Appendix

TOKYO OHKA KOGYO CO., LTD. and Subsidiaries

Fiscal year ended December 31, 2017
(April 1, 2017 — December 31, 2017)

Consolidated financial statements,
Notes to consolidated financial statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets
December 31, 2017 and March 31, 2017

ASSETS	Millions of yen 2017/12	Millions of yen 2017/3	Thousands of U.S. dollars (Note 1) 2017/12
CURRENT ASSETS:			
Cash and deposits (Notes 4 and 17)	¥ 27,961	¥ 33,907	$ 247,449
Time deposits (Note 17)	16,219	15,756	143,539
Receivables:			
Trade notes and accounts (Note 17)	22,554	19,893	199,599
Securities (Notes 4, 5 and 17)	2,000	2,000	17,699
Other	422	581	3,736
Allowance for doubtful accounts	(157)	(242)	(1,392)
Inventories (Note 6)	15,893	13,613	140,653
Deferred tax assets (Note 14)	1,574	1,421	13,935
Prepaid expenses and other current assets	1,249	1,716	11,055
Total current assets	87,719	88,647	776,276
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land	9,120	8,976	80,715
Buildings and structures	62,902	60,088	556,663
Machinery and equipment	56,406	57,828	499,168
Furniture and fixtures	20,684	19,844	183,050
Construction in progress	4,077	3,214	36,085
Total	153,192	149,952	1,355,682
Accumulated depreciation	(101,488)	(100,286)	(898,126)
Net property, plant and equipment	51,703	49,666	457,556
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 17)	16,486	13,389	145,900
Investments in and advanced to an unconsolidated subsidiary and associated companies	1,164	936	10,307
Long-term loans receivable	8	572	78
Net defined benefit asset (Note 9)	2,352	1,462	20,818
Long-term time deposits (Note 17)	18,000	18,000	159,292
Deferred tax assets (Note 14)	145	457	1,289
Other assets	1,099	1,360	9,730
Total investments and other assets	39,258	36,178	347,417
TOTAL	¥ 178,681	¥ 174,492	$ 1,581,250

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2017/12	Millions of yen 2017/3	Thousands of U.S. dollars (Note 1) 2017/12
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 17)	¥ 10,444	¥ 9,607	$ 92,426
Construction and other	4,966	4,107	43,952
Income taxes payable	962	1,390	8,513
Accrued expenses	3,652	3,418	32,323
Advances from customers	236	336	2,091
Deferred tax liabilities (Note 14)	329	21	2,912
Other current liabilities (Notes 8 and 17)	1,151	654	10,189
Total current liabilities	21,742	19,536	192,410
LONG-TERM LIABILITIES:			
Deferred tax liabilities (Note 14)	2,533	1,515	22,416
Net defined benefit liability (Note 9)	262	223	2,323
Other long-term liabilities (Note 11)	625	286	5,539
Total long-term liabilities	3,421	2,024	30,279
EQUITY (Notes 12 and 20):			
Common stock—authorized, 197,000,000 shares in 2017/12 authorized, 197,000,000 shares in 2017/3 issued, 45,100,000 shares in 2017 /12 issued, 45,100,000 shares in 2017/3	14,640	14,640	129,561
Capital surplus	15,207	15,207	134,583
Retained earnings	116,904	113,708	1,034,551
Treasury stock—at cost, 3,021,037 shares in 2017/12 and 1,496,738 shares in 2017/3	(11,732)	(4,086)	(103,824)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	6,893	4,694	61,006
Foreign currency translation adjustments	4,646	3,533	41,118
Remeasurements of defined benefit plans	335	(139)	2,971
Total	146,896	147,559	1,299,968
Stock acquisition rights	247	221	2,191
Non-controlling interests	6,373	5,150	56,399
Total equity	153,517	152,931	1,358,559
TOTAL	¥ 178,681	¥ 174,492	$ 1,581,250

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2017/3	2017/12
NET SALES	¥ 92,411	¥ 88,764	$ 817,801
COST OF SALES (Notes 8, 13 and 15)	63,805	56,786	564,650
Gross profit	28,606	31,978	253,150
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9, 13 and 15)	19,411	22,023	171,785
Operating income	9,194	9,954	81,364
OTHER INCOME (EXPENSES):			
Interest and dividend income	309	277	2,739
Foreign exchange gain (loss) —net	726	(445)	6,426
Loss on valuation of derivatives	(789)	(439)	(6,987)
Gain on changes in equity of affiliates	196	—	1,735
Loss on impairment of long-lived assets (Note 7)	(242)	(678)	(2,146)
Loss on disaster	—	(91)	—
Other—net	98	643	874
Other (expenses) income —net	298	(734)	2,641
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	9,492	9,220	84,005
INCOME TAXES (Note 14):			
Current	2,140	2,635	18,944
Prior years	—	0	—
Deferred	348	(454)	3,084
Total income taxes	2,489	2,181	22,028
NET INCOME BEFORE NON-CONTROLLING INTERESTS	7,003	7,039	61,976
NON-CONTROLLING INTERESTS IN NET INCOME	996	695	8,814
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 6,007	¥ 6,343	$ 53,162

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Yen		U.S. dollars
	2017/12	2017/3	2017/12
PER SHARE OF COMMON STOCK (Notes 13 and 20):			
Basic profit	¥ 138.31	¥ 146.18	$ 1.22
Diluted profit	137.91	145.53	1.22
Cash dividends applicable to the year	64.00	64.00	0.57

