanese GAAP.
2. An audit or review pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act has not been conducted for the information for the fiscal year ended December 31, 2017 and the fourth quarter.
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Nikkiso Co., Ltd.:

We have audited the accompanying consolidated statement of financial position of Nikkiso Co., Ltd. and its consolidated subsidiaries as of December 31, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nikkiso Co., Ltd. and its consolidated subsidiaries as of December 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

March 22, 2018