Nabtesco Corporation and Consolidated Subsidiaries

Consolidated Financial Statements

December 31, 2017 and December 31, 2016
(With Independent Auditors' Report)

Consolidated Balance Sheets

Nabtesco Corporation and Consolidated Subsidiaries
December 31, 2017 and December 31, 2016

(Millions of yen)

	Notes	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Assets				
Current assets				
Cash and cash equivalents	7	34,710	41,780	44,121
Trade receivables	8, 21	59,790	65,569	76,874
Other receivables	8	1,361	1,264	1,216
Inventories	9	28,760	32,704	40,298
Other financial assets	21	385	166	190
Other current assets		1,742	2,309	2,996
Total current assets		126,747	143,792	165,695
Non-current assets				
Property, plant and equipment	10, 12	52,677	63,155	70,700
Intangible assets	11, 12	3,429	2,671	5,850
Goodwill	11	15,098	14,361	21,310
Investment property	14	4,527	5,486	5,404
Investments accounted for using the equity method	15	18,195	15,952	20,184
Other financial assets	21	7,075	8,487	8,547
Deferred tax assets	20	1,142	1,602	1,633
Other non-current assets		1,523	1,468	2,236
Total non-current assets		103,665	113,181	135,863
Total assets		230,412	256,973	301,557

(Millions of yen)

	Notes	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Liabilities and equity				
Liabilities				
Current liabilities				
Trade payables	16, 21	42,500	48,078	57,148
Bonds and borrowings	18, 21	15,334	5,794	16,365
Other payables	16, 21	10,064	10,450	12,492
Income taxes payable		1,057	5,408	4,550
Provisions	17	617	723	732
Other financial liabilities	21	—	—	7
Other current liabilities		3,579	4,423	5,641
Total current liabilities		73,151	74,876	96,934
Non-current liabilities				
Bonds and borrowings	18, 21	—	11,155	11,355
Liabilities for retirement benefits	19	7,340	9,343	9,339
Deferred tax liabilities	20	3,153	3,518	4,801
Other non-current liabilities		2,022	2,177	2,127
Total non-current liabilities		12,516	26,194	27,621
Total liabilities		85,666	101,070	124,556
Equity				
Common stock	22	10,000	10,000	10,000
Additional paid-in capital	22	14,616	14,703	14,956
Retained earnings	22	113,406	125,493	143,349
Treasury stock	22	(2,718)	(2,649)	(3,600)
Other components of equity	22	2,966	382	2,831
Equity attributable to owners of the parent		138,271	147,929	167,537
Non-controlling interests		6,475	7,974	9,465
Total equity		144,745	155,904	177,002
Total liabilities and equity		230,412	256,973	301,557

Consolidated Statements of Profit or Loss

Nabtesco Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and December 31, 2016

(Millions of yen)

	Note	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Net sales	6	244,968	282,422
Cost of sales	23	(175,508)	(201,982)
Gross profit		69,460	80,440
Other income	24	2,495	1,351
Selling, general and administrative expenses	23	(44,294)	(51,285)
Other expenses	24	(1,679)	(1,038)
Operating profit	6	25,982	29,468
Finance income	25	188	632
Finance costs	25	(425)	(109)
Share of profit of investments accounted for using the equity method	15	1,034	4,915
Profit before tax		26,779	34,907
Income tax expense	20	(7,843)	(8,338)
Profit for the year		18,936	26,569

Profit for the year attributable to			
Owners of the parent		18,606	25,146
Non-controlling interests		330	1,423
Profit for the year		18,936	26,569

Earnings per share			
Basic earnings per share (Yen)	27	150.64	203.85
Diluted earnings per share (Yen)	27	150.38	203.48

Consolidated Statements of Comprehensive Income

Nabtesco Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and December 31, 2016

(Millions of yen)

	Notes	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Profit for the year		18,936	26,569
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability (asset)	22	(850)	180
Net changes in financial assets measured at fair value through other comprehensive income	22	255	419
Share of other comprehensive income of investments accounted for using the equity method	15, 22	34	19
Total items that will not be reclassified to profit or loss		(562)	618
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	22	(3,382)	2,278
Total items that may be reclassified subsequently to profit or loss		(3,382)	2,278
Total other comprehensive income, net of tax		(3,944)	2,896
Total comprehensive income		14,993	29,464

Comprehensive income attributable to			
Owners of the parent		15,229	27,761
Non-controlling interests		(237)	1,704
Total comprehensive income		14,993	29,464

Consolidated Statements of Changes in Net Assets

Nabtesco Corporation and Consolidated Subsidiaries

(Millions of yen)

	Note	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	
						Exchange differences on translating foreign operations	Valuation differences due to changes in fair value
Balance as of January 1, 2016		10,000	14,616	113,406	(2,718)	–	2,966
Profit for the year		–	–	18,606	–	–	–
Other comprehensive income	22	–	–	–	–	(2,788)	207
Total comprehensive income		–	–	18,606	–	(2,788)	207
Acquisition (disposal) of treasury stock and others, net	22	–	–	(15)	70	–	–
Acquisition (disposal) of non-controlling interests and others, net		–	–	–	–	–	–
Dividends	22	–	–	(5,712)	–	–	–
Transfer from other components of equity to retained earnings		–	–	(793)	–	–	(4)
Stock-based compensation transactions	26	–	87	–	–	–	–
Total transactions with owners and others		–	87	(6,520)	70	–	(4)
Balance as of December 31, 2016		10,000	14,703	125,493	(2,649)	(2,788)	3,169

	Note	Other components of equity		Total equity attributable to owners of the parent	Non-controlling interests	Total equity
		Remeasurements of net defined benefit liability (asset)	Total			
Balance as of January 1, 2016		–	2,966	138,271	6,475	144,745
Profit for the year		–	–	18,606	330	18,936
Other comprehensive income	22	(797)	(3,377)	(3,377)	(566)	(3,944)
Total comprehensive income		(797)	(3,377)	15,229	(237)	14,993
Acquisition (disposal) of treasury stock and others, net	22	–	–	55	–	55
Acquisition (disposal) of non-controlling interests and others, net		–	–	–	1,750	1,750
Dividends	22	–	–	(5,712)	(14)	(5,726)
Transfer from other components of equity to retained earnings		797	793	–	–	–
Stock-based compensation transactions	26	–	–	87	–	87
Total transactions with owners and others		797	793	(5,570)	1,736	(3,834)
Balance as of December 31, 2016		–	382	147,929	7,974	155,904

(Millions of yen)

	Note	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity: Exchange differences on translating foreign operations	Other components of equity: Valuation differences due to changes in fair value
Balance as of January 1, 2017		10,000	14,703	125,493	(2,649)	(2,788)	3,169
Profit for the year		—	—	25,146	—	—	—
Other comprehensive income	22	—	—	—	—	2,015	448
Total comprehensive income		—	—	25,146	—	2,015	448
Acquisition (disposal) of treasury stock and others, net	22	—	—	(4)	(951)	—	—
Acquisition (disposal) of non-controlling interests and others, net		—	—	—	—	—	—
Dividends	22	—	—	(7,452)	—	—	—
Transfer from other components of equity to retained earnings		—	—	166	—	—	(14)
Stock-based compensation transactions	26	—	253	—	—	—	—
Total transactions with owners and others		—	253	(7,290)	(951)	—	(14)
Balance as of December 31, 2017		10,000	14,956	143,349	(3,600)	(773)	3,604

	Note	Other components of equity: Remeasurements of net defined benefit liability (asset)	Other components of equity: Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of January 1, 2017		—	382	147,929	7,974	155,904
Profit for the year		—	—	25,146	1,423	26,569
Other comprehensive income	22	152	2,615	2,615	281	2,896
Total comprehensive income		152	2,615	27,761	1,704	29,464
Acquisition (disposal) of treasury stock and others, net	22	—	—	(955)	—	(955)
Acquisition (disposal) of non-controlling interests and others, net		—	—	—	51	51
Dividends	22	—	—	(7,452)	(264)	(7,715)
Transfer from other components of equity to retained earnings		(152)	(166)	—	—	—
Stock-based compensation transactions	26	—	—	253	—	253
Total transactions with owners and others		(152)	(166)	(8,154)	(213)	(8,367)
Balance as of December 31, 2017		—	2,831	167,537	9,465	177,002

Consolidated Statements of Cash Flows

Nabtesco Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and December 31, 2016

(Millions of yen)

	Note	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Cash flows from operating activities			
Profit for the year		18,936	26,569
Depreciation and amortization		7,422	8,974
Impairment losses		974	192
Gain on negative goodwill		(353)	—
Stock-based compensation expenses		143	286
Increase (decrease) in assets and liabilities for retirement benefits		(169)	336
Interest and dividends income		(188)	(185)
Interest expenses		153	109
Gain on step acquisitions		(786)	—
Share of (profit) loss of investments accounted for using the equity method		(1,034)	(4,915)
Loss (gain) on sale and disposal of property, plant and equipment		(638)	294
Income tax expense		7,843	8,338
Decrease (increase) in trade receivables		(773)	(9,681)
Decrease (increase) in inventories		(845)	(5,735)
Increase (decrease) in trade payables		(261)	7,904
Others		599	(347)
Sub-total		31,025	32,140
Interest and dividends received		980	888
Interest paid		(106)	(171)
Income tax paid		(4,169)	(9,786)
Net cash provided by operating activities		27,730	23,071

(Millions of yen)

	Note	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Cash flows from investing activities			
Decrease (increase) in time deposits		172	(0)
Purchase of property, plant and equipment		(14,474)	(11,375)
Proceeds from sales of property, plant and equipment		1,314	193
Purchase of intangible assets		(920)	(818)
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(778)	(8,203)
Others		(302)	17
Net cash used in investing activities		(14,989)	(20,186)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	18	(289)	7,474
Proceeds from long-term borrowings	18	1,254	471
Repayment of long-term borrowings	18	(206)	(198)
Proceeds from issuance of bonds	18	10,000	—
Redemption of bonds	18	(10,000)	—
Proceeds from stock issuance to non-controlling interests		275	—
Net decrease (increase) in treasury stock		(2)	(987)
Dividends paid	22	(5,826)	(7,447)
Dividends paid to non-controlling interests		(14)	(264)
Net cash used in financing activities		(4,808)	(950)
Effect of exchange rate changes on cash and cash equivalents		(862)	407
Net increase (decrease) in cash and cash equivalents		7,070	2,341
Cash and cash equivalents at the beginning of the year	7	34,710	41,780
Cash and cash equivalents at the end of the year	7	41,780	44,121

Notes to Consolidated Financial Statements

Nabtesco Corporation and Consolidated Subsidiaries
Years ended December 31, 2017 and nDecember 31, 2016

1. Reporting entity

Nabtesco Corporation (the "Company") is an entity domiciled in Japan. The Company's consolidated financial statements for the fiscal year ended December 31, 2017 comprise the financial statements of the Company and its subsidiaries (the "Group") and the equity interests in associates. The Group's principal businesses are the "Component Solutions Business", the "Transport Solutions Business" and the "Accessibility Solutions Business". The details are described in "Note 6. Business segments".

2. Basis of preparation

(1) Compliance with IFRS and matters concerning its first-time adoption

The Group adopted International Financial Reporting Standards ("IFRS") from the current consolidated fiscal year (from January 1, 2017 to December 31, 2017). Accordingly, the accompanying consolidated financial statements are the Group's first consolidated financial statements prepared in compliance with IFRS. The date of transition to IFRS was January 1, 2016, and the Group has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". The effects of the transition from accounting principles generally accepted in Japan ("Japanese GAAP") to IFRS are described in "Note 34. First-time adoption".

The accompanying consolidated financial statements were authorized by the Board of Directors of the Company on March 27, 2018.

(2) Basis of measurement

As described in "Note 3. Significant accounting policies", the Group's consolidated financial statements have been prepared based on historical cost, except for certain items, such as financial instruments measured at fair value.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency.

(4) Early adoption of new standards

The Group complies with IFRS in effect as of December 31, 2017 and has early adopted IFRS 9 "Financial Instruments" (published in July 2014).

3. Significant accounting policies

The significant accounting policies applied to these consolidated financial statements are, unless otherwise stated, consistent throughout all the periods presented in the consolidated financial statements (including the consolidated statement of financial position at the date of transition to IFRS).

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date on which control commences until the date on which control ceases. The accounting policies of subsidiaries have been adjusted in order to ensure conformity with the accounting policies adopted by the Group, as necessary.

Changes in the ownership interest of a subsidiary without a loss of control are accounted for as equity transactions. Any difference between the adjustment of non-controlling interests and the fair value of the consideration received is recognized directly in equity as equity attributable to owners of the parent.

Intra-group balances of receivables and payables, intra-group transactions, and unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

A subsidiary with a different closing date is consolidated based on its provisional financial statements at the consolidated closing date.

2) Investments in associates

Associates are entities over which the Group has a significant influence, but not control, on the financial and operating policies. If the Group holds 20% or more of the voting rights of another entity, it is presumed that the Group has a significant influence over the entity.

Investments in associates are accounted for using the equity method and are recognized at cost at the date of acquisition. Under the equity method, any differences between the investment on the investment date and the corresponding equity of the investee are included in the carrying amount of the investment as goodwill.

In the consolidated financial statements, the carrying amount of the investment is adjusted to recognize the Group’s share of profit or loss and other comprehensive income during the period from the date on which the Group obtains a significant influence until the date on which it loses such an influence.

The Group’s share of loss from an associate is recorded in profit or loss to the extent of the Group’s interest in the associate. Any further loss is not recognized except when the Group incurs legal or constructive obligations or makes payments on behalf of the associate.

In applying the equity method, necessary adjustments are made to bring the accounting policies of equity method associates in line with the Group’s accounting policies. For certain equity method associates, it is practically impracticable to conform their closing dates to the Group’s closing date mainly due to relationship with other owners of the associates and others. The consolidated financial statements include investments in such associates whose closing dates differ from the Group’s closing date. Adjustments are made for significant transactions or events that occurred between the closing date of the equity method associates and that of the Group. Closing date of the equity method associates is mainly March 31.

Unrealized gains arising from transactions with equity method associates are eliminated against the investment to the extent of the Group’s interest in the investees.

(2) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets and liabilities of an acquiree are measured at fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of non-controlling interest in the acquiree and the fair value of equity interest in the acquiree previously held by the acquirer, over the net amount of identifiable assets and liabilities at the date of acquisition.

Acquisition-related costs are expensed in the period in which they are incurred.

The Group adopts exemptions under IFRS 1 and does not apply IFRS 3 "Business Combinations" retrospectively to past business combinations that occurred prior to the date of transition to IFRS. Goodwill arising from the acquisition prior to the date of transition to IFRS is carried over at the amount recognized under the previous accounting principles (Japanese GAAP) as of the date of transition to IFRS, and is recorded by the carrying amount after an impairment test.

Regarding business combinations of entities under common control, the Company accounted for such transactions based on the carrying amount prior to the occurrence of the transaction.

(3) Foreign currencies

1) Functional currencies and presentation currencies

The financial statements of each entity of the Group are prepared using the currency of the primary economic environment in which the entity operates ("the functional currency"). The presentation currency of the Group's consolidated financial statements is Japanese yen, which is the Company's functional currency.

2) Foreign currency denominated transactions

Transactions denominated in foreign currencies are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the fiscal year are translated into the functional currency using exchange rates prevailing at the end of the fiscal year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency using exchange rates at the dates of the transactions.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency using exchange rates at the dates when the fair value was measured. Exchange differences arising from translation are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments measured at fair value through other comprehensive income are recorded in other comprehensive income.

3) Foreign operations

The assets and liabilities of foreign operations are translated into Japanese yen using exchange rates at the end of the fiscal year. The income and expenses of foreign operations are translated into Japanese yen using the average exchange rate during the fiscal year, except for cases of significant exchange rate movements during the fiscal year.

Exchange differences are recognized in other comprehensive income. The Group adopts exemptions under IFRS 1, and all the cumulative exchange differences as of the date of transition to IFRS are reclassified to retained earnings.

Exchange differences arising from the translation of financial statements of foreign operations are recorded in other components of equity. These exchange differences are reclassified to profit or loss when a foreign operation is disposed partially or in its entirety.

(4) Cash and cash equivalents

Cash and cash equivalents are composed of cash on hand, demand deposits and short-term highly liquid investments with maturities of three months or less that is subject to insignificant risk of change in value.