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2017/3	2017/12
NET INCOME BEFORE NON-CONTROLLING INTERESTS	¥ 7,003	¥ 7,039	$ 61,976
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized (loss) gain on available-for-sale securities	2,199	1,860	19,462
Foreign currency translation adjustments	1,457	(1,369)	12,900
Remeasurements of defined benefit plans	475	114	4,205
Share of other comprehensive income in an associate	(19)	(56)	(174)
Total other comprehensive income	4,112	549	36,393
COMPREHENSIVE INCOME (Note 19)	¥ 11,115	¥ 7,589	$ 98,370
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19):			
Owners of the parent	¥ 9,794	¥ 7,028	$ 86,677
Non-controlling interests	1,321	560	11,692

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Thousands	Millions of yen										
						Accumulated other comprehensive income (loss)						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Subscription rights to shares	Non-controlling interests	Total equity
BALANCE, APRIL 1, 2016	43,169	¥ 14,640	¥ 15,207	¥ 110,359	¥ (5,239)	¥ 2,834	¥ 4,823	¥ (253)	¥ 142,371	¥ 309	¥ 4,589	¥ 147,270
Profit attributable to owners of the parent	—	—	—	6,343	—	—	—	—	6,343	—	—	6,343
Cash dividends paid:												
Final for prior year, ¥32.0 per share	—	—	—	(1,384)	—	—	—	—	(1,384)	—	—	(1,384)
Interim for current year, ¥32.0 per share	—	—	—	(1,391)	—	—	—	—	(1,391)	—	—	(1,391)
Purchase of treasury stock	(0)	—	—	—	(2)	—	—	—	(2)	—	—	(2)
Disposal of treasury stock	435	—	—	(218)	1,156	—	—	—	937	(174)	—	763
Net change in the year	—	—	—	—	—	1,860	(1,290)	114	684	86	560	1,332
BALANCE, MARCH 31, 2017	43,603	14,640	15,207	113,708	(4,086)	4,694	3,533	(139)	147,559	221	5,150	152,931
Profit attributable to owners of the parent	—	—	—	6,007	—	—	—	—	6,007	—	—	6,007
Cash dividends paid:												
Final for prior year, ¥32.0 per share	—	—	—	(1,396)	—	—	—	—	(1,396)	—	—	(1,396)
Interim for current year, ¥32.0 per share	—	—	—	(1,397)	—	—	—	—	(1,397)	—	—	(1,397)
Purchase of treasury stock	(1,593)	—	—	—	(7,809)	—	—	—	(7,809)	—	—	(7,809)
Disposal of treasury stock	69	—	—	(18)	163	—	—	—	144	(26)	—	118
Net change in the year	—	—	—	—	—	2,199	1,112	475	3,787	52	1,222	5,062
BALANCE, DECEMBER 31, 2017	42,078	¥ 14,640	¥ 15,207	¥ 116,904	¥(11,732)	¥ 6,893	¥ 4,646	¥ 335	¥ 146,896	¥ 247	¥ 6,373	¥ 153,517

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Subscription rights to shares	Non-controlling interests	Total equity
BALANCE, MARCH 31, 2017	$ 129,561	$ 134,583	$ 1,006,271	$ (36,159)	$ 41,543	$ 31,271	$ (1,233)	$ 1,305,837	$ 1,957	$ 45,580	$ 1,353,375
Profit attributable to owners of the parent	―	―	53,162	―	―	―	―	53,162	―	―	53,162
Cash dividends paid:											
Final for prior year, $0.28 per share	―	―	(12,357)	―	―	―	―	(12,357)	―	―	(12,357)
Interim for current year, $0.28 per share	―	―	(12,362)	―	―	―	―	(12,362)	―	―	(12,362)
Purchase of treasury stock	―	―	―	(69,109)	―	―	―	(69,109)	―	―	(69,109)
Disposal of treasury stock	―	―	(161)	1,444	―	―	―	1,283	(231)	―	1,051
Net change in the year	―	―	―	―	19,462	9,847	4,205	33,515	466	10,819	44,800
BALANCE, DECEMBER 31, 2017	$ 129,561	$ 134,583	$ 1,034,551	$(103,824)	$ 61,006	$ 41,118	$ 2,971	$ 1,299,968	$ 2,191	$ 56,399	$ 1,358,559

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2017/3	2017/12
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 9,492	¥ 9,220	$ 84,005
Adjustments for:			
Income taxes paid	(2,286)	(2,567)	(20,236)
Depreciation and amortization	6,035	6,118	53,411
Provision for doubtful accounts	(130)	180	(1,152)
Foreign exchange (gain) loss —net	(1,131)	576	(10,012)
Gain on sales of investment securities	(0)	(265)	(0)
Loss on impairment of long-lived assets	242	678	2,146
Loss on valuation of derivatives	789	439	6,987
Increase in net defined benefit asset	(151)	(248)	(1,338)
Decrease in net defined benefit liability	(18)	(31)	(167)
Increase in trade notes and accounts receivable	(2,286)	(2,124)	(20,235)
Increase in inventories	(1,929)	(915)	(17,073)
Increase in trade notes and accounts payable	755	1,836	6,685
Increase (decrease) in advances from customers	(100)	327	(891)
(Increase) decrease in consumption taxes refund receivable	295	(246)	2,619
Other—net	586	(500)	5,189
Net cash provided by operating activities	10,162	12,476	89,937
INVESTING ACTIVITIES:			
Deposit for time deposits—net	(386)	(445)	(3,418)
Purchases of property, plant and equipment	(5,884)	(9,008)	(52,070)
Payments into long-term time deposits	(3,000)	(14,000)	(26,548)
Withdrawal of long-term time deposits	3,000	12,000	26,548
Purchases of investment securities	—	(1,499)	—
Proceeds from sales of investment securities	0	392	0
Collection of loans receivable	563	0	4,990
Payments of loans receivable	(0)	(565)	(6)
Other—net	(286)	(276)	(2,534)
Net cash used in investing activities	(5,993)	(13,402)	(53,040)
FINANCING ACTIVITIES:			
Repayments of long-term loans payable	(138)	(374)	(1,224)
Dividends paid	(2,785)	(2,769)	(24,651)
Dividends paid for non-controlling interests	(98)	—	(873)
Disposal of treasury stock	173	823	1,534
Purchases of treasury stock	(7,823)	(2)	(69,236)
Other—net	—	0	—
Net cash used in financing activities	(10,673)	(2,324)	(94,451)