(5) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost is determined mainly based on the weighted average method and includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Financial instruments

1) Non-derivative financial assets

The Group initially recognizes financial assets at the transaction date when the Group becomes a party to the contract concerning the financial instruments.

Financial assets are initially measured at fair value. For financial assets that are not measured at fair value through profit or loss after initial recognition, transaction costs that are directly incurred for the acquisition of the financial assets are included in the amount initially measured.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The measurement after initial recognition is at amortized cost based on the effective interest method.

A loss allowance is recognized for expected credit losses on financial assets measured at amortized cost.

At the end of each fiscal year, the Group assesses whether there has been a significant increase in credit risk for financial assets by comparing the credit risk of such assets at the end of the fiscal year and at the date of initial recognition.

A loss allowance for financial assets is determined at an amount equal to the expected credit loss over the lifetime of such assets if the credit risk has increased significantly since initial recognition or at an amount equal to the expected credit loss over the 12-month period if the credit risk of such assets has not increased significantly. However, notwithstanding the above, a loss allowance for trade receivables that include no significant financing components is determined at an amount equal to the lifetime expected credit loss. Provision of loss allowance for financial assets is recognized in profit or loss. In cases where a loss allowance decreases, the reversal of loss allowance is recognized in profit or loss.

(b) Financial assets measured at fair value through other comprehensive income

The Group has elected to recognize changes in the fair value of equity instruments, in principle, in other comprehensive income at initial recognition unless the instrument is held for trading purposes. When the Group chooses to designate those equity instruments as recognized through other comprehensive income, such designations are applied irrevocably and consistently. The measurement after initial recognition is at fair value through other comprehensive income.

The Group has adopted exemptions under IFRS 1 and made such designations at the date of transition to IFRS.

When the financial assets are sold, the cumulative gain or loss that is recognized in other comprehensive income is reclassified to retained earnings at the time of the sale. Dividends on the financial assets are recognized in profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets that do not fall into the category (a) or (b) above are classified as financial assets measured at fair value through profit or loss. The measurement after initial recognition is at fair value through profit or loss.

The Group derecognizes financial assets when the contractual rights to the cash flows expire or are transferred, or when substantially all the risks and rewards of ownership are transferred.

2) Non-derivative financial liabilities

The Group initially recognizes debt securities issued by the Group at the date of issuance. All other financial liabilities are recognized at the transaction date when the Group becomes a party to the contract of the financial instruments.

The Group’s non-derivative financial liabilities, which are composed mainly of bonds and borrowings, are all classified as financial liabilities measured at amortized cost. Financial liabilities that are measured at amortized cost are measured initially at fair value taking into account direct transaction costs and subsequently at amortized cost based on the effective interest method.

The Group derecognizes financial liabilities when the contractual obligation is discharged, cancelled or expired.

3) Derivative financial instruments

The Group holds derivative financial instruments in order to avert and mitigate the risks from fluctuations in foreign exchange and interest rates.

Derivatives are initially recognized at fair value, and any related transaction costs are recognized in profit or loss as incurred. The measurement after initial recognition is at fair value through profit or loss.

(7) Property, plant and equipment

1) Recognition and measurement

Property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses using the cost model.

The cost includes the following costs directly related to the acquisition of the asset:

・costs of employee benefits and other costs, such as installation and assembly costs, arising directly from the production of the asset;

・estimated costs of its dismantlement and removal when having an obligation to remove the asset; and

・capitalized borrowing costs

2) Depreciation

Property, plant, and equipment is depreciated using the straight-line method over the estimated useful life of each component.

Depreciation is determined based on the depreciable amount, which is calculated as the cost of the asset less its residual value.

The estimated useful lives are as follows:

Buildings and structures:	2 to 50 years
Machinery, equipment and vehicles:	2 to 17 years
Tools, furniture and fixtures:	2 to 20 years

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year and revised as necessary.

(8) Goodwill and intangible assets

1) Goodwill

The measurement at initial recognition is described in "(2) Business combinations".

After initial recognition, goodwill is presented at cost less accumulated impairment losses. Goodwill is not subject to amortization but is tested for impairment each fiscal year or whenever there is an indication of impairment. Impairment losses for goodwill are not reversed.

2) Research and development costs

Expenditure on research activities with the aim of gaining new scientific or technological knowledge and understanding is recognized in profit or loss as incurred.

3) Other intangible assets

Other intangible assets are measured at cost less accumulated amortization and accumulated impairment losses using the cost model.

Such assets are amortized using the straight-line method over their estimated useful lives from the date on which the assets are available for use.

Amortization is determined based on the amortizable amount, which is calculated as the cost of the asset less its residual value.

The estimated useful lives are as follows:

Software:	3 to 5 years
Customer related assets:	3 to 8 years
Technology assets:	7 to 20 years
Others:	8 to 20 years

Amortization methods, useful lives and residual values are reviewed at the end of each fiscal year and revised as necessary.

Intangible assets with indefinite useful lives are presented at cost less accumulated impairment losses. Such assets are not subject to amortization but are tested for impairment each fiscal year or whenever there is an indication of impairment.

(9) Investment property

Investment property is a property held to earn rentals or for capital appreciation or both, which is measured and depreciated on the same basis as property, plant and equipment. The estimated useful lives of investment property are 2 to 50 years.

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year and revised as necessary.

(10) Impairment of non-financial assets

At the end of each fiscal year, it is determined whether there is any indication of impairment for the carrying amount of the Group's non-financial assets other than inventories, deferred tax assets, and assets for retirement benefits. When there is any indication of impairment, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. Value in use is determined by discounting estimated future cash flows to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

An impairment loss is recognized for an asset or cash-generating unit when its carrying amount exceeds its recoverable amount.

At the end of each fiscal year, it is assessed whether there is any indication that an impairment loss recognized in prior years may have decreased or may no longer exist. If there are any changes in the estimates used to determine the recoverable amount, the impairment loss is reversed to the extent of the carrying amount less depreciation that would have been determined if no impairment loss had been recognized.

The accounting treatment for impairment losses related to goodwill is described in "(8) Goodwill and intangible assets, 1) Goodwill".

(11) Employee benefits

1) Retirement benefits

The Group has adopted retirement lump-sum payment plans and pension plans as retirement benefit plans for employees. These plans are classified as either defined contribution plans or defined benefit plans.

(a) Defined contribution plans

Retirement benefit costs for defined contribution plans are expensed for the period during which employees render services.

(b) Defined benefit plans

For each defined benefit plan, the Group determines the present value of its defined benefit obligations and the related current service cost and past service cost using the projected unit credit method. For the discount rate, a discount period is set based on the expected term of future benefit payments, and is determined by reference to market yields on high-quality corporate bonds that have terms consistent with the discount period. Liabilities or assets for defined benefit plans are determined by deducting the fair value of any plan assets from the present value of the defined benefit obligation. Remeasurements of the net defined benefit asset or liability are recognized collectively in other comprehensive income and reclassified to retained earnings for the period during which they incur.

2) Short-term employee benefits

Short-term employee benefits are expensed on an undiscounted basis when the related service is provided.

Bonuses are recognized as liabilities for the amount estimated to be paid in accordance with the applicable plans when the Group has present legal or constructive obligations to pay as a result of past labor rendered by employees, and the obligations can be reliably estimated.

(12) Provisions and contingent liabilities

Provisions are recognized when the Group has, as a result of past events, a present legal or constructive obligation that can be reasonably estimated, and it is probable that the settlement of the obligation will give rise to an outflow of economic resources. Provisions are measured by discounting the estimated future cash flows to the present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability when the time value of money is material. The unwinding of the discount due to the passage of time is recognized as a finance cost.

To provide against the payment of costs that may incur after the delivery of products, such as repair costs, the costs are estimated and recorded as a provision for product warranties.

To provide against future losses on contracts, expected losses on the contracts at the end of the fiscal year are separately estimated and recorded as a provision for loss on order received.

The Group discloses contingent liabilities in the notes to consolidated financial statements if there are possible obligations at the end of the fiscal year, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria for provisions.

(13) Shareholders' equity

1) Ordinary shares

Ordinary shares are classified as equity. Additional costs (net of tax) related directly to the issuance of ordinary shares and stock options are recognized as a deduction from equity.

2) Treasury stock

When treasury stock is acquired, the consideration paid, which includes any direct transaction costs (net of tax), is recognized as a deduction from equity. When treasury stock is disposed of, the difference between the consideration received and the carrying amount of the treasury stock is recognized as equity.

3) Stock-based compensation transactions

(a) Stock option plan

The Company has introduced a stock-based compensation-type stock option plan until the end of March 2017, where the right to purchase the Company's shares can be exercised, for the Company's directors and executive officers (excluding outside directors; hereinafter, "Directors"). As stock options under the plan vest at the date when the stock-based compensation is granted, they are estimated at fair value at the grant date and recognized collectively as an expense while the corresponding amount is recognized as equity. The fair value of options granted is determined using the Black-Scholes model, taking into account the terms and conditions of the options. The Company abolished the plan in March 2017. However, the stock options granted to the Directors that have not been exercised will be remained.

(b) Board Benefit Trust (Share settlement-type)

The Company has introduced Board Benefit Trust ("BBT") which the Company grants its treasury stock to the Company's Directors through the trust from May 2017. In the stock-based compensation plan, the Company measures the amount of rendered services and the corresponding increase in equity at fair value of equity instruments. The amount is recorded as an expense over the vesting period, and the same amount is recognized as an increase in equity.

(14) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

1) Sale of goods

Revenue from the sale of goods is recognized based on contracts between the Group and its customers when all of the following conditions are met:

・significant risks and rewards of the ownership of the goods have been transferred to customers;

・the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor substantial control over the goods sold;

・the amount of revenue can be measured reliably;

・it is probable that the economic benefits associated with the transaction will flow to the Group; and

・the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

Revenue from the rendering of services is recognized based on contracts between the Group and its customers when all of the following conditions are met:

・the amount of revenue can be measured reliably;

・it is probable that the economic benefits associated with the transaction will flow to the Group;

・the stage of completion of the transaction can be measured reliably at the end of each reporting period; and

・the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3) Construction contracts

When the outcome of a construction contract can be estimated reliably, the percentage-of-completion method is applied. Under the percentage-of-completion method, construction contract revenue is recognized by reference to the stage of completion of the contract in the accounting periods in which the construction work is performed. The Group determines that the outcome of a construction contract can be estimated reliably when all of the following conditions are met:

・total construction contract revenue can be measured reliably;

・it is probable that the economic benefits associated with the contract will flow to the entity;

・both the construction contract costs to complete the contract and the stage of completion of the contract at the end of the reporting period can be measured reliably; and

・the construction contract costs attributable to the contract can be clearly identified and measured reliably so that actual construction contract costs incurred can be compared with prior estimates.

When it is probable that total construction contract costs will exceed total construction contract revenue, the expected excess is recognized as an expense immediately.

(15) Finance income and finance costs

Finance income mainly consists of interest income, dividends income, foreign exchange gains and gains on derivatives. Interest income is recognized when it occurs using the effective interest method. Dividend income is recognized when the Group’s right to receive payment is established.

Finance costs mainly consist of interest expenses, foreign exchange losses and losses on derivatives.

(16) Income taxes

Income taxes consist of current taxes and deferred taxes. These are recognized in profit or loss, except for items recognized in other comprehensive income, items recognized directly in equity and items recognized through business combinations.

Current taxes are determined by multiplying the current taxable income by the tax rates that are enacted or substantially enacted at the end of the fiscal year.

Deferred taxes are recognized for temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax base. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax liabilities are recognized, in principle, for taxable temporary differences.

However, deferred tax assets or liabilities are not recorded if:

・initial recognition of assets or liabilities in a transaction that is not related to business combination and that affects neither accounting profit nor taxable income;

・differences arising from investments in subsidiaries and joint arrangements to the extent that it is probable that the temporary difference will not reverse in the foreseeable future; and

・taxable temporary differences arising from the initial recognition of goodwill.

Deferred taxes are measured using the tax rates that are expected to be apply when the temporary differences will reverse, based on the laws that have been enacted or substantively enacted at the end of the fiscal year.

Deferred tax assets and deferred tax liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and when income taxes are levied by the same taxation authority on the same taxable entity.

(17) Earnings per share

Basic earnings per share is determined by dividing profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares (after adjusting for treasury stock) outstanding during the period. Diluted earnings per share is determined by adjusting the effects of all dilutive potential ordinary shares. The Company's potential ordinary shares include stock options.

(18) New standards and interpretations not yet adopted

Of major new or revised standards and interpretations, those that are not yet effective for mandatory adoption as of December 31, 2017 have not been adopted in preparing the Group's consolidated financial statements. New or revised major standards and interpretations that relate to the Group are set out in the table below. The impacts adopting IFRS 15 on the Group's consolidated financial statements will not be material. The potential impacts that the adoption of IFRS 16 will have on the Group's consolidated financial statements are currently being assessed and thus cannot yet be estimated. The Group does not plan to early adopt these standards.

IFRS	Title of standard	Mandatory adoption (from the fiscal year beginning)	To be adopted by the Group from	Outline of the new or revised standards
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending December 31, 2018	Provides accounting treatment for recognizing revenue
IFRS 16	Leases	January 1, 2019	Fiscal year ending December 31, 2019	Requires as a general rule that lessees should account for all leases on balance sheet

4. Significant accounting judgments, estimates and assumptions

In preparing consolidated financial statements, management is required to make judgments, estimates and assumptions that may affect the application of accounting policies as well as the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the fiscal period when such estimates are revised and future fiscal periods that are affected by the revisions.

Major accounting judgments, estimates and assumptions are as follows:

(1) Valuation of inventories

In determining the net realizable value of inventories, the Group makes assumptions about the costs of completion and the costs necessary to make the sale in accordance with "Note 3. Significant accounting policies".

These assumptions are based on the best estimates and judgments made by management. However, there is a possibility that they may be affected by changes in uncertain future economic conditions. When the reconsideration of the assumptions is required, it may have a material impact on the consolidated financial statements.

The amount of the write-down of inventories is described in "Note 9. Inventories".

(2) Significant assumptions used in the calculation of the expected discounted cash flows for the impairment tests of non-financial assets

The Group tests property, plant and equipment, intangible assets, and goodwill for impairment in accordance with "Note 3. Significant accounting policies". When determining a recoverable amount in the impairment test, assumptions are made for future cash flows, discount rates and other variables.

These assumptions are based on the best estimates and judgments made by management. However, there is a possibility that they may be affected by changes in uncertain future economic conditions. When the reconsideration of the assumptions is required, it may have a material impact on the consolidated financial statements.

The details of testing for impairment of goodwill is described in “Note 11. Goodwill and intangible assets”. Impairment of non-financial assets is described in "Note 12. Impairment of non-financial assets".

(3) Provisions and contingent liabilities

The Group recognizes various provisions such as the provision for product warranties, in the consolidated statement of financial position. These provisions are recognized based on the best estimates of the expenditures required to settle the obligations taking into account risks and uncertainty related to the obligations at the end of the fiscal year.

Expenditures that are required to settle the obligations are determined comprehensively by taking into account possible results. However, they may be affected by the occurrence of unexpected events or changes in circumstances and may, if the actual payment differs from the estimate, have a material impact on the amounts recognized in the future consolidated financial statements.

The Group discloses contingent liabilities taking into account all available evidence at the end of the fiscal year as well as the probability and monetary effects thereof.

The details and amount of the provisions are described in “Note 17. Provisions”. The details and amount of contingent liabilities are described in “Note 32. Contingent liabilities”.

(4) Measurement of defined benefit obligations

The Group has various retirement benefit plans including defined benefit plans. For each plan, the present value of defined benefit obligations and the related costs including service cost are determined based on actuarial assumptions such as discount rates, mortality rates and other factors. The actuarial assumptions are based on the best estimates and judgments made by management. However, there is a possibility that they may be affected by changes in uncertain future economic conditions. When the reconsideration of the assumptions is required, it may have a material impact on the consolidated financial statements.

The amount of the defined benefit obligations, plan assets and the details of assumptions are described in “Note 19. Employee benefits”.

(5) Income taxes

The Group is affected by income taxes in numerous tax jurisdictions worldwide. When determining the estimated amount of income taxes in each jurisdiction, significant judgments are required. Final tax amounts may often contain uncertainty because of the nature of the transactions and the calculation methods used. The Group recognizes liabilities for anticipated tax investigation issues when an estimate of additional tax collection is required. If the final tax amount related to these issues is different from the amount that has been initially recognized, the difference may have a material impact on the consolidated financial statements.

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized. In recognizing deferred tax assets, when judging the probability of the future taxable income, the Group reasonably estimates the timing and amount of future taxable income and determines the amount.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions and may, if the timing and amount that have actually arisen differ from the estimates, have a material impact on the amounts recognized in the future consolidated financial statements.

The details of main causes of the deferred tax assets are described in “Note 20. Income taxes”.

(6) Valuation of financial instrument

The Group uses valuation techniques based on unobservable inputs in the market when the Group valuates fair value of a specific financial instrument. The unobservable inputs may be affected by changes in uncertain future economic conditions. When the reconsideration of the inputs is required, it may have a material impact on the consolidated financial statements.

The valuation of fair value of the specific financial instrument is described in “Note 21. Financial instruments”.

(7) Fair value of assets acquired and liabilities assumed through business combination

Assets acquired and liabilities assumed through business combination are measured at fair value on the acquisition date. The future cash-flow, which is a base of the calculation of the fair value, reflects the time value of money and risk specific to the assets in a discount rate. Though the measurement of the fair value is based on the best estimates made by management, there is a possibility that the measurements may be affected by changes in uncertain future economic conditions. There is a risk that the changes may have a material impact on the value of the intangible assets and goodwill.

The fair value of assets acquired and liabilities assumed is described in “Note 28. Business combinations”.

5. Significant change in the scope of consolidation

In the fiscal year ended December 31, 2017, the Company acquired OVALO GmbH through the acquisition of equity interest. As a result, OVALO GmbH and its subsidiary are included in the scope of consolidation.

6. Business segments

(1) Overview of reportable segments

The reportable segments of the Group are based on its business areas for which discrete financial information is available, and they are regularly reviewed by board of directors for the purpose of making decisions about resource allocation and performance assessment.

The Group aggregates its business segments and classifies them into the following three reportable segments, based on the similarity of business models: “Component Solutions Business”, “Transport Solutions Business” and “Accessibility Solutions Business”.

The main lines of business of each reportable segment are as follows:

Business segment	Main lines of business
Component Solutions Business	The design, manufacture, sale, maintenance and repair of industrial robot components and equipment for construction machinery and its components
Transport Solutions Business	The design, manufacture, sale, maintenance and repair of brake systems and automatic door operating systems for railroad vehicles, aircraft components, brake systems and drive control units for vehicles, control systems for marine vessels and their components
Accessibility Solutions Business	The design, manufacture, sale, installation, maintenance and repair of automatic door operating systems for buildings and general industry, platform safety systems and their components

In line with the new Medium-term Management Plan starting from fiscal year 2017 and for the purpose of improving the efficiency of business management by further promoting synergistic effects between businesses, the Company has changed the four reportable segments “classified based on the similarity of the application technologies” to the three reportable segments “classified based on the similarity of business models” as stated above. More specifically, “Precision Equipment Business”, “Transport Equipment Business”, “Aircraft and Hydraulic Equipment Business” and “Industrial Equipment Business” have been changed to “Component Solutions Business”, “Transport Solutions Business” and “Accessibility Solutions Business”. Figures for the previous consolidated fiscal year have been adjusted to reflect the new segment classifications.

(2) Information on reportable segments

The accounting policies for the reportable segments are the same as the Group's accounting policies described in "Note 3. Significant accounting policies".

Inter-segment sales or transfers are based on actual market prices.

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Reportable segment				Others	Total	Adjustments	Amount stated in consolidated financial statements
	Component	Transport	Accessibility	Total				
Net sales								
Sales to external customers	82,473	81,426	64,634	228,533	16,435	244,968	—	244,968
Inter-segment sales	1,982	294	3	2,279	178	2,457	(2,457)	—
Total net sales	84,455	81,719	64,637	230,812	16,613	247,424	(2,457)	244,968
Segment income (Operating profit)	11,231	13,269	5,087	29,587	1,507	31,094	(5,112)	25,982
Finance income	—							188
Finance costs	—							(425)
Share of profit of investments accounted for using the equity method	—							1,034
Profit before tax	—							26,779
Other items								
Depreciation and amortization	3,183	2,046	1,204	6,433	255	6,687	735	7,422
Gain on step acquisitions	—	—	786	786	—	786	—	786
Gain on negative goodwill	—	—	353	353	—	353	—	353
Impairment losses	—	—	974	974	—	974	—	974
Segment assets	69,545	69,890	65,571	205,005	13,194	218,198	38,775	256,973
Increase in tangible and intangible assets	5,047	5,877	2,854	13,779	290	14,069	462	14,531

Notes: 1. "Others" is a business segment that is not a reportable segment and consists of businesses that are engaged in the design, manufacture, sale, maintenance and repair of packaging machinery, three-dimensional model production device, vacuum equipment, machine tools and their components.

2. Adjustment for net sales is a result of eliminations of inter-segment transactions.
3. Adjustment for segment income (operating profit) is corporate profit, loss or other adjustments that are not allocated to the respective segments.
4. Adjustment of depreciation and amortization is depreciation and amortization related to company-wide assets that are not allocated to the respective segments.
5. Adjustment for segment assets is a result of corporate assets ¥38,775 million that are not allocated to the respective segments, including surplus funds (Cash and cash equivalents) and long-term funds (Investments in securities).
6. Adjustment of increase in tangible and intangible assets is investments in equipment of corporate assets that are not allocated to the respective segments.

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Reportable segment				Others	Total	Adjustments	Amount stated in consolidated financial statements
	Component	Transport	Accessibility	Total				
Net sales								
Sales to external customers	113,885	79,134	72,374	265,393	17,029	282,422	—	282,422
Inter-segment sales	2,056	418	5	2,479	309	2,787	(2,787)	—
Total net sales	115,941	79,552	72,379	267,872	17,337	285,209	(2,787)	282,422
Segment income (Operating profit)	20,432	8,383	5,168	33,984	1,983	35,967	(6,498)	29,468
Finance income	—							632
Finance costs	—							(109)
Share of profit of investments accounted for using the equity method	—							4,915
Profit before tax	—							34,907
Other items								
Depreciation and amortization	3,565	3,192	1,234	7,991	273	8,264	710	8,974
Impairment losses	—	192	—	192	—	192	—	192
Segment assets	90,372	77,950	71,138	239,461	15,989	255,450	46,107	301,557
Increase in tangible and intangible assets	6,803	9,065	1,897	17,764	239	18,003	494	18,497

Notes: 1. "Others" is a business segment that is not a reportable segment and consists of businesses that are engaged in the design, manufacture, sale, maintenance and repair of packaging machinery, three-dimensional model production device, vacuum equipment, machine tools and their components.
2. Adjustment for net sales is a result of eliminations of inter-segment transactions.
3. Adjustment for segment income (operating profit) is corporate profit, loss or other adjustments that are not allocated to the respective segments.
4. Adjustment of depreciation and amortization is depreciation and amortization related to corporate assets that are not allocated to the respective segments.
5. Adjustment for segment assets is a result of corporate assets ¥46,107 million that are not allocated to the respective segments, including surplus funds (Cash and cash equivalents) and long-term funds (Investments in securities).
6. Increase in tangible and intangible assets includes an increase in tangible and intangible assets by investments and intangible assets recognized through a business combination. Adjustment of increase in tangible and intangible assets is investments in equipment of corporate assets that are not allocated to the respective segments.

(3) Income from major products and services

Income from major products and services is omitted, since similar information is disclosed in "(1) Overview of reportable segments" and "(2) Information on reportable segments".

(4) Information by region

Net sales

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Japan	141,439	156,800
China	27,837	40,273
Other Asia	17,101	19,751
North America	20,706	19,315
Europe	37,229	45,785
Other regions	656	498
Total	244,968	282,422

Note: Net sales are classified by country or region based on the location of the customer.

Non-current assets

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Japan	61,752	72,960	85,488
China	7,364	7,278	7,425
Other Asia	2,016	1,742	1,606
North America	3,242	1,741	1,474
Europe	2,676	3,242	8,560
Total	77,049	86,963	104,553

Note: Non-current assets are based on the location of the assets and exclude financial assets, deferred tax assets, assets for retirement benefits and others.

(5) Information about major customers

Information about major customers is omitted, since there is no particular customer that makes up 10% or more of net sales in the consolidated statement of profit or loss.

7. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Cash and deposits	21,710	29,780	38,121
Short-term investments due within three months from the date of acquisition	13,000	12,000	6,000
Total	34,710	41,780	44,121

Note: The balance of "Cash and cash equivalents" in the consolidated statement of financial position and that in the consolidated statement of cash flows are equal.

8. Trade receivables and other receivables

(1) Trade receivables

Trade receivables consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Accounts receivable	52,244	57,273	68,228
Notes receivable	7,294	8,429	8,851
Others	490	185	291
Loss allowance	(238)	(319)	(497)
Total	59,790	65,569	76,874

(2) Other receivables

Other receivables consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Accounts receivable-others	1,361	1,264	1,216
Total	1,361	1,264	1,216

9. Inventories

Inventories consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Products and goods	5,692	6,368	8,052
Work in progress	11,848	14,410	16,897
Raw materials and supplies	11,220	11,926	15,349
Total	28,760	32,704	40,298

Note: The write-down of inventories recorded in cost of sales totaled ¥57 million and ¥150 million for the fiscal year ended December 31, 2016 and the fiscal year ended December 31, 2017, respectively. There is no significant reversal of write-down for the fiscal year ended December 31, 2016 and the fiscal year ended December 31, 2017, respectively.

10. Property, plant and equipment

(1) Reconciliation of carrying amount

(Millions of yen)

Cost	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2016	18,929	17,092	3,826	11,279	1,551	52,677
Acquisitions	—	—	—	27	13,585	13,612
Acquisitions through business combinations	1,323	274	215	3,031	26	4,868
Depreciation (Note 1)	(1,491)	(2,964)	(1,844)	—	—	(6,299)
Impairment losses (Note 2)	—	(241)	(182)	—	(5)	(428)
Reclassification	1,299	4,618	2,487	—	(8,403)	—
Disposals	(104)	(35)	(51)	—	(34)	(224)
Exchange differences on translating foreign operations	(387)	(574)	(48)	(31)	(9)	(1,050)
Balance as of December 31, 2016	19,569	18,170	4,401	14,305	6,710	63,155
Acquisitions	—	—	—	105	14,264	14,369
Acquisitions through business combinations	53	158	62	—	611	884
Depreciation (Note 1)	(1,589)	(3,696)	(2,064)	—	—	(7,349)
Impairment losses (Note 2)	(10)	(48)	(110)	—	—	(169)
Reclassification	6,797	9,774	2,593	—	(19,164)	—
Disposals	(133)	(194)	(36)	—	(45)	(408)
Exchange differences on translating foreign operations	109	43	81	(25)	10	218
Balance as of December 31, 2017	24,796	24,207	4,926	14,385	2,387	70,700

Notes: 1. Depreciation of property, plant and equipment is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

2. Impairment losses are included in "Other expenses" in the consolidated statement of profit or loss.

(2) Cost

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2016	46,393	69,647	26,188	11,279	1,551	155,059
Balance as of December 31, 2016	49,801	70,484	26,940	14,305	6,710	168,241
Balance as of December 31, 2017	56,270	79,431	28,953	14,385	2,387	181,425

(3) Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2016	27,465	52,555	22,363	—	—	102,382
Balance as of December 31, 2016	30,232	52,315	22,539	—	—	105,086
Balance as of December 31, 2017	31,474	55,224	24,026	—	—	110,725

11. Goodwill and intangible assets

(1) Reconciliation of carrying amount

(Millions of yen)

	Goodwill	Software	Customer related assets	Technology assets	Others	Total
Balance as of January 1, 2016	15,098	2,539	—	—	890	18,527
Acquisitions	—	911	—	—	12	923
Acquisitions through business combinations	—	3	—	—	48	51
Amortization (Note 2)	—	(853)	—	—	(195)	(1,048)
Impairment losses (Note 3)	—	—	—	—	(546)	(546)
Disposals	—	—	—	—	(10)	(10)
Exchange differences on translating foreign operations	(737)	(55)	—	—	(73)	(866)
Balance as of December 31, 2016	14,361	2,545	—	—	125	17,032
Acquisitions	—	810	—	—	8	818
Acquisitions through business combinations	6,016	83	2,321	407	582	9,410
Amortization (Note 2)	—	(991)	(367)	(23)	(172)	(1,553)
Impairment losses (Note 3)	—	(16)	—	—	(7)	(24)
Disposals	—	—	—	—	—	—
Exchange differences on translating foreign operations	933	18	311	55	160	1,477
Balance as of December 31, 2017	21,310	2,449	2,266	438	697	27,159

Notes: 1. There are no significant intangible assets with indefinite useful lives.

2. Amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

3. Impairment losses of intangible assets are included in “Other expenses” in the consolidated statement of profit or loss.

(2) Cost

(Millions of yen)

	Goodwill	Software	Customer related assets	Technology assets	Others	Total
Balance as of January 1, 2016	19,424	5,195	—	—	892	25,511
Balance as of December 31, 2016	18,426	5,901	—	—	864	25,191
Balance as of December 31, 2017	25,419	6,758	2,633	461	1,548	36,819

(3) Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Goodwill	Software	Customer related assets	Technology assets	Others	Total
Balance as of January 1, 2016	4,326	2,656	—	—	2	6,984
Balance as of December 31, 2016	4,065	3,356	—	—	738	8,160
Balance as of December 31, 2017	4,110	4,309	367	23	851	9,660

(4) Impairment test

Carrying amounts of goodwill allocated to each cash-generating unit are as follows:

(Millions of yen)

Reportable segment	Cash-generating unit	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Component	Nabtesco Power Control Company	2,582	2,582	2,582
Transport	OVALO Group	—	—	6,822
Accessibility	Gilgen Group	12,517	11,779	11,906
Total		15,098	14,361	21,310

The Group tests goodwill for impairment in accordance with “Note 3. Significant accounting policies”. Goodwill is not subject to amortization but is tested for impairment whenever there is an indication of impairment or once each fiscal year irrespective of whether there is any indication of impairment. The Group compares the carrying amount of each cash-generating unit group including goodwill and the recoverable amount, namely the amount of discounted cash flows, and then impairment loss is recognized up to the amount by which the carrying amount exceeds the recoverable amount.

The recoverable amount of Goodwill is measured at its value in use. The value in use is the present value calculated by discounting the estimated cash flows based on a business plan authorized by management. The business plan is limited within 4 years, reflecting the management assessments of future industry trends and historical data based on internal and external information. The growth rate subsequent to the last year of the business plan is granted as zero or long-term average growth rate of its market to which the cash-generating unit belongs.

The Group does not recognize impairment loss in the previous consolidated fiscal year as a result of Goodwill impairment test based on the weighted average capital cost before tax of its cash-generating unit (6.4% to 9.0%). A change in key assumptions would result in an impairment. If the weighted average capital cost before tax increases by 0.7%, there is a possibility that impairment loss may be recognized.

The Group does not recognize impairment loss in the current consolidated fiscal year as a result of Goodwill impairment test based on the weighted average capital cost before tax of its cash-generating unit (6.6% to 17.6%). A change in key assumptions would result in an impairment. If the weighted average capital cost before tax increases by 1.5%, there is a possibility that impairment loss may be recognized.

12. Impairment of non-financial assets

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

Based on the business plan at the end of the fiscal year ended December 31, 2016, each cash-generating unit group is tested for impairment. The recoverable amount, namely the amount of discounted cash flows, fell below the carrying amount mainly due to lower expected profit. As a result, an impairment loss of ¥974 million (property, plant and equipment: ¥428 million, intangible assets: ¥546 million) is recognized for NABCO Entrances Inc. Group. This impairment loss is recognized in the Accessibility Solutions segment. The recoverable amount is measured at the value in use (pre-tax discount rate: 19.0%).

(Millions of yen)

Reportable segment	Asset type	Impairment losses
Accessibility	Machinery, equipment and vehicles	241
	Tools, furniture and fixtures	182
	Construction in progress	5
	Intangible assets (others)	546
	Total	974

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

Based on the business plan at the end of the fiscal year ended December 31, 2017, each cash-generating unit group is tested for impairment. The recoverable amount, namely the amount of discounted cash flows, fell below the carrying amount mainly due to lower expected profit. As a result, an impairment loss of ¥192 million (property, plant and equipment: ¥169 million, intangible assets: ¥24 million) is recognized for Nabtesco Oclap S.r.l. This impairment loss is recognized in the Transport Solutions segment. The recoverable amount is measured at the value in use (pre-tax discount rate: 19.9%).