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2017/3	2017/12
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	¥ 557	¥ (358)	$ 4,935
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,945)	(3,608)	(52,618)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	35,907	39,516	317,766
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)	¥ 29,961	¥ 35,907	$ 265,148

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements
<u>Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017</u>

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain amounts reported in prior years have been reclassified to conform to the current year's presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113 to $1, the approximate rate of exchange at December 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation***— The consolidated financial statements include the accounts of the Company and its eight significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one associated company is accounted for by the equity method. Investments in the remaining one unconsolidated subsidiary and another associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Change in Consolidated Fiscal Year-End
Effective April 1, 2017, the Group changed its consolidated fiscal year-end from March 31 to December 31. As a result of this change, the current fiscal period was a nine-month period from April 1, 2017 to December 31, 2017.
Partial amendments to the Articles of Incorporation were approved at the 87th ordinary general meeting of shareholders held on June 28, 2017 with the objectives of strengthening and improving the efficiency of the uniform account settlement and management system of the Group and further improving management transparency by timely and accurate disclosure of management information. Effective April 1, 2017, the Company and its subsidiaries with the fiscal year-end of March 31 changed the fiscal year-end from March 31 to December 31.
Consequently, for the fiscal period ended December 31, 2017, which was the transition period of the fiscal year

change, the consolidated financial results included the results of the Company and its subsidiaries previously having the fiscal year-end of March 31 for the nine months from April 1, 2017 to December 31, 2017 and the results of subsidiaries always having the fiscal year-end of December 31 for the twelve months from January 1, 2017 to December 31, 2017.
Profits or losses from January 1, 2017 to March 31, 2017 of the subsidiaries always having the fiscal year-end of December 31 were adjusted through the consolidated statements of income.

b. ***Cash Equivalents***— Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible into cash and exposed to insignificant risk of changes in value.

c. ***Allowance for Doubtful Accounts***— The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

d. ***Inventories***— Merchandise, work in process, raw materials and supplies are stated at the lower of cost, determined by the first-in, first-out method, or net selling value. Finished products are stated at the lower of cost, determined by the average method, or net selling value. Inventories of manufacturing equipment are stated at the lower of cost, determined by the specific identification method, or net selling value, which are included in raw materials, work in process and finished products.

e. ***Investment Securities***— Investment securities are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at cost and (ii) available-for-sale securities, other than (i), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. ***Property, Plant and Equipment***— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets, of the Company and its consolidated domestic subsidiaries is computed by the straight-line method. The range of useful lives is principally from 10 to 50 years for buildings and structures, and from 3 to 8 years for machinery and equipment, and furniture and fixtures.

g. ***Long-Lived Assets***— The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Other Assets***— Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

i. ***Retirement Benefits***
Retirement benefits to employees (including officers)— The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The companies principally accounted for the retirement benefit obligations based on the projected benefit obligations and plan assets at each balance sheet date.

Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plan for officers on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible officers as of the termination date of the plans for the payment upon their retirement.

Retirement benefits to directors and corporate auditors— Retirement benefits to directors and corporate auditors are provided to state the liability at the amount that would be required if all of them retired at the balance sheet date.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plans for directors and corporate auditors on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible directors and corporate auditors as of the termination date of the plans for the payment upon their retirement.

j. ***Asset Retirement Obligations***— The Group recognizes assets retirement obligation for buildings and sub stations in the domestic offices in accordance with the relevant laws. The amount of the asset retirement obligations is calculated with the estimated usable years of 8 to 50 years from the acquisition and the discount rate ranging from 0.4% to 2.3%.

k. ***Research and Development Costs***— Research and development costs are charged to income as incurred.

l. ***Leases*** — Leased assets under the finance lease arrangements where the ownership is not transferred to lessees at the end of lease terms are capitalized to recognize lease assets and lease obligations in the balance sheet, except for leases which existed at April 1, 2008 and do not transfer ownership of the leased property to the lessee which are accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

m. ***Bonuses to Directors and Corporate Auditors***— Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

n. ***Income Taxes***— The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. ***Foreign Currency Transactions***— All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

p. ***Foreign Currency Financial Statements***— The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the period. Differences arising from such translation were recorded in “Foreign currency translation adjustments” and “Non-controlling interests” in Equity.

q. ***Derivative and Hedging Activities***— The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

r. ***Per Share Information***— Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted net income per share reflects the potential dilution that could occur if securities with dilutive effects were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends attributable to the respective years including dividends to be paid after the end of the year.

3. ACCOUNTING STANDARD ISSUED BUT NOT YET ADOPTED

New or revised accounting standards issued as of December 31, 2017 but not yet adopted by the Group are as follows.
The impact on the consolidated financial statements of adopting these accounting standards was under assessment at the time of the preparation of the consolidated financial statements.

Foreign subsidiaries

Standard	Outline of the new / revised standards	To be adopted by the Group
IFRS 15 Revenue from Contracts with Customers	Amendment to accounting treatment for revenue recognition	From the fiscal year ending December 31, 2018
IFRS 9 Financial Instruments	Amendment relating to classification, measurement and impairment of financial instruments	From the fiscal year ending December 31, 2018
IFRS 16 Leases	Amendment to accounting treatment for lease	From the fiscal year ending December 31, 2019

4. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the consolidated balance sheets at December 31, 2017 and March 31, 2017 were reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Cash and deposits	¥ 27,961	¥ 33,907	$ 247,449
Securities	2,000	2,000	17,699
Cash and cash equivalents	¥ 29,961	¥ 35,907	$ 265,148

5. INVESTMENT SECURITIES

Investment securities as of December 31, 2017 and March 31, 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Current:			
Negotiable certificate of deposits	¥ 2,000	¥ 2,000	$ 17,699
Total	¥ 2,000	¥ 2,000	$ 17,699
Non-current:			
Marketable equity securities	¥ 16,453	¥ 13,326	$ 145,604
Total	¥ 16,453	¥ 13,326	$ 145,604

The costs and aggregate fair values of investment securities at December 31, 2017 and March 31, 2017 were as follows:

	Millions of yen			
December 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 6,821	¥ 9,668	¥ (37)	¥ 16,453

	Millions of yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 6,791	¥ 6,534	¥ —	¥ 13,326

	Thousands of U.S. dollars			
December 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	$ 17,699	$ —	$ —	$ 17,699
Available-for-sale	$ 60,368	$ 85,565	$ (329)	$145,604

The difference between the sum of the above fair values of the available-for-sale securities and cost of the held-to-maturity securities, and the amounts shown in the accompanying consolidated balance sheets consists of nonmarketable securities whose fair values are not readily determinable.

Available-for-sale securities sold during the period ended December 31, 2017 and the year ended March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Amount sold	¥ 0	¥ 392	$ 0
Total gains	0	265	0
Total losses	—	—	—

6. INVENTORIES

Inventories at December 31, 2017 and March 31, 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Merchandise and finished products	¥ 6,610	¥ 5,862	$ 58,495
Work in process	4,343	3,299	38,442
Raw materials and supplies	4,939	4,451	43,715
Total	¥ 15,893	¥ 13,613	$ 140,653

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of December 31, 2017 and March 31, 2017, and recognized impairment losses of ¥242 million ($2,146 thousand) and ¥678 million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the period ended December 31, 2017

Use	Type of assets	Location (Prefecture/Country)	Amount	
			Millions of yen	Thousands of U.S. dollars
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures, Construction in progress and Intangible assets	Kanagawa, Kumamoto and Fukushima	¥ 131	$ 1,165
Idle assets	Machinery and equipment and Furniture and fixtures	Kanagawa	75	666
Idle assets	Construction in progress	Fukushima	0	5
Idle assets	Machinery and equipment, Furniture and fixtures	U.S.A.	32	284
Manufacturing facilities	Machinery and equipment	U.S.A.	2	24
Total			¥ 242	$ 2,146

For the year ended March 31, 2017

Use	Type of assets	Location (Prefecture/Country)	Amount Millions of yen
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures, Construction in progress	Kanagawa	¥ 607
Idle assets	Construction in progress	Fukushima	23
Idle assets	Building and structures	Kumamoto	0
Manufacturing facilities	Machinery and equipment, Furniture and fixtures	U.S.A.	45
Total			¥ 678

For the purpose of evaluating and measuring impairment, assets used for business are considered to constitute a group by each business unit. Idle properties are individually evaluated.

The recoverable amount of land and buildings was measured by their net selling price estimated based on an appraisal value. The recoverable amount of the other assets was measured at their value in use based on reminder price.

8. SHORT-TERM LOANS PAYABLE

Short-term loans payable, included in "Other current liabilities" in the consolidated balance sheets, at December 31, 2017 and March 31, 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Unsecured loan from a bank, with average interest rate of 1.8% for the year ended March 31, 2017.	¥ −	¥ 135	$ −
Total	¥ −	¥ 135	$ −

9. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.
The defined benefit corporate pension plans provide lump-sum payment or pension based on salary and service period.
The lump-sum retirement payment plans provide lump-sum payment as retirement benefit based on factors such as service period.
The details of the plans were as follows:

1. Defined benefit pension plans

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Beginning balance	¥ 16,116	¥ 16,012	$ 142,621
Service cost	504	653	4,467
Interest cost	66	88	588
Actuarial differences incurred during the year	(129)	(212	(1,149)
Payment of retirement benefit	(403)	(426)	(3,568)
Ending balance	¥ 16,154	¥ 16,116	$ 142,960

Note: Certain consolidated subsidiaries apply a simplified method to calculate retirement benefit obligations.

(2) Pension assets

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Beginning balance	¥ 12,160	¥ 11,599	$ 107,610
Expected return on plan assets	273	405	2,421
Actuarial differences incurred during the year	455	(147)	4,029
Contributions from employer	506	666	4,482
Payment of retirement benefit	(344)	(364)	(3,044)
Ending balance	¥ 13,051	¥ 12,160	$ 115,499

(3) Employee retirement benefit trust

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Beginning balance	¥ 5,195	¥ 5,209	$ 45,981
Expected return on plan assets	19	26	172
Actuarial differences incurred during the year	(22)	(39)	(197)
Ending balance	¥ 5,193	¥ 5,195	$ 45,956

(4) Reconciliation between ending balance of retirement benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Retirement benefit obligations under the funded plan	¥ 15,975	¥ 15,975	$ 141,378
Pension assets	(13,051)	(12,160)	(115,499)
Employee retirement benefit trust	(5,193)	(5,195)	(45,956)
	(2,268)	(1,380)	(20,077)
Retirement benefit obligations under the unfunded plan	178	140	1,582
Net liabilities or assets recorded on the consolidated balance sheet	(2,089)	(1,239)	(18,495)
Net defined benefit liabilities	262	223	2,323
Net defined benefit assets	(2,352)	(1,462)	(20,818)
Net liabilities or assets recorded on the consolidated balance sheet	¥ (2,089)	¥ (1,239)	$ (18,495)

(5) Net periodic benefit cost and its components

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Service cost	¥ 503	¥ 653	$ 4,453
Interest cost	66	88	588
Expected return on plan assets	(293)	(432)	(2,593)
Amortized actuarial differences	312	394	2,762
Amortized prior service cost	(192)	(256)	(1,701)
Net periodic benefit cost of defined benefit plan	¥ 396	¥ 448	$ 3,509

Note: Net periodic benefit cost of consolidated subsidiaries applying the simplified method is recorded as "Service cost."