(Millions of yen)

Reportable segment	Asset type	Impairment losses
Transport	Buildings and structures	10
	Machinery, equipment and vehicles	48
	Tools, furniture and fixtures	110
	Software	16
	Intangibles assets (others)	7
	Total	192

13. Leases

(1) Total future minimum lease payments based on non-cancelable operating leases

The Group leases assets including land and buildings as a lessee.

Total future minimum lease payments based on non-cancelable operating leases consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Payments due within one year	167	563	770
Payments due over one year but within five years	439	798	1,370
Payments due over five years	92	822	760
Total	697	2,184	2,900

(2) Lease payments recognized as an expense

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Lease payments recognized as an expense	3,225	3,956

14. Investment property

(1) Overview of investments property

The Group has a part of an office building and land for lease in Tokyo and other area.

(2) Reconciliation of carrying amount

(Millions of yen)

Cost	Investment property
Balance as of January 1, 2016	4,527
Acquisitions	16
Acquisitions through business combinations	1,380
Depreciation	(75)
Disposals	(362)
Balance as of December 31, 2016	5,486
Acquisitions	55
Acquisitions through business combinations	—
Depreciation	(72)
Disposals	(64)
Balance as of December 31, 2017	5,404

(3) Cost

(Millions of yen)

	Investment property
Balance as of January 1, 2016	7,990
Balance as of December 31, 2016	9,385
Balance as of December 31, 2017	9,163

(4) Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Investment property
Balance as of January 1, 2016	3,463
Balance as of December 31, 2016	3,899
Balance as of December 31, 2017	3,758

(5) Fair value of investment property

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Fair value	6,213	6,693	6,673

The fair value of investment property is mainly based on a valuation conducted by independent real estate appraisers, which is typically determined by the value derived from the discounted cash flow method or an observable market value of similar assets. The appraised values are all categorized as Level 3 of the fair value hierarchy. The levels of the fair value hierarchy are described in “Note 21. Financial instruments”.

15. Investments accounted for using the equity method

(1) Major equity method associates of the Group

Major equity method associates of the Group are as the followings.

Company's name	Location	Main business	Ratio of voting rights (%)		
			Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
TMT Machinery, Inc.	Chuo-ku, Osaka	Manufacturing, sales and others of synthetic fiber machinery and systems	33.0	33.0	33.0
Harmonic Drive Systems Inc.	Shinagawa-ku, Tokyo	Production and sales of mechatronics products in industrial robots and others	20.0	20.0	20.0

(2) Investments in significant associates for the Group

There are no investments in significant associates for the Group at December 31, 2016 and 2017.

(3) Investments in non-significant associates for the Group

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
The Group’s portion of profit for the year	1,034	4,915
The Group’s portion of other comprehensive income	34	19
The Group’s portion of comprehensive income	1,068	4,934
Carrying amount of investments in associates	15,952	20,184

(4) Closing date of equity method associates

6 equity method associates' closing date is March 31, and 1 equity method associate's closing date is November 30. The Group uses theirs provisional financial statements on the consolidated closing date, December 31, because it is impracticable to conform their closing dates to the Group’s closing date.

16. Trade payables and other payables

(1) Trade payables

Trade payables consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Accounts payable	37,212	14,548	17,285
Notes payable	1,432	2,378	2,111
Electronically recorded obligations	—	25,635	32,300
Others	3,856	5,517	5,453
Total	42,500	48,078	57,148

(2) Other payables

Other payables consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Accounts payable	6,440	5,207	5,718
Accrued expenses	2,253	2,424	1,339
Electronically recorded obligations-equipment	—	1,174	3,884
Others	1,371	1,646	1,550
Total	10,064	10,450	12,492

17. Provisions

(1) Details of provisions

Provisions consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Current liabilities	617	723	732
Total	617	723	732

(2) Changes in provisions

(Millions of yen)

	Provision for product warranties	Provision for loss on order received	Total
Balance as of January 1, 2017	696	27	723
Increase during the year	361	20	381
Decrease (utilization)	(299)	(7)	(306)
Decrease (reversal)	(48)	(20)	(68)
Exchange differences on translating foreign operations	3	—	3
Balance as of December 31, 2017	712	20	732

(3) Outline of provisions and the forecast of timing of an outflow of economic resources

1) Provision for product warranties

To provide against the payment of costs that may be incurred after the delivery of products, such as repair costs, expected payments are separately estimated and recorded as a provision for product warranties. Outflow of economic resources is forecasted within a year.

2) Provision for loss on orders received

To provide against future losses on contracts, expected losses on the contracts at the end of the fiscal year are separately estimated and recorded as a provision for loss on order received. Outflow of economic resources is forecasted within a year.

18. Bonds and borrowings

(1) Details of bonds and borrowings

Bonds and borrowings consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Current liabilities			
Short-term borrowings	5,257	5,648	16,132
Current portion of long-term borrowings	77	146	234
Current portion of bonds	10,000	—	—
Total	15,334	5,794	16,365
Non-current liabilities			
Long-term borrowings	—	1,202	1,392
Bonds	—	9,954	9,963
Total	—	11,155	11,355

(2) Bonds

The issuance of bonds is summarized as follows:

(Millions of yen)

Company	Name	Issue date	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)	Coupon rate (%)	Collateral	Maturity date
Nabtesco Corporation	1st series of unsecured straight bonds (with inter-bond pari passu clauses)	December 15, 2011	10,000	—	—	0.64	Unsecured	December 15, 2016
Nabtesco Corporation	2nd series of unsecured straight bonds (with inter-bond pari passu clauses)	December 13, 2016	—	9,954	9,963	0.14	Unsecured	December 13, 2021

(3) Borrowings

Weighted average interest rates on “Short-term borrowings”, “Current portion of long-term borrowings” and “Bonds” and “Long-term borrowings” are 0.29%, 0.59% and 0.57%, respectively, for the fiscal year ended December 31, 2017. The repayment term of “Long-term borrowings” is from 2019 to 2026.

(4) Changes in liabilities caused by financial cash flow

The changes in liabilities caused by financial cash flow are as follows:

	Current liabilities				Non-current liabilities			Total
	Short-term borrowings	Current portion of long-term borrowings	Current portion of bonds	Sub-total	Long-term borrowings	Bonds	Sub-total	
Balance as of January 1, 2016	5,257	77	10,000	15,334	—	—	—	15,334
Changes by financial cash flow	(289)	(77)	(10,000)	(10,366)	1,124	10,000	11,124	759
Changes through business combination	871	141	—	1,013	88	—	88	1,100
Account transition	—	5	—	5	(5)	—	(5)	—
Exchange differences on translating foreign operations	(192)	—	—	(192)	(6)	—	(6)	(197)
Others	—	—	—	—	—	(46)	(46)	(46)
Balance as of December 31, 2016	5,648	146	—	5,794	1,202	9,954	11,155	16,949
Changes by financial cash flow	7,474	(146)	—	7,327	420	—	420	7,747
Changes through business combination	2,647	1	—	2,648	2	—	2	2,651
Account transition	—	232	—	232	(232)	—	(232)	—
Exchange differences on translating foreign operations	363	0	—	364	0	—	0	364
Others	—	—	—	—	—	9	9	9
Balance as of December 31, 2017	16,132	234	—	16,365	1,392	9,963	11,355	27,721

19. Employee benefits

(1) Overview of adopted retirement benefit plans

The Company and some of its consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans for employees' retirement benefits. Defined benefit plans provide lump-sum payments or pensions based on positions and service periods of employees.

Funded defined contribution plan is managed by an independent pension fund from the Group, complying with laws. The Group accumulates an actuarial contributions calculated by a certain rate of wages and salaries. The board of administration and organization of the pension fund must be operated in the best priority to a benefit of its subscribers in law and are in charge of the management of the pension fund based on a certain policy.

(2) Defined benefit plans

The Group has defined benefit plans. Amounts of benefits are determined based on evaluation factors, such as the number of years of service, performance and job grades and titles.

1) Risks concerning defined benefit plans

The Group is exposed to various risks concerning defined benefit plans. Major risks are as follows. The Group is not exposed to material concentration risk in respect of plan assets.

Changes in plan assets	Investments in equity instruments, debt instruments and other assets are exposed to fluctuation risk.
Changes in interest rates for bonds	A decrease in market yields for bonds causes an increase in defined benefit obligations.

2) Explanation on revision of plans, reduction and liquidation

In the previous consolidated financial year, the Group's consolidated subsidiaries in Japan transferred their retirement benefit plans from non-funded defined benefit plans to defined contribution plans. As a result of the change, defined benefit obligations decreases by ¥354 million. In addition, loss on revision of retirement benefits plans of ¥390 million is recognized in profit or loss in the previous consolidated fiscal year.

3) Amounts in the consolidated statement of financial position

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Present value of defined benefit obligations	22,826	27,948	29,227
Fair value of plan assets	(15,691)	(18,783)	(20,858)
Adjustments based on the asset ceiling	—	—	618
Liabilities for retirement benefits	7,340	9,343	9,339
Assets for retirement benefits	(205)	(177)	(352)
Net amount of liabilities and assets in the consolidated statement of financial position	7,135	9,166	8,987

4) Changes in the present value of defined benefit obligations

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Balance at the beginning of the year	22,826	27,948
Service cost	2,132	1,354
Interest cost	195	154
Remeasurement		
Actuarial gains and losses arising from changes in demographic assumptions	(127)	(1)
Actuarial gains and losses arising from changes in financial assumptions	704	(33)
Actuarial gains and losses arising from experience adjustments	522	147
Benefits paid	(648)	(551)
Past service cost	(697)	—
Decreases by the end of plan	(354)	—
Acquisition through business combination	4,370	25
Exchange differences on translating foreign operations	(974)	185
Balance at the end of the year	27,948	29,227

A weighted average duration of defined benefit obligations is 13.9 years at date of transition to IFRS, 14.0 years at the end of the previous consolidated fiscal year and 13.8 years at the end of the current consolidated fiscal year.

5) Changes in the present value of plan assets

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Balance at the beginning of the year	15,691	18,783
Interest income	144	110
Remeasurement		
Income from plan assets	20	969
Contributions by the employer	697	826
Contributions by employees	380	406
Benefits paid	(169)	(565)
Acquisitions through business combination	2,888	144
Exchange differences on translating foreign operations	(870)	185
Balance at the end of the year	18,783	20,858

The Group plans to contribute ¥1,234 million to the defined benefit plans in the fiscal year ending December 31, 2018.

6) Details of plan assets

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)			Previous consolidated fiscal year (December 31, 2016)		
	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total
Cash and cash equivalents	613	—	613	3,094	—	3,094
Equity instruments						
Domestic stock	157	40	197	169	359	527
Foreign stock	4,798	—	4,798	4,342	158	4,500
Debt instruments						
Domestic bonds	—	376	376	—	574	574
Foreign bonds	6,763	100	6,863	7,135	191	7,326
Others	—	2,844	2,844	—	2,762	2,762
Total	12,330	3,361	15,691	14,739	4,043	18,783

(Millions of yen)

	Current consolidated fiscal year (December 31, 2017)		
	With quoted prices in active markets	Without quoted prices in active markets	Total
Cash and cash equivalents	3,025	—	3,025
Equity instruments			
Domestic stock	224	247	472
Foreign stock	6,003	249	6,252
Debt instruments			
Domestic bonds	—	1,114	1,114
Foreign bonds	8,019	219	8,237
Others	—	1,758	1,758
Total	17,271	3,588	20,858

Plan assets are managed for the purpose of securing the sustainability of defined benefit plans. Risk and return targets of investments in plan assets are prepared as policies. The investment results are appropriately monitored, and the policies are regularly reviewed.

7) Changes in adjustments based on the asset ceiling

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Balance at the beginning of the year	—	—
Remeasurement Effect of the limitation of net value of plan assets by its maximum amount	—	618
Balance at the end of the year	—	618

8) Amounts in the consolidated statement of profit or loss

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Defined benefit cost	1,105	992

9) Principal actuarial assumptions

Principal actuarial assumptions are as follows:

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Discount rate	0.9%	0.6%	0.6%

The following table shows a sensitivity analysis of the impacts of changes in the aforementioned actuarial assumptions on defined benefit obligations. The sensitivity analysis calculates the impacts of an actuarial assumption on the premise that the other actuarial assumptions are unchanged. Accordingly, different impacts may occur if multiple assumptions fluctuate.

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
0.25% increase in discount rate	(730)	(901)	(947)
0.25% decrease in discount rate	807	960	1,009

10) Adopted strategy for matching assets with liabilities

An investment strategy is adopted so that mismatch between assets and liabilities is suppressed by setting expected medium- and long-term investment returns to exceed discount rates. The investment strategy is designed mainly to focus on enhancing the management of downside risk, rather than maximizing income. This investment policy is expected to generate income sufficient to perform long-term contracts.

(3) Defined contribution plans

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Contributions to defined contribution plans	1,085	903

20. Income taxes

(1) Income taxes

1) Income taxes recognized in profit or loss

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Current tax expense		
Current fiscal year	8,499	8,523
Recognition of previously unrecognized tax losses	(234)	(234)
Sub-total	8,264	8,289
Deferred tax expense		
Origination and reversal of temporary differences	(584)	11
Changes in tax rates	13	38
Devaluation in deferred tax assets	149	—
Sub-total	(421)	49
Total	7,843	8,338

2) Reconciliation of effective tax rates and actual tax rates

Reconciliation of effective tax rates and actual tax rates of the Group is as follows. The actual tax rates represent the ratio of income tax expense to profit before tax.

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Effective tax rate	33.1%	30.9%
(Adjustments)		
Different tax rates applied to foreign operations	(0.8%)	(1.1%)
Changes in unrecognized deferred tax assets	2.7%	0.3%
Non-deductible expenses for tax purposes such as meals and entertainment	0.9%	0.4%
Share of profit of investments accounted for using the equity method	(1.5%)	(4.3%)
Tax credit	(1.8%)	(3.6%)
Decrease in deferred tax assets at the end of fiscal year by tax rate changes	0.0%	0.2%
Exchange differences on translating foreign operations	(0.6%)	0.9%
Transfer of tax losses from merged subsidiary	(1.9%)	—
Others	(0.8%)	0.2%
Actual tax rate	29.3%	23.9%

On March 29, 2016, amendments to the “Act for Partial Revision of the Income Tax Act” (Act No. 15 of 2016) and the “Act for Partial Revision of the Local Tax Act and others” (Act No. 13 of 2016) were enacted into law by the Diet to reduce the statutory income tax rates for fiscal years beginning April 1, 2016 or later. In line with these amendments, the Company changed the statutory income tax rates for calculating deferred tax assets and liabilities from 32.3% as of the date of transition to IFRS to 30.9% for assets and liabilities which are expected to be collected or paid from January 1, 2017 to December 31, 2018 and to 30.6% for those which are expected to be collected or paid on or after January 1, 2019.

On December 22, 2017, amendments to the federal tax law was enacted in the United States of America and the statutory income tax rate in the consolidated year after January 1, 2018 was changed. In line with these amendments, the Group changes the actual tax rate, mainly from 34.1% to 21.1%, which is used to the calculations of deferred tax assets and liabilities.

(2) Deferred taxes

1) Details of changes in deferred tax assets and liabilities

Changes in deferred tax assets and liabilities consisted of the following:

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Balance as of January 1, 2016	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Acquisitions through business combinations	Balance as of December 31, 2016
Deferred tax assets					
Loss allowance	19	15	—	2	36
Loss on valuation of inventories	151	(2)	—	—	149
Accrued expenses	610	226	—	48	883
Provision for product warranties	128	37	—	—	164
Provision for loss on order received	2	(2)	—	—	—
Other current liabilities	596	19	—	—	615
Liabilities (assets) for retirement benefits	2,101	143	229	288	2,761
Other non-current liabilities	45	(11)	—	42	76
Loss on valuation of financial assets	42	(31)	—	0	11
Loss on valuation of investments in associates	174	(10)	—	—	164
Loss on valuation of golf club membership rights	7	16	—	8	31
Impairment losses	—	236	—	45	281
Tax losses	32	7	—	—	38
Others (assets)	650	131	—	—	781
Total	4,556	774	229	433	5,992
Deferred tax liabilities					
Deferred taxation on government contributions for acquisition of property, plant and equipment	1,560	355	—	—	1,915
Other financial assets - valuation differences due to changes in fair value	1,368	—	112	(67)	1,413
Unrealized gains on land	—	—	—	971	971
Adjustments for taxable income related to foreign operations (inventories)	—	276	—	—	276
Adjustments for taxable income related to foreign operations (investments in associates)	—	425	—	—	425
Retained earnings on foreign operations and associates	2,519	(215)	—	—	2,304
Others (liabilities)	1,121	(516)	—	—	605
Total	6,568	325	112	904	7,909
Balance after off-setting against deferred tax assets (liabilities)	(2,012)	449	117	(470)	(1,916)

Note: Difference between the amounts recognized in profit or loss of off-setting against deferred tax assets (liabilities) and the sub-total amounts of deferred tax expense on "(1) Income taxes 1) Income taxes recognized in profit or loss" is a result of changes of exchange rate and others.

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Balance as of January 1, 2017	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Acquisitions through business combinations	Balance as of December 31, 2017
Deferred tax assets					
Loss allowance	36	(15)	—	—	22
Loss on valuation of inventories	149	(46)	—	—	104
Accrued expenses	883	(300)	—	—	584
Provision for product warranties	164	(8)	—	—	157
Other current liabilities	615	133	—	—	748
Liabilities (assets) for retirement benefits	2,761	22	(59)	(34)	2,691
Other non-current liabilities	76	(76)	—	—	—
Loss on valuation of financial assets	11	(11)	—	—	—
Loss on valuation of investments in associates	164	—	—	—	164
Loss on valuation of golf club membership rights	31	(0)	—	—	31
Impairment losses	281	(258)	—	—	23
Tax losses	38	85	—	317	440
Others (assets)	781	463	—	—	1,244
Total	5,992	(9)	(59)	283	6,207
Deferred tax liabilities					
Deferred taxation on government contributions for acquisition of property, plant and equipment	1,915	(562)	—	—	1,353
Other financial assets - valuation differences due to changes in fair value	1,413	—	185	—	1,598
Unrealized gains on land	971	—	—	—	971
Adjustments for taxable income related to foreign operations (inventories)	276	(4)	—	—	272
Adjustments for taxable income related to foreign operations (investments in associates)	425	571	—	—	996
Retained earnings on foreign operations and associates	2,304	317	—	—	2,621
Identifiable intangible assets	—	(4)	—	1,023	1,019
Others (liabilities)	605	(61)	—	—	544
Total	7,909	258	185	1,023	9,375
Balance after off-setting against deferred tax assets (liabilities)	(1,916)	(267)	(244)	(740)	(3,168)

Note: Difference between the amounts recognized in profit or loss of off-setting deferred tax assets (liabilities) and the sub-total amounts of deferred tax expense on "(1) Income taxes 1) Income taxes recognized in profit or loss" is a result of changes of exchange rate and others.

2) Deductible temporary differences and deductible tax losses for unrecognized deferred tax assets

Deductible temporary differences and deductible tax losses for unrecognized deferred tax assets are as follows. Deductible temporary differences do not expire under the current tax regulations. Deferred tax assets relating to these items are not recognized as it is not probable that future taxable income will be available against which the Group can use the benefits therefrom.

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Deductible temporary differences	2,349	1,889	1,138
Deductible tax losses	10,339	10,501	9,908
Total	12,688	12,390	11,046

The expiration schedule of deductible tax losses for unrecognized deferred tax assets consisted of the following:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
1st year	414	886	759
2nd year	860	685	1,211
3rd year	721	1,432	1,154
4th year	1,355	1,962	814
5th year	1,605	731	375
Over the 5th year	5,383	4,804	5,595
Total	10,339	10,501	9,908

21. Financial instruments

To avert or mitigate the financial risks (credit risk, liquidity risk and market risk) associated with business activities, the Group conducts the risk management of financial instruments as follows:

(1) Credit risk management

Credit risk is the risk that the Group incurs financial losses due to the default of business partners on obligations.

The credit risk on cash and cash equivalents and 3 month-over fixed time deposits in other financial assets (current) are limited, because the Group has a deal with only a credible bank.

The trade receivables and other receivables are exposed to a credit risk of a customer. The Group manages credit risk with the trade receivables, notes receivables and accounts receivables, by setting credit lines for business partners in accordance with its internal rules on credit risk management. Credit lines for new business partners are set at the inception of transactions, and those for existing business partners are set through internal deliberation and approval procedures while their credit conditions are monitored regularly. For business partners with unfavorable credit conditions, the Group takes measures, such as receiving guarantee deposits and collateral, when necessary. The Group recognizes and measures expected credit losses determining these business partner's business condition and financial position through the credit risk management and trend of macroeconomic situation, the number of corporate bankruptcies and others. Accounts receivable-other in other receivables are exposed to a credit risk of a business partner, but the Group has recognized its credit risk is limited because the most of their settlement are scheduled in short term.

The Group aggregates the amount of loss allowance into the trade receivables and other receivables.

The Group always records an amount of loss allowance with the trade receivable equal to expected credit losses over the lifetime. The Group records an amount of loss allowance with accounts receivables-other equal to expected credit losses within 12 months in principle, but, when credit risk on individual financial assets increases significantly, the Group records the expected credit losses over lifetime of the financial instruments, estimating the loss allowance with each financial instrument. The Group determines whether the credit risk has increased significantly or not based on the change in the risk of a default on the individual financial assets since initial recognition. When assessing the change in the risk of a default, the Group takes into account the followings:

- financial difficulty of business partners due to the deterioration of their business performance;
- significantly delayed collection; and
- significant change in external credit rating.

The Group determines either financial assets as credit-impaired financial assets, the financial assets in default, when the collection of the whole or part of the asset is impossible or extraordinary difficult.

The Group's maximum exposure to credit risk is the carrying amount of financial assets presented in the consolidated statement of financial position, and the Group is not exposed to excessively concentrated credit risk for particular business partners.

1) Exposure to credit risk

Changes in trade receivables and loss allowance are as follows:

Previous consolidated fiscal year (December 31, 2016)

(Millions of yen)

Trade receivables	Allowance measured at an amount equal to lifetime expected credit losses
Balance as of January 1, 2016	59,538
Increase due to business combination	5,485
Occurrence and collections (Net)	1,462
Exchange differences on translating foreign operations	(783)
Balance as of December 31, 2016	65,703

(Millions of yen)

Loss allowance	Allowance measured at an amount equal to lifetime expected credit losses
Balance as of January 1, 2016	238
Increase due to business combination	13
Increase due to initial recognition	98
Decrease (Written-down)	(24)
Decrease (Others)	(3)
Exchange differences on translating foreign operations	(3)
Balance as of December 31, 2016	319

The amount of loss allowance of other receivables is not described because it is not material.

Increase due to initial recognition and decrease (others) are in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Current consolidated fiscal year (December 31, 2017)

(Millions of yen)

Trade receivables	Allowance measured at an amount equal to lifetime expected credit losses
Balance as of January 1, 2017	65,703
Increase due to business combination	734
Occurrence and collections (Net)	9,835
Exchange differences on translating foreign operations	808
Balance as of December 31, 2017	77,080

(Millions of yen)

Loss allowance	Allowance measured at an amount equal to lifetime expected credit losses
Balance as of January 1, 2017	319
Acquisitions through business combination	—
Increase due to initial recognition	193
Decrease (Written-down)	(2)
Decrease (Others)	(17)
Exchange differences on translating foreign operations	5
Balance as of December 31, 2017	497

The amount of loss allowance of other receivables is not described because it is not material.

Increase due to initial recognition and decrease (others) are in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

(2) Liquidity risk management

Liquidity risk is the risk that the Group becomes unable to make payments for the settlement of financial liabilities when they are due.

The Group manages liquidity risk related to raising funds by preparing and updating a financing plan through Accounting & Finance Department in a timely manner based on reports from the respective departments and by securing liquidity on hand at a high level against the backdrop of the unstable financial market. Furthermore, in certain regions, the regional headquarters or other regional bases have implemented a cash management system which intensively and efficiently manage funds retained in their region and thus make efforts to mitigate liquidity risk.

The maturity analysis of the Group's financial liabilities is as follows:

(Millions of yen)

Date of translation to IFRS (January 1, 2016)	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Trade payables	38,644	38,644	38,644	—	—	—	—	—
Other payables	7,811	7,811	7,811	—	—	—	—	—
Bonds	5,334	5,364	5,364	—	—	—	—	—
Borrowings	10,000	10,064	10,064	—	—	—	—	—
Total	61,789	61,883	61,883	—	—	—	—	—

(Millions of yen)

Previous consolidated fiscal year (December 31, 2016)	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Trade payables	42,561	42,561	42,561	—	—	—	—	—
Other payables	8,026	8,026	8,026	—	—	—	—	—
Bonds	6,995	7,025	5,817	103	163	145	145	653
Borrowings	9,954	10,070	14	14	14	14	10,014	—
Total	67,537	67,683	56,419	117	177	159	10,159	653

(Millions of yen)

Current consolidated fiscal year (December 31, 2017)	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Trade payables	51,695	51,695	51,695	—	—	—	—	—
Other payables	11,153	11,153	11,153	—	—	—	—	—
Bonds	17,758	17,814	16,414	231	205	203	203	558
Borrowings	9,963	10,056	14	14	14	10,014	—	—
Total	90,569	90,719	79,277	245	219	10,217	203	558

Note: Derivative financial assets are not described because the amounts are not material.

(3) Market risk management

1) Foreign currency risk

The Group operates its businesses globally, and sells products and others manufactured by the Group. Therefore, the Group is exposed to exchange rate fluctuation risk associated with the translation to functional currency of trade receivables and payables and others generated from transactions conducted by the Group in currencies other than the functional currency, using the exchange rate at the end of the reporting period (“foreign currency risk”).

The Group’s foreign currency-denominated trade receivables and payables and others are exposed to the foreign currency risk. The Group hedges the risk by understanding the foreign currency-denominated balance by currency and by month, and by using forward exchange contracts and others for the netted positions in principle. For this reason, the Group assesses its exposure to the foreign currency risk is limited.

Derivatives

Overview of the main derivatives the Group uses to control foreign currency risk is as follows:

Derivative transactions to which hedge accounting are not applied

(Millions of yen)

	Previous consolidated fiscal year (December 31, 2016)			Current consolidated fiscal year (December 31, 2017)		
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Sell USD	47	—	0	836	—	(7)
Total	47	—	0	836	—	(7)

Note: There are no derivative transactions to which hedge accounting is applied.

Sensitivity analysis on exchange rate

In the case that each exchange rate excluding the functional exchange rate rises against the functional currency by 1% at the end of each consolidated fiscal year of the Group, impacts to the profit before tax and equity are as follows.

This sensitivity analysis on exchange rate shows that the impacts caused by the translation of foreign currency-denominated financial instruments (including intragroup transactions) of which exchange differences are recognized in profit or loss. The analysis does not include the impacts associated with the translation to presentation currency of foreign currency-denominated revenue and expense. In addition, this analysis is based on a premise that the Group's actuarial assumption about fluctuation of exchange rate at the end of the consolidated fiscal year and the other factors do not change.

(Millions of yen)

Currency	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)		Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)	
	Profit before tax	Equity	Profit before tax	Equity
USD	56	39	51	35
CNY	15	11	24	17
EUR	9	6	58	40
JPY	(7)	(8)	(59)	(54)

Note: The amount of JPY is the currency sensitivity with foreign operations JPY financial assets and liabilities.

2) Interest rate risk

Interest rate risk is defined as the risk of fluctuations in fair values of the financial instruments or future cash flows generated from financial instruments due to the fluctuation of market interest rates. A part of the Group's borrowings and bonds is with floating rate of interest. As the amount of interest is affected by the fluctuations in market interest rates, the Group is exposed to the interest rate risk of fluctuations in future cash flows of the interest.

The Group manages its surplus funds in excess of the amount of floating-interest debt using short-term deposits and others. This will enable the Group to reduce future costs to raise funds such as by reducing interest-bearing debts using the surplus funds as a source of repayment, when the interest rates rise due to future changes in the financial market environment.

Therefore, we consider that the current interest rate risk is not material to the Group at the end of the consolidated fiscal year. The Group assesses the exposure to the interest rate risk is limited.

3) Price risk

Equity instruments held by the Group mainly consist of shares of the companies with which the Group has business relationships. The Group regularly monitors the fair value and the financial condition and others of the issuer (counterparty), and review the holding status in consideration of the relationship with the counterparty.

Therefore, sensitivity analysis of the price risk is not described because the Group considers the effect of the price risk to other comprehensive income is not material.

(4) Fair value of financial instruments

1) Methods of measuring fair value

(a) Financial assets measured at amortized cost

i) Other financial assets

Fair value of other financial assets are mainly classified by period and assessed based on the present value calculated by discounting their cash flows with an interest rate that reflects the credit risk.

(b) Financial assets measured at fair value through profit or loss

i) Golf club membership

The fair value of golf club membership is measured mainly based on market prices. The golf club membership is included in "Other financial assets" in the consolidated statement of financial position.

ii) Derivative financial assets

The fair value of forward exchange contracts is measured mainly based on forward exchange rates. Derivative financial assets are included in “Other financial assets” in the consolidated statement of financial position.

(c) Financial assets measured at fair value through other comprehensive income

Investment in securities

Investment in securities is equity instruments consisting of securities mainly. For other financial assets, the fair value of listed shares is determined based on market prices at stock exchanges, and the fair value of unlisted shares is determined using valuation techniques such as those based on market prices of similar entities and those based on net asset values. The investment in securities is included in "Other financial assets" in the consolidated statement of financial position.

(d) Financial liabilities measured at amortized cost

Bonds and borrowings

The fair value of bonds issued by the Company is assessed based on market prices. The fair value of borrowings is determined as the present value calculated by discounting the combined total of principal and interest with an assumed interest rate for similar new borrowings.

(e) Financial liabilities measured at fair value through profit or loss

Derivative financial liabilities

The fair value of derivative based on market prices. The derivative financial liabilities are included in "Other financial liabilities" in the consolidated statement of financial position.

2) Carrying amount and fair value of financial instruments by classification

The carrying amount and fair value of financial assets and financial liabilities are in the consolidated statement of financial position are as follows:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)		End of previous consolidated fiscal year (December 31, 2016)		End of current consolidated fiscal year (December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Financial assets measured at amortized cost						
Other financial assets	1,204	1,200	1,966	1,872	1,489	1,489
Total financial assets measured at amortized cost	1,204	1,200	1,966	1,872	1,489	1,489
Financial assets measured at fair value through profit or loss						
Golf club membership	138	138	150	150	150	150
Derivative financial assets	26	26	0	0	—	—
Total financial assets measured at fair value through profit or loss	164	164	150	150	150	150
Financial assets measured at fair value through other comprehensive income						
Investment in securities	6,091	6,091	6,537	6,537	7,098	7,098
Total financial assets measured at fair value through other comprehensive income	6,091	6,091	6,537	6,537	7,098	7,098
Total financial assets	7,459	7,455	8,653	8,560	8,736	8,736
Financial liabilities						
Financial liabilities measured at amortized cost						
Bonds and borrowings	15,334	15,334	16,949	16,994	27,721	27,754
Total financial liabilities measured at amortized cost	15,334	15,334	16,949	16,994	27,721	27,754
Financial liabilities measured at fair value through profit or loss						
Derivative financial liabilities	—	—	—	—	7	7
Total financial liabilities measured at fair value through profit or loss	—	—	—	—	7	7
Total financial liabilities	15,334	15,334	16,949	16,994	27,727	27,761

The Group does not have financial assets and liabilities with an irrevocable election that the Group measures them at fair value through profit or loss at an initial recognition. Financial assets measured at amortized cost, cash and equivalents, trade receivables, other receivables, trade payables and other payables, are not described on the chart above, because they are settled in short-term and their book value is nearly equal to fair value.

3) Classification of fair value hierarchy by level

The fair value of financial assets and financial liabilities is measured and analyzed on a recurring basis as below. These fair value amounts are categorized into three levels of the fair value hierarchy based on the inputs (available market data) in valuation techniques. The respective levels are defined as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value calculated, either directly or indirectly, using observable prices other than Level 1

Level 3: Fair value calculated using valuation techniques based on unobservable inputs

Transfers between the levels of the fair value hierarchy are recognized on the day of the event or change in circumstance that caused the transfer.