(6) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Prior service cost	¥ (192)	¥ (256)	$ (1,701)
Actuarial differences	875	420	7,743
Total	¥ 682	¥ 164)	$ 6,042

(7) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Unrecognized prior service cost	¥ 1,538	¥ 1,730	$ 13,613
Unrecognized actuarial differences	(1,055)	(1,930)	(9,344)
Total	¥ 482	¥ (200)	$ 4,269

(8) Plan assets and employee retirement benefit trust

(a) Components of plan assets

	2017/12	2017/3
Debt securities	45%	47%
Equity securities	33%	32%
Other	22%	21%
Total	100%	100%

(b) Components of employee retirement benefit trust

	2017/12	2017/3
Debt securities	98%	99%
Other	2%	1%
Total	100%	100%

(c) Long-term rate of return

Long-term rate of return on plan assets and employee retirement benefit trust is determined based on the current and expected allocation of plan assets and employee retirement benefit trust and current and expected long-term rate of return of various assets composing plan assets and employee retirement benefit trust.

(9) Basis for calculation of actuarial differences

	2017/12	2017/3
Discount rate	Mainly 0.53%	Mainly 0.53%
Long-term expected rate of return		
Defined benefit corporate pension plan	3.00%	3.20%
Employee retirement benefit trust	0.50%	0.50%

2. Defined contribution plans

Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

Millions of yen		Thousands of U.S. dollars
2017/12	2017/3	2017/12
¥ 133	¥ 161	$ 1,181

3. Other

Assets of ¥410 million ($3,636 thousand) was transferred to defined contribution pension plan over four years as a result of partial transfer of funded defined benefit plan to defined contribution pension plan, and the transfer was completed during the fiscal period ended December 31, 2017.

10. EMPLOYEE STOCK OWNERSHIP PLAN TRUST

Pursuant to the resolution by the meeting of the Board of Directors held on January 11, 2012, the Company has introduced an employee incentive plan, “Employee Stock Ownership Plan (ESOP) Trust (“Plan”)” for the purpose of enhancing benefit programs for the employees who will support future growth of the Company as well as increasing employees’ incentive to work and awareness of management participation through granting incentive to raise stock price and improving corporate value for the medium and long-term perspective.

(1) Outline

Under the Plan, the Company will establish a trust (“Trust”) for certain employees who participate in the “Tokyo Ohka Employee Stock Ownership Plan (“Company’s ESOP”)” and meet certain requirements as its beneficiaries. The Trust will acquire the total number of the Company’s shares expected to be acquired by the Company’s ESOP over five years in advance, and subsequently sell these shares to the Company’s ESOP on a certain date of every

month.
Acquisition and sales of the Company's shares are accounted for under the assumption that the Company and the Trust are the same entity.
Accordingly, assets, including the Company's shares owned by the Trust, and liabilities, and profits and loss of the Trust are included in the Company's consolidated balance sheet, consolidated statement of income and consolidated statement of changes in equity.
The plan expired on March 20, 2017, the expiration date of the Trust determined upon implementation of the plan.

(2) Accounting treatments for transactions to issue own shares to employees through trust
The Company continues to account for the Company's ESOP which was established prior to April 1, 2014 under the previous method, pursuant to Article 20 of "Practical Treatment for Transactions to Issue Own Shares to Employees through Trusts" (ASBJ Practical Issue Task Force No.30, March 26, 2015).

(3) The Company's shares held by ESOP trust
Carrying amount of the Company's shares held by Trust is ¥69 million as of March 31, 2017 and was included in treasury stock. Also, the number of the Company's shares held by Trust as of March 31, 2017 was 35 thousand shares.

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the period ended December 31, 2017 and the year ended March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Balance at beginning of period/year	¥ 88	¥ 88	$ 778
Adjustments associated with passage of time	0	1	7
Others	—	(1)	—
Balance at end of period/year	¥ 88	¥ 88	$ 786

12. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. ***Increases/Decreases and Transfer of Common Stock, Reserve and Surplus***
The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. ***Treasury Stock and Treasury Stock Acquisition Rights***
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥32 ($0.28) per share approved at the general shareholders' meeting held on March 29, 2018, aggregating ¥1,346 million ($11,916 thousand) in respect of the year ended December 31, 2017.

13. STOCK OPTIONS

(1) Share-based compensation expenses which were accounted for as cost of sales and selling, general and administrative expenses

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Cost of sales	¥ 8	¥ 15	$ 78
Selling, general and administrative expenses	43	71	387

(2) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of December 31, 2017 were as follows:

Stock option	2017 Stock option	2016 Stock option	2015 Stock option
Category and number of eligible person	1 representative director of the Company 5 directors of the Company 5 executive officers of the Company	1 representative director of the Company 5 directors of the Company 6 executive officers of the Company	1 representative director of the Company 5 directors of the Company 8 executive officers of the Company
Number of options granted	Common stock: 14,500 shares	Common stock: 29,300 shares	Common stock: 21,900 shares
Date of Grant	August 4, 2017	August 4, 2016	August 4, 2015
Service period	Not specified	Not specified	Not specified
Exercise period	From August 5, 2017 to August 4, 2047	From August 5, 2016 to August 4, 2046	From August 5, 2015 to August 4, 2045

Stock option	2014 Stock option	2013 Stock option
Category and number of eligible person	1 representative director of the Company 5 directors of the Company 7 executive officers of the Company	2 representative directors of the Company 4 directors of the Company 7 executive officers of the Company 200 employees of the Company
Number of options granted	Common stock: 31,500 shares	Common stock: 484,000 shares
Date of Grant	August 5, 2014	January 10, 2013
Service period	Not specified	From January 10, 2013 to May 31, 2016
Exercise period	From August 6, 2014 to August 5, 2044	From June 1, 2016 to May 31, 2019

(b) Number and price of stock options

Movement in stock options during the fiscal period ended December 31, 2017 was as follows:

	Number of shares				
	2017	2016	2015	2014	2013
Unvested stock options:					
As of March 31, 2017	—	—	—	—	—
Granted	14,500	—	—	—	—
Forfeited	—	—	—	—	—
Vested	14,500	—	—	—	—
Unvested options as of December 31, 2017	—	—	—	—	—
Vested stock options:					
As of March 31, 2017	—	29,300	19,500	25,800	94,000
Vested	14,500	—	—	—	—
Exercised	—	2,100	1,300	2,000	28,000
Forfeited	—	—	—	—	—
Unexercised options as of December 31, 2017	14,500	27,200	18,200	23,800	66,000
	Yen				
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1,759
Average share price at the time of exercise	¥ —	¥ 2,806	¥ 2,806	¥ 2,806	¥ 2,806
Fair value per share at grant date	¥ 3,363	¥ 2,757	¥ 3,192	¥ 2,292	¥ 417
	U.S. dollars				
Exercise price	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 15.57
Average share price at the time of exercise	$ —	$ 24.83	$ 24.83	$ 24.83	$ 24.83
Fair value per share at grant date	$ 29.76	$ 24.40	$ 28.25	$ 20.28	$ 3.69

(3) Method of estimating the fair value of stock options vested

The fair value price is estimated using the Black-Scholes option pricing model with the following assumptions:

	2017/12
Volatility of stock price	30.716 %
Estimated remaining outstanding period	6.6 years
Estimated dividend per share	¥ 64 ($ 0.57)
Risk-free interest rate	(0.033) %

(4) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of future forfeitures.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% and 30.6% for the period ended December 31, 2017 and the year ended March 31, 2017, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at December 31, 2017 and March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Current:			
Deferred tax assets:			
Accrued bonuses for employees	¥ 523	¥ 504	$ 4,633
Unrealized gains on finished goods	644	468	5,707
Loss on valuation of inventories	235	172	2,087
Other	217	342	1,921
Less valuation allowance	(5)	(5)	(46)
Total	1,616	1,482	14,302
Deferred tax liabilities:			
Other	(370)	(82)	(3,281)
Total	(370)	(82)	(3,281)
Net deferred tax assets (liabilities)	¥ 1,246	¥ 1,400	$ 11,021
Non-current:			
Deferred tax assets:			
Net defined benefit liability and asset	923	1,366	8,172
Tax loss carryforwards	132	140	1,169
Loss on devaluation of investment securities	343	343	3,043
Allowance for doubtful accounts	60	66	539
Loss on impairment of long-lived assets	694	702	6,141
Other	638	1,003	5,649
Less valuation allowance	(771)	(798)	(6,829)
Total	2,021	2,825	17,886
Deferred tax liabilities:			
Reserve for advanced depreciation	(233)	(243)	(2,064)
Unrealized gain on available-for-sale securities	(2,738)	(1,840)	(24,231)
Undistributed earnings of foreign subsidiaries	(1,222)	(1,032)	(10,820)
Accelerated depreciation	(172)	(264)	(1,527)
Other	(41)	(503)	(369)
Total	(4,408)	(3,883)	(39,013)
Net deferred tax assets (liabilities)	¥ (2,387)	¥ (1,057)	$ (21,126)

Note: Net deferred tax assets (liabilities) are included in the following accounts:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Current assets: Deferred tax assets	¥ 1,574	¥ 1,421	$ 13,935
Non-current assets: Deferred tax assets	145	457	1,289
Current liabilities: Deferred tax liabilities	(329)	(21)	(2,912)
Non-current liabilities: Deferred tax liabilities	¥ (2,533)	¥ (1,515)	$ (22,416)

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the period ended December 31, 2017 and the year ended March 31, 2017 were as follows:

	2017/12	2017/3
Normal effective statutory tax rate	30.6%	30.6%
Adjustments:		
Non-taxable dividend income	(3.4)	(3.5)
Different income tax rates applicable to income in certain foreign countries	(3.0)	2.5
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	2.3	3.5
Tax credit for research and development costs	(3.2)	(6.1)
Other—net	2.9	(3.3)
Actual effective tax rate	26.2%	23.7%

At December 31, 2017, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥ 4 million ($ 43 thousand) which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 0	$ 3
2019	4	40
2020	—	—
2021	—	—
2022	—	—
2023 and thereafter	—	—
Total	¥ 4	$ 43

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Selling, general and administrative expenses	¥ 6,808	¥ 8,085	$ 60,249
Cost of sales	112	121	999
Total	¥ 6,921	¥ 8,207	$ 61,249

16. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets. The minimum rental commitments under non-cancelable operating leases at December 31, 2017 and March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Due within one year	¥ 96	¥ 89	$ 849
Due after one year	578	613	5,121
Total	¥ 674	¥ 702	$ 5,971

17. FINANCIAL INSTRUMENTS

(1) ***Group Policy for Financial Instruments***

The Group invests cash surpluses in low risk financial assets. Such surpluses are generated from the Group's own operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) ***Nature and Extent of Risks Arising from Financial Instruments***

Trade receivables such as trade notes and accounts are exposed to customer credit risk. Also, trade receivables denominated in foreign currencies arising from exporting products are exposed to the risk of exchange rate fluctuations.
Securities are negotiable certificate of deposit which is expected to be settled with short term and investment securities, mainly equity instruments of customers and suppliers of the Group are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and accounts, are less than one year. A part of those trade payables is denominated in foreign currencies and exposed to the risk of exchange rate fluctuations.