The fair value hierarchy of financial assets and financial liabilities that are measured at fair value on a recurring basis are as follows:

(Millions of yen)

Date of transition to IFRS (January 1, 2016)	Level 1	Level 2	Level 3	Total
Other financial assets				
Financial assets measured at fair value through profit or loss	—	164	—	164
Financial assets measured at fair value through other comprehensive income	4,776	—	1,315	6,091

(Millions of yen)

End of the previous consolidated fiscal year (December 31, 2016)	Level 1	Level 2	Level 3	Total
Other financial assets				
Financial assets measured at fair value through profit or loss	—	150	—	150
Financial assets measured at fair value through other comprehensive income	4,618	—	1,920	6,537

(Millions of yen)

End of the current consolidated fiscal year (December 31, 2017)	Level 1	Level 2	Level 3	Total
Other financial assets				
Financial assets measured at fair value through profit or loss	—	150	—	150
Financial assets measured at fair value through other comprehensive income	5,312	—	1,786	7,098
Other financial liabilities				
Financial liabilities measured at fair value through profit or loss	—	7	—	7

The fair value hierarchy of financial instruments measured at amortized cost disclosed in “2) Carrying amount and fair value of financial instruments by classification” is Level 2 for bonds and Level 3 for the other instruments mainly.

There were no transfers between Level 1 and Level 2 in the previous consolidated fiscal year or the current consolidated fiscal year.

There were no significant assets or liabilities measured at fair value on a non-recurring basis at the date of transition to IFRS, the end of the previous consolidated fiscal year and the end of the current consolidated fiscal year.

4) Information on fair value measurement categorized as Level 3

(a) Valuation techniques and inputs

Other financial assets categorized as Level 3 are mainly unlisted shares. The fair value of unlisted shares is determined using valuation techniques such as those based on market prices of similar entities and those based on net asset values. In measuring the fair value of unlisted shares, unobservable inputs such as valuation multiples are used.

(b) Valuation process

The fair value of financial instruments categorized as Level 3 is measured in accordance with relevant internal rules and regulations. In measuring the fair value, the Group uses valuation techniques and inputs that most appropriately reflect the nature, characteristics and risks of the financial instruments subject to the measurement.

(c) Information on the sensitivity of the recurring fair value measurement categorized as Level 3

Significant unobservable inputs related to the measurement of the fair value of financial instruments categorized as Level 3 on a recurring basis include an EBIT ratio and illiquidity discount. The fair value increases (decreases) when the EBIT ratio increases (decreases), and decreases (increases) when the illiquidity discount increases (decreases).

As for financial instruments categorized as Level 3, there is no significant impact on the fair value even if unobservable inputs are changed to reasonable alternative assumptions.

(d) Reconciliation of financial instruments categorized as Level 3 from the balance at the beginning and end of the year

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Balance at the beginning of the year	1,315	1,920
Total gains or losses	604	(129)
Other comprehensive income	604	(129)
Sales	—	(5)
Balance in the end of the year	1,920	1,786

Gains and losses recognized in other comprehensive income are included in “Net changes in financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

(7) Other financial assets

The details of other financial assets are as follows:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Time deposits with deposit terms of more than three months	358	166	172
Golf club membership	138	150	150
Investment in securities	6,091	6,537	7,098
Others	872	1,800	1,317
Total	7,459	8,653	8,736
Current	385	166	190
Non-current	7,075	8,487	8,547
Total	7,459	8,653	8,736

Investment in securities held by the Group is equity instruments consisting of securities mainly. The securities are held mainly to facilitate business relationships, and are not held for the purpose of selling in the short term. Therefore, they are measured at fair value through other comprehensive income. The details of major investments and their fair values are as follows:

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Central Japan Railway Company	2,160	1,923	2,018
SINFONIA TECHNOLOGY CO., LTD.	457	607	1,007
East Japan Railway Company	579	511	555
NABCO KANAGAWA PTY, LTD.	—	422	464
WEST JAPAN RAILWAY TECHNOS Co., Ltd.	370	425	457
WEST JAPAN RAILWAY TECHSIA Co., Ltd.	540	581	374
WEST JAPAN RAILWAY COMPANY	378	323	370
Keio Corporation	342	315	328
Others	1,265	1,431	1,524
Total	6,091	6,537	7,098
Dividend income	—	60	70

The Group reviews its capital efficiency and its business partnership. Through the review, the Group derecognizes a part of financial assets measured at fair value through other comprehensive income, selling it. An equity instruments measured at fair value through other comprehensive income that the Group sold in the consolidated fiscal year are as follow.

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Fair value	105	43
Cumulative gains or losses	6	20
Dividend income	9	1

The Group recognizes the cumulative gains or losses of the financial instruments measured by fair value through other comprehensive income as other component of equity. In the case that the Group disposes of the financial instruments or the case that fair value of the financial instruments depreciates, the Group transfers it from other component of equity to retained earnings. Cumulative gains or losses of other comprehensive income transferred to retained earnings is ¥4 million in the previous consolidated fiscal year, ¥14 million in the current consolidated fiscal year.

22. Capital and other components of equity

(1) Total number of shares authorized and total number of shares issued

The total number of shares authorized and the total number of shares issued are as follows:

	Total number of shares authorized (Shares)	Total number of shares issued (Shares)
January 1, 2016	400,000,000	125,133,799
Increase	—	—
Decrease	—	—
December 31, 2016	400,000,000	125,133,799
Increase	—	—
Decrease	—	—
December 31, 2017	400,000,000	125,133,799

Note: 1. Shares issued by the Company are no par value ordinary shares.
2. Issued stock is fully paid-up.

(2) Additional paid-in capital

Additional paid-in capital is the amount occurred through equity transaction, excluding the amount of common stock.

In Japan corporate law ("Corporate law"), a company records a half amount of payment or provide of share issue as common stock and another half as additional paid-in capital. In addition, a company can transfer additional paid-in capital to common stock through a resolution by a shareholders' meeting.

(3) Retained earnings

Retained earnings consists of legal retained earnings and other retained earnings. Other retained earnings is mainly an accumulation of profit which the Group has gained.

In the Corporate law, a company records one-tenth of the amount of dividends paid as legal additional paid-in capital or legal retained earnings until the total amount of them is accumulated by one-fourth of the amount of common stock. A company can supply the accumulated legal retained earnings to a deficiency. In addition, a company can use the legal retained earnings through a resolution by a shareholders' meeting.

(4) Treasury stock

Changes in the number and balance of treasury stock are as follows:

	Number of shares (Shares)	Amount (Millions of yen)
January 1, 2016	1,639,476	2,718
Acquisitions through purchasing request of shares less than one unit	1,057	3
Decrease through exercised stock options	(31,900)	(72)
Sell by through selling request of shares less than one unit	(157)	(0)
December 31, 2016	1,608,476	2,649
Acquisitions through Board Benefit Trust	294,400	982
Acquisitions through purchasing request of shares less than one unit	1,511	6
Decrease through exercised stock options	(16,100)	(37)
Sell by through selling request of shares less than one unit	(40)	(0)
December 31, 2017	1,888,247	3,600

Note: The details of the stock option and the Board Benefit Trust are described in accordance with "Note 11. Stock-based compensation".

(5) Other components of equity

1) Remeasurements of net defined benefit liability (asset)

Remeasurements of net defined benefit liability (asset) comprise actuarial gains and losses on defined benefit obligations, returns on plan assets (excluding the amount of interest income from plan assets) and other items.

2) Net changes in financial assets measured at fair value through other comprehensive income

Net changes in financial assets measured at fair value through other comprehensive income are the amount of the changes in equity financial instruments measured at fair value through other comprehensive income.

3) Exchange differences on translating foreign operations

Exchange differences on translating foreign operations are exchange differences arising when consolidating the foreign currency-denominated financial statements of foreign operations.

(6) Dividends

Dividend payments are as follows:

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

Resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 24, 2016 Ordinary General Meeting of Shareholders	2,731	22	December 31, 2015	March 25, 2016
July 29, 2016 Board of Directors' Meeting	2,980	24	June 30, 2016	September 7, 2016

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

Resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 28, 2017 Ordinary General Meeting of Shareholders	3,229	26	December 31, 2016	March 29, 2017
July 31, 2017 Board of Directors' Meeting	4,223	34	June 30, 2017	September 4, 2017

Note: The total amount of dividends includes ¥10 million in dividends on the Company's shares held by the trust account of Mizuho Trust & Banking Co., Ltd. in relation to Board Benefit Trust (BBT).

Dividends which will become effective in the fiscal year ending December 31, 2018 are as follows:

Resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 27, 2018 Ordinary General Meeting of Shareholders	4,720	38	December 31, 2017	March 28, 2018

(7) Other comprehensive income

The details of the other comprehensive income in each class, which is incurred and the reclassification adjustment for profit or loss and tax effects, are as follows:

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Before tax	Tax (expense) income	After tax
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability (asset)	(1,079)	229	(850)
Net changes in financial assets measured at fair value through other comprehensive income	367	(112)	255
Share of other comprehensive income of investments accounted for using the equity method	34	—	34
Sub-total	(679)	117	(562)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	(3,382)	—	(3,382)
Sub-total	(3,382)	—	(3,382)
Total	(4,061)	117	(3,944)

Note: No classification adjustment is incurred from each item above.

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Before tax	Tax (expense) income	After tax
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability (asset)	238	(59)	180
Net changes in financial assets measured at fair value through other comprehensive income	604	(185)	419
Share of other comprehensive income of investments accounted for using the equity method	19	—	19
Sub-total	861	(244)	618
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	2,278	—	2,278
Sub-total	2,278	—	2,278
Total	3,139	(244)	2,896

Note: No classification adjustment is incurred from each item above.

(8) Capital management

The Group engages in business management in consideration of return on assets (ROA) and return on equity (ROE) targets in order to maintain and improve shareholder value. To prepare for sudden changes in the economic environment and others, it also targets a ratio of equity attributable to owners of the parent that can maintain high credit ratings that enable fund raising regardless of financial situation.

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
ROA	7.6%	9.0%
ROE	13.0%	15.9%
Ratio of equity attributable to owners of the parent	57.6%	55.6%

23. Details of expenses

Cost of sales and selling, general and administrative expenses consisted of the following:

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Changes in products and goods, work in progress, raw materials and supplies	116,352	139,436
Employee benefits expenses (Note 1)	50,543	56,992
Research and development costs (Note 2)	7,352	8,731
Depreciation and amortization	6,835	8,313
Travel and transportation costs	2,921	3,199
Others	35,798	36,597
Total	219,802	253,267

Note: 1. Employee benefits expenses include the benefits expenses of directors and incorporate auditors of the Group.

2. Research and development costs include employee benefit expenses, depreciation and amortization relating to research and development.

24. Other income and expenses

(1) Other income

Other income consisted of the following:

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Rental income	235	282
Gain on sale of property, plant and equipment	744	51
Received insurance	—	286
Gain on step acquisitions	786	—
Gain on negative goodwill	353	—
Others	377	733
Total	2,495	1,351

(2) Other expenses

Other expenses consisted of the following

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Loss on disaster	—	161
Loss on sale and disposal of property, plant and equipment	106	345
Impairment losses	974	192
Loss on revision of retirement benefit plans	390	—
Others	208	340
Total	1,679	1,038

25. Finance income and finance costs

(1) Finance income

Finance income consisted of the following:

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Interest income		
Financial assets measured at amortized cost	119	115
Dividend income		
Financial assets measured at fair value through other comprehensive income	68	71
Net foreign exchange gain	—	446
Total	188	632

(2) Finance costs

Finance costs consisted of the following:

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Interest expenses		
Financial liabilities measured at amortized cost	153	109
Net foreign exchange loss	269	—
Others	3	—
Total	425	109

26. Stock-based compensation

(1) Stock-based compensation-type stock option plan

1) Overview of stock-based compensation-type stock option plan

The Company grants stock options, which give the holder the right to purchase the Company's shares, to its directors and executive officers (excluding outside directors; "Directors"). This plan is not subject to any conditions for vesting. With the approval of the 14th Ordinary General Meeting of Shareholders held on March 28, 2017, the Company abolished the stock-based compensation-type stock option plan (however, any yet-to-be-exercised subscription rights to shares already granted to directors as stock-based compensation-type stock options will continue to be retained). Stock options are exchanged to 100 ordinary shares per 1 unit when it is exercised.

The detail of stock options is as follow:

Date of grant	Number of board of directors and others	Number of ordinary shares	Settlement date	Exercise period
August 21, 2009	19	99,000	Stock-based	August 22,2009 ～ August 21,2034
August 20, 2010	18	70,000	Stock-based	August 21,2010 ～ August 20,2035
August 19, 2011	20	70,000	Stock-based	August 20,2011 ～ August 19,2036
August 20, 2012	22	77,700	Stock-based	August 21,2012 ～ August 20,2037
August 20, 2013	22	64,500	Stock-based	August 21,2013 ～ August 20,2038
August 20, 2014	21	55,500	Stock-based	August 21,2014 ～ August 20,2039
June 15, 2015	21	3,000	Stock-based	June 15,2018 ～ June 14,2025
August 20, 2015	19	29,300	Stock-based	August 21,2015 ～ August 20,2040
May 20, 2016	19	53,000	Stock-based	May 21,2016 ～ May 20,2041
February 27, 2017	19	6,200	Stock-based	February 27,2020 ～ February 26,2030

2) Number of stock option and weighted averaged exercise price

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)		Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)	
	Number of stock option	weighted average exercise price	Number of stock option	weighted average exercise price
Balance at the beginning of the year	2,121	1	2,332	1
Grant	530	1	62	1
Exercise (Note 2)	(319)	1	(161)	1
Expire	—	—	—	—
Expired during year	—	—	—	—
Balance at the end of the year (Note 3)	2,332	1	2,233	1
Exercisable balance at the end of the year	2,302	1	2,141	1

Note:1. The Company changed share unit from 1,000 shares to 100 shares on October 1th, 2010. By this reason, the numbers of stock options on August 21th, 2009 and on August 20th, 2010 are exchanged from 1,000 shares per unit basis to 100 shares per unit basis.

2. The weighted average stock price when the stock option is exercised in the consolidated fiscal year is ¥1,765 in the previous consolidated fiscal year and ¥2,038 in the current consolidated fiscal year.

3. Weighted average exercise price is ¥1 at the date of translation to IFRS, and at the end of each consolidated fiscal year. Weighted average remained contractual year is 21.8 years in the previous consolidated fiscal year and 20.6 years in the current consolidated fiscal year.

3) Fair value, measurement and assumptions of stock options granted during the year

The fair value of all stock-based compensation plans has been measured using the Black-Scholes model based on the following assumptions. Expected volatility is calculated based on a current stock price record among an expected remaining period from a grant date, collecting daily stock price information.

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Exercise price	1 yen	1 yen
Fair value at grant date	2,564 yen	2,739 yen
Share price at grant date	2,695 yen	3,115 yen
Expected volatility	32.272%	36.237%
Expected remaining period	3.022 years	7.997 years
Dividend yield	1.633%	1.605%
Risk-free rate	(0.223%)	0.003%

4) Stock-based compensation expenses

Stock-based compensation expenses were ¥143 million and ¥17 million for the fiscal year ended December 31, 2016 and the fiscal year ended December 31, 2017, respectively, which are included in “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

(2) Board Benefit Trust (Share settlement-type)

1) Overview of Board Benefit Trust

The Company introduced the Board Benefit Trust in the fiscal year ended December 31, 2017.

A purpose of the introduction of the plan is that the plan as a remuneration system that, compared with existing stock-based compensation-type stock options, has a potential to further increase the motivation of directors to contribute to improving the medium- to long-term business performance of the Group as a whole and to raising corporate value, as well as to further increase shareholder-centric management awareness by additionally clarifying the link between compensation for directors and the business performance and share value of the Company, and by having Directors share with the shareholders not only benefits of rising share prices, but also risks of falling share prices.

Under the plan, the Company's shares will be acquired through a trust using the money contributed by the Company, and directors and others will be granted points (the "Share Benefit Points") every year, according to their position and performance and others based on the Board Benefit Regulations as provided by the Company. Directors will then be granted or provided at a certain time the Company's shares, or money equivalent to the amount obtained by converting the shares into money, through the trust, based on the number of Share Benefit Points. 1 Share Befit Point is exchanged to 1 ordinary share when the point is obtained.