Derivatives mainly include foreign currency forward contracts and currency option contracts, which are used to manage exposure to market risks from changes in foreign exchange rates of receivables and payables. Please see Note 18 for more detail about derivatives.

(3) ***Risk Management for Financial Instruments***

Credit risk management

The Group manages its credit risk from receivables in accordance with internal guidelines, which include monitoring of payment terms and balances of major customers by the credit administration department to identify the default risk of customers in the early stages. With respect to held-to-maturity securities, the Group manages its exposure to credit risk by limiting its holdings to high credit rating bonds. With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to major and creditworthy international financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of December 31, 2017.

Market risk management (foreign exchange risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is managed monthly by currency, is hedged mainly by foreign currency forward contracts and currency option contracts. In addition, foreign

currency forward contracts may be used at the maximum of expected amounts of foreign currency trade receivables and payables.
Derivative transactions are executed and managed in accordance with "Financial Risk Management Rules."

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

(4) *Fair Values of Financial Instruments*
Fair values of financial instruments are based on quoted price in active markets. When quoted price is not available, other values calculated using reasonable valuation techniques are used. Please see Note 18 for the detail of fair value for derivatives.

(*a*) *Fair value of financial instruments*

	Millions of yen		
December 31, 2017	Carrying amount	Fair value	Unrealized gain/loss
Cash and deposits	¥ 29,961	¥ 29,961	¥ —
Time deposits	16,219	16,219	—
Receivables—Trade notes and accounts	22,554	22,554	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	16,453	16,453	—
Long-term time deposits	18,000	17,999	(0)
Total	¥ 105,189	¥ 105,189	¥ (0)
Payables—Trade notes and accounts	¥ 10,444	¥ 10,444	¥ —
Total	¥ 10,444	¥ 10,444	¥ —
Derivative transactions	¥ (979)	¥ (979)	¥ —

March 31, 2017	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and deposits	¥ 33,907	¥ 33,907	¥ —
Time deposits	15,756	15,756	—
Receivables—Trade notes and accounts	19,893	19,893	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	13,326	13,326	—
Long-term time deposits	18,000	18,000	0
Total	¥ 102,883	¥ 102,884	¥ 0
Payables—Trade notes and accounts	¥ 9,607	¥ 9,607	¥ —
Short-term loans payable	135	135	—
Total	¥ 9,742	¥ 9,742	¥ —
Derivative transactions	¥ (207)	¥ (207)	¥ —

December 31, 2017	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and deposits	$ 265,148	$ 265,148	$ —
Time deposits	143,539	143,539	—
Receivables—Trade notes and accounts	199,599	199,599	—
Securities and Investment securities:			
Held to maturity	17,699	17,699	—
Available-for-sale securities	145,604	145,604	—
Long-term time deposits	159,292	159,290	(1)
Total	$ 930,882	$ 930,881	$ (1)
Payables—Trade notes and accounts	$ 92,426	$ 92,426	$ —
Total	$ 92,426	$ 92,426	$ —
Derivative transactions	$ (8,668)	$ (8,668)	$ —

Cash and deposits, and Time Deposits

The carrying values of cash and deposits, and time deposits approximate fair value because of their short maturities.

Receivables—Trade Notes and Accounts

The carrying values of receivables—trade notes and accounts approximate fair value because of their short maturities.

Securities and Investment Securities
The carrying value of securities, approximate fair value because of their short maturities. the fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 5.

Long-Term Time Deposits
Long-term time deposits are measured at fair value using the discounted cash flow on deposits held at banks. The discounted rate used is the deposit interest rate assuming the same period.

Payables—Trade Notes and Accounts
The carrying values of payables—trade notes and accounts approximate fair value because of their short maturities.

Short-Term Loans Payable
The carrying values of short-term loans payables approximate fair value because of their short maturities.

Derivatives
The information of the fair value for derivatives is included in Note 18.

(*b*) *Financial instruments whose fair value cannot be reliably determined*

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Investments in equity instruments that do not have a quoted market price in an active market	¥1,198	¥999	$10,603

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of yen		
December 31, 2017	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and deposits	¥ 29,961	¥ —	¥ —
Time deposits	16,219	—	—
Receivables—Trade notes and accounts	22,554	—	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	¥ 70,736	¥ 18,000	¥ —

March 31, 2017	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and deposits	¥ 33,907	¥ —	¥ —
Time deposits	15,756	—	—
Receivables—Trade notes and accounts	19,859	34	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	¥ 71,523	¥ 18,034	¥ —

December 31, 2017	Thousands of U.S. dollars		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and deposits	$ 265,148	$ —	$ —
Time deposits	143,539	—	—
Receivables—Trade notes and accounts	199,599		—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	17,699	—	—
Long-term time deposits	—	159,292	—
Total	$ 625,986	$ 159,292	$ —

18. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting is not Applied

	Millions of yen							
	2017/12				2017/3			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:								
Sell:								
KRW	¥ 7,710	¥ 3,000	¥ (979)	¥ (979)	¥ 9,510	¥ 4,800	¥ (207)	¥ (207)
Currency option contracts:								
Written call option:								
US$	33	—	0	0	33	—	(0)	(0)
Purchased put option:								
US$	33	—	0	0	33	—	(0)	(0)
Total	¥ 7,778	¥ 3,000	¥ (979)	¥ (979)	¥ 9,578	¥ 4,800	¥ (207)	¥ (207)

	Thousands of U.S. dollars			
	2017/12			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:				
Sell:				
KRW	$ 68,238	$26,548	$ (8,669)	$ (8,669)
Currency option contracts:				
Written call option:				
US$	300	—	0	0
Purchased put option:				
US$	300	—	0	0
Total	$ 68,838	$26,548	$ (8,668)	$ (8,668)

* The fair value is based on prices provided by financial institutions.