2) Number of Share Benefit Point

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
	Number of point	Number of point
Balance at the beginning of the year	—	—
Grant	—	80,524
Exercise	—	—
Expire	—	—
Balance at the end of the year	—	80,524

In the plan, there is no exercise price, because the Company's shares or money equivalent to the amount will be obtained or provided through the trust.

3) Fair value of share benefits point in the consolidated fiscal year

Fair value is measured based on an observable market price.

Expected dividends are not considered because of short term between the grant date and expected exercise date. A weighted average exercise price of the points granted in the current consolidated fiscal year is ¥3,335.

4) Cost associated with the Board Benefit Trust

Cost associated with the Board Benefit Trust is ¥269 million in the current consolidated fiscal year. The cost is included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

27. Earnings per share

(1) Calculation basis of basic earnings per share

Basic earnings per share and the calculation basis are as follows:

		Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Profit for the year attributable to owners of the parent	(Millions of yen)	18,606	25,146
Weighted average number of ordinary shares	(Thousand shares)	123,518	123,356
Basic earnings per share	(Yen)	150.64	203.85

(2) Calculation basis of diluted earnings per share

Diluted earnings per share and the calculation basis are as follows:

		Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)
Diluted profit for the year attributable to owners of the parent	(Millions of yen)	18,606	25,146
Weighted average number of ordinary shares	(Thousand shares)	123,518	123,356
Effect of stock options in the form of subscription rights to shares	(Thousand shares)	213	222
Diluted weighted average number of ordinary shares	(Thousand shares)	123,731	123,578
Diluted earnings per share	(Yen)	150.38	203.48

28. Business combinations

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(Additional acquisition of shares in NABCO SYSTEM CO., LTD.)

The Company acquired additional shares in NABCO SYSTEM CO., LTD. ("NABCO SYSTEM") and made it the Company's consolidated subsidiary on April 1, 2016.

(1) Overview of business combination

1) Name and business of acquiree

Name of acquiree: NABCO SYSTEM CO., LTD.

Business: Sale, design, construction and maintenance of construction-related products centered on automatic doors

2) Major reason for business combination

NABCO SYSTEM had been the Company's equity method associate. The Company, Mr. Taizo Yamamura who is a major shareholder of NABCO SYSTEM, Taiei Limited Liability Company of which Mr. Yamamura is a major shareholder and six other companies reached an agreement to transfer shares in NABCO SYSTEM to the Company, based on the view that further strengthening collaboration between the two companies and accelerating the movement of unification of value chains across the country through acquiring additional shares in NABCO SYSTEM and making it the Company's consolidated subsidiary will contribute to the further development of the automatic doors business.

3) Method adopted by the Company to obtain control of acquiree

Acquisition of shares in exchange for cash consideration

4) Acquisition date

April 1, 2016

5) Ratio of equity acquired

Ratio of voting rights owned immediately before acquisition	37.9%
Ratio of voting rights additionally acquired on the business combination date	48.0%
Ratio of voting rights after acquisition	85.9%

(2) Consideration and its details

Fair value of equity owned immediately before the acquisition date	¥3,184 million
Cash	3,681 million
Total consideration	6,865 million

(3) Acquisition cost

Acquisition cost was ¥51 million (of which ¥18 million was incurred in the fiscal year ended December 31, 2015), which is included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

(4) Assets acquired and liabilities assumed

The fair values of assets acquired and liabilities assumed on the acquisition date are as follows:

(Millions of yen)

	Amount
Fair value of acquisition (Note 1)	6,865
Non-controlling interests (Note 2)	1,352
Total	8,217

Current assets (Note 3)	12,483
Non-current assets	7,460
Current liabilities	(8,525)
Non-current liabilities	(2,848)
Negative goodwill (Note 4)	(353)
Total	8,217

Notes: 1. There is no contingent consideration.
2. Non-controlling interests are measured based on the share of the interests in the fair value of the identifiable net assets of acquiree.
3. Current assets include cash and cash equivalents of ¥3,454 million.
4. Negative goodwill, arising as the fair value of acquired net assets exceeds the consideration, is recorded in "Other income" in the consolidated statement of profit or loss.

(5) Gain on step acquisitions

The Company recognized gain on step acquisitions of ¥786 million from the business combination as a result of the remeasurement of equity in NABCO SYSTEM owned before the acquisition date at fair value as of the acquisition date. The gain is recorded as "Other income" in the consolidated statement of profit or loss.

(6) Impact on the Group's business performance

Net sales of acquired business since the acquisition date which were recognized in the consolidated statement of profit or loss for the fiscal year ended December 31, 2016 were ¥17,232 million. Profit or loss for the year is not provided as the amount is not material.

Moreover, if the business combination had been executed on January 1, 2016, the beginning of the fiscal year, net sales in the consolidated statement of profit or loss would have been ¥249,924 million. Profit or loss for the year is not provided as its impact on the consolidated statement of profit or loss for the year is not material. The aforementioned figures have not been audited.

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(Acquisition of equity interests in OVALO GmbH)

The Company acquired 100% of the equity interests in OVALO GmbH (“OVALO”) and made it the Company’s consolidated subsidiary on March 1, 2017.

(1) Overview of business combination

1) Name and business of acquiree

Name of acquiree: OVALO GmbH

Business: Development, manufacturing and sale of system products with the wave gears for the automobile industry

2) Major reason for business combination

The Company determined this acquisition, aiming to “expand our business and profit” through enhancing the competition base in European markets and the mechatronics sector, the base of product supply system.

The Company believes that, through the acquisition of OVALO, it will accelerate the development of systems and mechatronic products by using OVALO’s ability to develop motor-control unit integrated products.

Additionally, OVALO has room to expand its bases. The Company aims to further enhance the competition base in European markets, considering the use of OVALO for establishing European development and manufacturing bases in the future.

3) Method adopted by the Company to obtain control of acquiree

Acquisition of equity interests in exchange for cash consideration

4) Acquisition date

March 1, 2017

5) Ratio of equity acquired

100%

(2) Consideration and its details

Cash	¥8,307 million
Total consideration	¥8,307 million

(3) Acquisition cost

Acquisition cost was ¥139 million (of which ¥80 million was incurred in the fiscal year ended December 31, 2016), which is included in “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

(4) Receivables acquired

The fair value of receivables acquired, which is mainly loans receivable, is ¥1,428 million, and their contractual amount is ¥1,428 million. The receivables are expected to be fully collected.

(5) Assets acquired and liabilities assumed

The fair values of assets acquired and liabilities assumed on the acquisition date are as follows:

(Millions of yen)

	Amount
Fair value of acquisition (Note 1)	8,307
Non-controlling interests (Note 2)	51
Total	8,357
Current assets (Note 3)	2,412
Non-current assets (Note 4)	4,398
Current liabilities	(3,358)
Non-current liabilities	(1,110)
Goodwill (Note 5)	6,016
Total	8,357

Notes: 1. There is no contingent consideration.
2. Non-controlling interests are measured based on the share of the interests in the fair value of the identifiable net assets of acquiree.
3. Current assets include cash and cash equivalents of ¥142 million.
4. Intangible assets includes customer related assets ¥2,321 million (estimated useful life 3 to 8 years), technology assets ¥407 million (estimated useful life 7 to 20 years) and other intangible assets ¥582 million (estimated useful life 8 years), which the acquiree did not recognize.
5. Goodwill mainly reflects profitability in excess of fair value and is not recorded as tax deductible expenses.

(6) Impact on the Group's business performance

Profit or loss information since the acquisition date and the estimated impact of business combination in the consolidated financial statements on the assumption that the business combination had been executed on January 1, 2017, the beginning of the fiscal year, are not provided as they are not material.

29. Subsidiaries

(1) Major subsidiaries of the Group

Major subsidiaries of the Group are as follows;

Company name	Location	Main business	Ratio of voting rights (%)		
			Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
NABCO DOOR Ltd.	Nishi-ku, Osaka	Accessibility	100.0	100.0	100.0
Nabtesco Automotive Corporation	Chiyoda-ku, Tokyo	Transport	100.0	100.0	100.0
NABCO SYSTEM CO., LTD. (Note 2)	Minato-ku, Tokyo	Accessibility	37.9	85.9	85.9
Nabtesco Service Co., Ltd.	Shinagawa-ku, Tokyo	Transport	100.0	100.0	100.0
Toyo Jidoki Co., Ltd.	Minato-ku, Tokyo	Others	100.0	100.0	100.0
Gilgen Door Systems AG	Schwarzenburg, Switzerland	Accessibility	100.0	100.0	100.0
Nabtesco Precision Europe GmbH	Duesseldorf, Germany	Component	100.0	100.0	100.0
Nabtesco Aerospace Inc.	Washington U.S.A.	Transport	100.0	100.0	100.0
NABCO Entrances, Inc.	Wisconsin U.S.A.	Accessibility	100.0	100.0	100.0
Shanghai Nabtesco Hydraulic Co., Ltd.	Shanghai, China	Component	55.0	55.0	55.0
Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd	Shanghai, China	Component	67.0	67.0	67.0
Jiangsu Nabtesco KTK Railroad Products Co., Ltd. (Note 3)	Jiangsu, China	Transport	50.0	50.0	50.0
Nabtesco Power Control (Thailand) Co., Ltd.	Chonburi, Thailand	Component	70.0	70.0	70.0
Nabtesco (China) Precision Equipment Co., Ltd.	Jiangsu, China	Component	67.0	67.0	67.0

Note:1. Name of reportable segment is described on "Main business".

2. NABCO SYSTEM CO., LTD. has been consolidated as a subsidiary from April 1th, 2016.

3. Jiangsu Nabtesco KTK Railroad Products Co., Ltd. is consolidated as a subsidiary. The Company considers Jiangsu Nabtesco KTK Railroad Products Co., Ltd. is substantively under the Company's control as for the Company has 50% of the voting rights on Jiangsu Nabtesco KTK Railroad Products Co., Ltd. and Jiangsu Nabtesco KTK Railroad Products Co., Ltd. is dependent on the Company's technologies.

30. Related parties

(1) Transaction with associates

Balance of receivables and payables with the associates and the amount of transactions with associates are as follows;

1) Balance of receivables and payables with the associates

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)	Current consolidated fiscal year (December 31, 2017)
Outstanding receivables	2,386	265	239
Outstanding payables	316	343	301

Note: The Company does not have a mortgage or guarantee for the associates. The Company does not have loss allowance of receivables due from the associates.

2) Amount of transactions with associates

(Millions of yen)

	Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)	Current consolidated fiscal year (from January 1, 2017 (December 31, 2017)
Sales	2,795	771
Purchase	3,680	3,848

Note: Transactions with associates are based on market prices and others.

(2) Compensation for executives

Compensation for executives of the Company is as follows:

Previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Total amounts of compensation and others	Total amount of compensation and others by type			
		Basic compensation	Retirement benefits	Board Benefit Trust	Stock-based compensation-type stock options
Compensation for executives	294	222	0	—	72

Note: Executives are the Company's directors for each fiscal year.

Current consolidated fiscal year (from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Total amounts of compensation and others	Total amount of compensation and others by type			
		Basic compensation	Retirement benefits	Board Benefit Trust	Stock-based compensation-type stock options
Compensation for executives	406	263	—	134	8

Note: Executives are the Company's directors for each fiscal year.

31. Commitments

The Company has no material commitments, which are contracted about purchasing of property, plant and equipment, on the date of transition to IFRS and the end of the previous consolidated fiscal year. The Company has ¥7,350 million commitments on the end of the current consolidated fiscal year.

32. Contingencies liabilities

There are no contingent liabilities at December 31, 2016 and 2017, respectively.

33. Subsequent events

(Issuance of new shares and others by equity method associates)

At the Board of Directors' meeting held on January 5, 2018, Harmonic Drive Systems Inc. ("Harmonic"), an equity method associates of the Group, resolved to issue new shares and dispose of its treasury stock, and conduct secondary offerings of its own shares ("Global Offering"), as well as issue the 1st series of share options ("the Stock Options") by the third party allotment to the Company.

The Company subscribed to the Stock Options and completed a payment on February 6, 2018. The Group's percentage of ownership of voting rights in Harmonic decreased and Harmonic's net assets at March 31, 2018 increased significantly through the Global Offering. The impact of the events is recognized as share of profit of investments accounted for using the equity method by ¥5,725 million in the 1st quarter of consolidated fiscal year 2018.

Following the Global Offering, the Group's percentage of ownership of voting rights in Harmonic will change. However, since the Company holds 20% or more of voting rights, including potential voting rights through the underwriting of the stock options, Harmonic will continue to be an equity method associate of the Company.

34. First-time adoption

The Group started to disclose the consolidated financial statements in accordance with IFRS from the fiscal year ended December 31, 2017. The Group's latest consolidated financial statements prepared in accordance with Japanese GAAP are those for the fiscal year ended December 31, 2016. The date of transition to IFRS is January 1, 2016.

IFRS 1 Exemption from retrospective application

Under IFRS, entities adopting IFRS for the first time must, in principle, apply the required standards retrospectively. However, IFRS 1 provides optional exemptions from retrospective application for certain requirements of IFRS. The Group adopts the following exemptions:

1) Exchange differences on translating foreign operations

The Group resets the cumulative amount of the exchange differences on translating foreign operations to zero at the date of transition to IFRS.

2) Business combinations

The Group does not apply IFRS 3 "Business Combination" retrospectively to past business combinations that occurred prior to the date of transition to IFRS.

As the Group adopts IFRS retrospectively to business combinations that occurred during the parallel disclosure period after the date of transition, goodwill under IFRS is different from goodwill under Japanese GAAP which was disclosed during the year. Goodwill is tested for impairment at the date of transition.

3) Designation of financial instruments recognized prior to the date of transition

Under IFRS 1, entities may elect to determine the classifications under IFRS 9 based not on facts and circumstances that exist at initial recognition but on facts and circumstances as of the date of transition. Furthermore, entities may elect to designate equity instruments as financial assets measured at fair value through other comprehensive income, based on facts and circumstances that exist as of the date of transition. The Group determines the classifications under IFRS 9 based on facts and circumstances that exist as of the date of transition, and designates equity instruments, with a few exceptions, as financial assets measured at fair value through other comprehensive income.

The table below presents reconciliation for which disclosure is required in first-time adoption of IFRS.

In the table, items that do not affect retained earnings and comprehensive income are included in the "Reclassification" column, and items that affect retained earnings and comprehensive income are included in the "Effects of differences in recognition and measurement" column.

(1) Reconciliation of equity at the date of transition to IFRS (January 1, 2016)

(Millions of yen)

Japanese GAAP (line item)	Japanese GAAP	Reclassification	Effects of differences in recognition and measurement	IFRS	Note	IFRS (line item)
Assets						Assets
Current assets						Current assets
Cash and deposits	22,068	12,642	—	34,710		Cash and cash equivalents
Notes and accounts receivable-trade	59,751	252	(213)	59,790		Trade receivables
Short-term investment securities	13,000	(13,000)	—	—		
Finished goods	5,579	22,842	338	28,760		Inventories
Work in progress	11,622	(11,622)	—	—		
Raw materials and supplies	11,220	(11,220)	—	—		
Deferred tax assets	1,976	(1,976)	—	—		
Other current assets	3,598	(2,237)	1	1,361		Other receivables
	—	364	21	385		Other financial assets
	—	1,742	—	1,742		Other current assets
Less allowance for doubtful receivables	(238)	238	—	—		
Total current assets	128,576	(1,976)	147	126,747		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment, net	55,916	(3,240)	—	52,677		Property, plant and equipment
Goodwill	19,424	—	(4,326)	15,098	A	Goodwill
Other intangible assets	4,234	(805)	—	3,429		Intangible assets
Investment in securities	23,058	(4,899)	36	18,195		Investments accounted for using the equity method
Assets for retirement benefits	205	(205)	—	—		
Deferred tax assets	466	676	—	1,142		Deferred tax assets
Other assets	1,586	4,303	1,186	7,075	C	Other financial assets
	—	1,523	—	1,523		Other non-current assets
	—	3,240	1,287	4,527	B	Investment property
Less allowance for doubtful receivables	(83)	83	—	—		
Total fixed assets	104,805	676	(1,816)	103,665		Total non-current assets
Total assets	233,381	(1,300)	(1,670)	230,412		Total assets

(Millions of yen)

Japanese GAAP (line item)	Japanese GAAP	Reclassification	Effects of differences in recognition and measurement	IFRS	Note	IFRS (line item)
Liabilities						Liabilities and equity
						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable-trade	38,643	3,607	249	42,500		Trade payables
Short-term loans payable	5,257	10,077	—	15,334		Bonds and borrowings
Current portion of bonds	10,000	(10,000)	—	—		
Current portion of long-term loans payable	77	(77)	—	—		
Income taxes payable	1,057	—	—	1,057		Income taxes payable
Provision for product warranties	612	5	—	617		Provisions
Provision for loss on order received	5	(5)	—	—		
Others	17,350	(7,255)	(30)	10,064		Other payables
	—	3,554	24	3,579		Other current liabilities
Total current liabilities	73,001	(94)	243	73,151		Total current liabilities
Non-current liabilities						Non-current liabilities
Provision for director's retirement benefits	180	(180)	—	—		
Liabilities for retirement benefit	7,340	—	—	7,340		Liabilities for retirement benefits
Deferred tax liabilities	2,094	(1,206)	2,266	3,153	D	Deferred tax liabilities
Others	1,842	180	—	2,022		Other non-current liabilities
Total non-current liabilities	11,456	(1,206)	2,266	12,516		Total non-current liabilities
Total liabilities	84,457	(1,300)	2,509	85,666		Total liabilities
Net assets						Equity
Common stock	10,000	—	—	10,000		Common stock
Capital surplus	14,237	379	—	14,616		Additional paid-in capital
Retained earnings	107,487	—	5,919	113,406	G	Retained earnings
Treasury stock, at cost	(2,718)	—	—	(2,718)		Treasury stock
Accumulated other comprehensive income	13,063	—	(10,096)	2,966	E, F	Other components of equity
Subscription rights to shares	379	(379)	—	—		
	142,448	—	(4,177)	138,271		Equity attributable to owners of the parent
Non-controlling interests	6,476	—	(2)	6,475		Non-controlling interests
Total net assets	148,924	—	(4,179)	144,745		Total equity
Total liabilities and net assets	233,381	(1,300)	(1,670)	230,412		Total liabilities and equity

(2) Reconciliation of equity at the end of the previous consolidated fiscal year (December 31, 2016)

(Millions of yen)

Japanese GAAP (line item)	Japanese GAAP	Reclassification	Effects of differences in recognition and measurement	IFRS	Note	IFRS (line item)
Assets						Assets
Current assets						Current assets
Cash and deposits	29,946	11,834	—	41,780		Cash and cash equivalents
Notes and accounts receivable	65,712	(134)	(10)	65,569		Trade receivables
Short-term investment securities	12,000	(12,000)	—	—		
Finished goods	6,368	26,251	85	32,704		Inventories
Work in progress	14,325	(14,325)	—	—		
Raw materials and supplies	11,926	(11,926)	—	—		
Deferred tax assets	2,274	(2,274)	—	—		
Other current assets	3,759	(2,495)	—	1,264		Other receivables
	—	166	—	166		Other financial assets
	—	2,309	—	2,309		Other current assets
Less allowance for doubtful receivables	(319)	319	—	—		
Total current assets	145,991	(2,274)	75	143,792		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment, net	67,823	(4,214)	(454)	63,155	A	Property, plant and equipment
Goodwill	17,031	—	(2,670)	14,361	A	Goodwill
Other intangible assets	3,896	(652)	(573)	2,671	A	Intangible assets
Investments in securities	20,741	(20,741)	—	—		
Assets for retirement benefits	177	(177)	—	—		
	—	15,957	(5)	15,952		Investments accounted for using the equity method
Deferred tax assets	658	1,473	(530)	1,602		Deferred tax assets
Other assets	2,717	4,056	1,714	8,487	C	Other financial assets
	—	1,468	—	1,468		Other non-current assets
	—	4,214	1,272	5,486	B	Investment property
Less allowance for doubtful receivables	(89)	89	—	—		
Total fixed assets	112,955	1,473	(1,247)	113,181		Total non-current assets
Total assets	258,947	(801)	(1,172)	256,973		Total assets

(Millions of yen)

Japanese GAAP (line item)	Japanese GAAP	Reclassification	Effects of differences in recognition and measurement	IFRS	Note	IFRS (line item)
Liabilities						Liabilities and equity
						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable-trade	16,926	31,067	86	48,078		Trade payables
Electronically recorded obligations	25,635	(25,635)	—	—		
Short-term loans payable	5,648	146	—	5,794		Bonds and borrowings
Current portion of long-term loans payable	146	(146)	—	—		
Income taxes payable	5,408	—	—	5,408		Income taxes payable
Provision for product warranties	696	27	—	723		Provisions
Provision for loss on order received	27	(27)	—	—		
	—	4,381	42	4,423		Other current liabilities
Others	20,316	(9,850)	(17)	10,450		Other payables
Total current liabilities	74,802	(38)	112	74,876		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds	10,000	1,202	(46)	11,155		Bonds and borrowings
Long-term loans payable	1,202	(1,202)	—	—		
Provision for director's retirement benefits	289	(289)	—	—		
Liabilities for retirement benefit	9,343	—	—	9,343		Liabilities for retirement benefits
Deferred tax liabilities	2,901	(764)	1,380	3,518	D	Deferred tax liabilities
Others	1,888	289	—	2,177		Other non-current liabilities
Total non-current liabilities	25,623	(764)	1,334	26,194		Total non-current liabilities
Total liabilities	100,425	(801)	1,446	101,070		Total liabilities
Net assets						Equity
Common stock	10,000	—	—	10,000		Common stock
Capital surplus	14,237	466	—	14,703		Additional paid-in capital
Retained earnings	119,345	—	6,148	125,493	G	Retained earnings
Treasury stock, at cost	(2,649)	—	—	(2,649)		Treasury stock
Accumulated other comprehensive income	9,188	—	(8,806)	382	E, F	Other components of equity
Subscription rights to shares	466	(466)	—	—		
	150,588	—	(2,658)	147,929		Equity attributable to owners of the parent
Non-controlling interests	7,933	—	41	7,974		Non-controlling interests
Total net assets	158,521	—	(2,617)	155,904		Total equity
Total liabilities and net assets	258,947	(801)	(1,172)	256,973		Total liabilities and equity

(3) Notes on reconciliation of equity

The main details of reconciliation of equity are as follows:

1) Reclassifications

Reclassifications are made to comply with the provisions of IFRS. The main reclassifications are as follows:

- "Short-term investment securities" presented separately under Japanese GAAP are included in "Cash and cash equivalents" under IFRS. Time deposits with deposit terms of more than three months, which were included in "Cash and deposits" under Japanese GAAP, are classified as "Other financial assets" under IFRS.
- "Finished goods", "Work in progress" and "Raw materials and supplies" presented separately under Japanese GAAP are presented together as "Inventories" under IFRS.
- Property held to be leased or for a currently undetermined use, which was included in "Property, plant and equipment" under Japanese GAAP, is classified as "Investment property" under IFRS.
- Listed shares and unlisted shares included in "Investments in securities" under Japanese GAAP are classified as "Other financial assets (non-current)" and other investments are classified as "Investments accounted for using the equity method" under IFRS.
- "Deferred tax assets" and "Deferred tax liabilities" are classified as non-current items under IFRS.

2) Reconciliation related to differences in recognition and measurement

A. Adjustment of impairment for non-financial assets

Under Japanese GAAP, goodwill was amortized on a straight-line basis over 8 to 20 years. Only when there was any indication that goodwill might be impaired, the Group compared the carrying amount of each cash-generating unit group including goodwill and the amount of undiscounted cash flows. Then, only if the amount of undiscounted cash flows was lower than the carrying amount, impairment loss was recognized up to the amount by which the carrying amount exceeds the recoverable amount, namely the amount of discounted cash flows.

Under IFRS, goodwill is not subject to amortization but is tested for impairment whenever there is an indication of impairment or once each fiscal year irrespective of whether there is any indication of impairment. The Group compares the carrying amount of each cash-generating unit group including goodwill and the recoverable amount and then impairment loss is recognized up to the amount by which the carrying amount exceeds the recoverable amount.

Based on the business plan at the date of transition to IFRS, each cash-generating unit group was tested for impairment, and the recoverable amount fell below the carrying amount including goodwill. As a result, there was an impairment loss for goodwill of ¥4,326 million for Gilgen Door Systems AG Group ("Gilgen Group"). This impairment loss is recognized in the Accessibility Solutions segment.

Recoverable amount is measured based on value in use. Value in use is determined by discounting future cash flows to their present value. The cash flows are estimated based on the 4 year business plan approved by management, reflecting past experience and external information. The growth rate after the final year of the business plan is assumed to be zero. The discount rate is calculated based on the weighted average pre-tax cost of capital of Gilgen Group. Value in use of Gilgen Group at recognition of impairment loss is ¥21,032 million (pre-tax discount rate: 6.9%).

Based on the business plan at the end of the fiscal year ended December 31, 2016, each cash-generating unit group was tested for impairment, and the recoverable amount, namely the amount of discounted cash flows, fell below the carrying amount mainly due to lower expected profit. As a result, there was an impairment loss of ¥1,027 million (property, plant and equipment: ¥454 million, intangible assets: ¥573 million) for NABCO Entrances Inc. Group. This impairment loss is recognized in the Accessibility Solutions segment. The recoverable amount is measured based on the value in use (pre-tax discount rate: 19.0%).

B. Adjustment of investment property

Under IFRS, investment property increases by ¥1,287 million at the date of transition to IFRS and by ¥1,272 million at the end of the fiscal year ended December 31, 2016 due to the cancellation of the reduction process at the date of transition. These increased amounts were directly reduced based on the reduction entry method under Japanese GAAP.

C. Adjustment of other financial assets (non-current)

Unlisted shares increase by ¥1,186 million at the date of transition to IFRS and by ¥1,714 million at the end of the fiscal year ended December 31, 2016 due to measurement at fair value.

D. Adjustment of deferred tax liabilities

Mainly for retained earnings of associates, the Company has recorded an estimated amount of tax which will be incurred when receiving future dividends for the Company's share of retained earnings of its associates. As a result, deferred tax liabilities increase by ¥2,266 million at the date of transition to IFRS and by ¥1,380 million at the end of the fiscal year ended December 31, 2016.

E. Adjustment related to retirement benefits

Under Japanese GAAP, actuarial gains and losses relating to retirement benefits were recognized in other comprehensive income as incurred, and amortized to profit or loss over a certain number of years. Under IFRS, these actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to retained earnings. As a result, actuarial gains and losses are reclassified from other components of equity to retained earnings in an amount of ¥698 million at the date of transition to IFRS and ¥1,322 million at the end of the fiscal year ended December 31, 2016.

F. Adjustment of exchange differences on translating foreign operations

On the adoption of IFRS, the Group applied exemptions under IFRS 1 for cumulative exchange differences on translating foreign operations, and the cumulative exchange differences were reset to zero at the date of transition to IFRS. As a result, ¥11,598 million is reclassified from other components of equity to retained earnings.

G. Adjustment for retained earnings

The breakdown of major adjustments is as follows (All items except for D. take into account tax effects and non-controlling interests):

(Millions of yen)

	Date of transition to IFRS (January 1, 2016)	Previous consolidated fiscal year (December 31, 2016)
A. Adjustment of impairment for non-financial assets	(4,326)	(3,672)
B. Adjustment of investment property	872	883
D. Adjustment of deferred tax liabilities	(1,672)	(1,220)
E. Adjustment related to retirement benefits	(698)	(1,322)
F. Adjustment of exchange differences on translating foreign operations	11,598	11,598
Others	146	(119)
Total	5,919	6,148

(4) Reconciliation of profit or loss and comprehensive income for the previous consolidated fiscal year (from January 1, 2016 to December 31, 2016)

(Millions of yen)

Japanese GAAP (line item)	Japanese GAAP	Reclassification	Effects of differences in recognition and measurement	IFRS	Note	IFRS (line item)
Net sales	244,619	–	349	244,968	A	Net sales
Cost of sales	(175,380)	–	(128)	(175,508)	A	Cost of sales
Gross income	69,239	–	221	69,460		Gross profit
	–	2,511	(16)	2,495		Other income
Selling, general and administrative expenses	(45,767)	–	1,473	(44,294)	B	Selling, general and administrative expenses
	–	(751)	(928)	(1,679)	C	Other expenses
Operating income	23,472	1,760	750	25,982		Operating profit
Non-operating income	1,927	(1,927)	–	–		
Non-operating expenses	(667)	667	–	–		
Extraordinary gains	1,890	(1,883)	(6)	–		
Extraordinary losses	(499)	497	2	–		
	–	188	0	188		Finance income
	–	(413)	(12)	(425)		Finance costs
	–	1,111	(77)	1,034		Share of profit of investments accounted for using the equity method
Income before income taxes	26,122	–	657	26,779		Profit before tax
Income taxes	(8,220)	–	377	(7,843)		Income tax expense
Net income	17,902	–	1,034	18,936		Profit for the year
Net income attributable to non-controlling interests	(317)	–	(13)	(330)		Profit for the year attributable to non-controlling interests
Net income attributable to owners of the parent	17,585	–	1,021	18,606		Profit for the year attributable to owners of the parent

(Millions of yen)

Japanese GAAP (line item)	Japanese GAAP	Reclassification	Effects of differences in recognition and measurement	IFRS	Note	IFRS (line item)
Net income	17,902	–	1,034	18,936		Profit for the year
Other comprehensive income						Other comprehensive income
Remeasurements of defined benefit plans	(641)	–	(210)	(850)		Remeasurements of net defined benefit liability (asset)
Valuation difference on other securities	(137)	–	392	255		Net changes in financial assets measured at fair value through other comprehensive income
Foreign currency translation adjustments	(3,579)	(109)	306	(3,382)		Exchange differences on translating foreign operations
Deferred gains (losses)	(3)	–	3	–		
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	(111)	109	36	34		Share of other comprehensive income of investments accounted for using the equity method
Total other comprehensive income	(4,471)	–	528	(3,944)		Total other comprehensive income, net of tax
Total comprehensive income	13,431	–	1,562	14,993		Total comprehensive income

(5) Notes on reconciliation of profit or loss and comprehensive income

The main details of reconciliation of profit or loss and comprehensive income are as follows:

1) Reclassifications

Reclassifications are made to comply with the provisions of IFRS. The main reclassifications are as follows:

- Finance-related items in "Non-operating income", "Non-operating expenses", "Extraordinary gains" and "Extraordinary losses" under Japanese GAAP are classified as "Finance income" or "Finance costs" and the other items are classified as "Other income" or "Other expenses" under IFRS. "Share of profit of investments accounted for using the equity method" included in "Non-operating income" under Japanese GAAP is presented separately as "Share of profit of investments accounted for using the equity method" under IFRS.

2) Reconciliation related to differences in recognition and measurement

A. Net sales and cost of sales

Certain transactions of the sale of goods whose revenue was recognized on a shipping basis under Japanese GAAP have been recognized on a delivery basis, and therefore net sales and cost of sales are adjusted under IFRS.

B. Goodwill

Under Japanese GAAP, goodwill is amortized on a straight-line basis over 8 to 20 years. However, under IFRS, goodwill is not subject to amortization and is adjusted by ¥1,424 million at the end of the fiscal year ended December 31, 2016.

C. Impairment losses

Under Japanese GAAP, when there was any indication that a fixed asset might be impaired, the Group compared the carrying amount of the fixed asset and the amount of undiscounted future cash flows. Then, only if the carrying amount exceeded the amount of undiscounted future cash flows, any excess of the carrying amount over the recoverable amount was recognized as an impairment loss. Under IFRS, if there is any indication that a fixed asset may be impaired, any excess of the carrying amount over the recoverable amount is recognized as an impairment loss. As a result, other expenses increase by ¥974 million. Further details are described in "(3) Notes on reconciliation of equity, 2) Reconciliation related to differences in recognition and measurement, A. Adjustment of impairment for non-financial assets".

(6) Adjustment of consolidated statement of cash flows

There is no significant difference between the consolidated statements of cash flows disclosed based on Japanese GAAP and those disclosed based on IFRS.

KPMG

Independent Auditor's Report

To the Board of Directors of Nabtesco Corporation:

We have audited the accompanying consolidated financial statements of Nabtesco Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to consolidated financial statements.

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nabtesco Corporation and its consolidated subsidiaries as at December 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

May 15, 2018
Tokyo, Japan

Nabtesco

moving it. stopping it.