Derivative Transactions to Which Hedge Accounting is Applied

		Millions of yen		
December 31, 2017	Hedged Item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	¥ 3,778	¥ —	*
Selling EUR	Receivables—Trade accounts	258	—	*
Selling NT$	Receivables—Trade accounts	1,189	—	*

		Millions of yen		
March 31, 2017	Hedged Item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	¥ 3,951	¥ —	*
Selling EUR	Receivables—Trade accounts	205	—	*
Selling NT$	Receivables—Trade accounts	1,176	—	*

		Thousands of U.S. dollars		
December 31, 2017	Hedged Item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	$ 33,435	$ —	*
Selling EUR	Receivables—Trade accounts	2,285	—	*
Selling NT$	Receivables—Trade accounts	10,522	—	*

* The fair value of such foreign currency forward contracts is included in that of the hedged items (i.e., receivables—trade accounts).

19. COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the period ended December 31, 2017 and the year ended March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Unrealized gain on available-for-sale securities:			
Recognized during the year	¥ 3,097	¥ 2,827	$ 27,410
Reclassification adjustments	(0)	(265)	(0)
Before tax effects adjustment	3,097	2,561	27,410
Tax effects	(898)	(701)	(7,947)
Unrealized gain on available-for-sale securities	2,199	1,860	19,462
Foreign currency translation adjustments:			
Recognized during the year	1,457	(1,369)	12,900
Reclassification adjustments	—	—	—
Foreign currency translation adjustments	1,457	(1,369)	12,900
Remeasurements of defined benefit plans:			
Recognized during the year	562	25	4,980
Reclassification adjustments	119	138	1,061
Before tax effects adjustment	682	164	6,042
Tax effects	(207)	(50)	(1,836)
Remeasurements of defined benefit plans	475	114	4,205
Share of other comprehensive income in companies accounted for by the equity method:			
Recognized during the year	(19)	(56)	(174)
Total other comprehensive income	¥ 4,112	¥ 549	$ 36,393

20. NET INCOME PER SHARE

Basic net income per share ("EPS") for the period ended December 31, 2017 and the year ended March 31, 2017 was as follows:

	Yen		U.S. dollars
	2017/12	2017/3	2017/12
Basic EPS	¥ 138.31	¥ 146.18	$ 1.22
Diluted EPS	137.91	145.53	1.22

Basis for the calculation of basic and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Profit attributable to owners of the parent	¥ 6,007	¥ 6,343	$ 53,162

	Thousands of shares	
	2017/12	2017/3
Earnings per share:		
Weighted-average number of shares*	43,432	43,394
Diluted earnings per share:		
Increase in number of common stock	125	192
(Of those, new share subscription rights)	(125)	(192)

* Weighted-average shares for the period ended December 31, 2017 and the year ended March 31, 2017 excluded the Company's shares held by the Employee Stock Ownership Plan Trust.

21. SEGMENT INFORMATION

For the Fiscal Period Ended December 31, 2017 and Fiscal Year Ended March 31, 2017

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide resources allocation within the Group and to evaluate performance. Therefore, the Group consists of the Material Business and Equipment Business. The Material Business consists of photoresists and related materials and specialty chemicals. The Equipment Business consists of semiconductor manufacturing equipment and LCD manufacturing equipment.

(2) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about sales, profit (loss), assets and other items was as follows:

	Millions of yen				
	2017/12				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	¥ 90,531	¥ 1,880	¥ 92,411	¥ —	¥ 92,411
Intersegment sales or transfers	1	41	43	(43)	—
Total sales	¥ 90,532	¥ 1,921	¥ 92,454	¥ (43)	¥ 92,411
Segment income (loss)	¥ 12,816	¥ (664)	¥ 12,151	¥ (2,957)	¥ 9,194
Segment assets	106,220	3,026	109,247	69,433	178,681
Other:					
Depreciation	5,833	24	5,858	177	6,035
Increase in property, plant and equipment and intangible assets	6,579	138	6,718	135	6,853

Note: Reconciliations to

—Segment income (loss) amounting to ¥(2,957) million ($(26,173) thousand) includes common costs of ¥(2,957) million ($(26,173) thousand), which are not allocated to reportable segments.

—Segment assets amounting to ¥69,433 million ($614,459 thousand) include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥62,415 million ($552,348 thousand), which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥135 million ($1,200 thousand) is related to common assets.

	Millions of yen				
	2017/3				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	¥ 86,558	¥ 2,205	¥ 88,764	¥ —	¥ 88,764
Intersegment sales or transfers	0	46	46	(46)	—
Total sales	¥ 86,558	¥ 2,252	¥ 88,811	¥ (46)	¥ 88,764
Segment income (loss)	¥ 14,470	¥ (750)	¥ 13,719	¥ (3,764)	¥ 9,954
Segment assets	97,542	3,296	100,838	73,654	174,492
Other:					
Depreciation	5,831	45	5,877	240	6,118
Increase in property, plant and equipment and intangible assets	8,741	641	9,382	212	9,595

Note: Reconciliations to

—Segment income (loss) amounting to ¥(3,764) million includes common costs of ¥(3,764) million, which are not allocated to reportable segments.

—Segment assets amounting to ¥73,654 million include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥65,649 million, which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥212 million is related to common assets.

	Thousands of U.S. dollars				
	2017/12				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	$ 801,159	$ 16,642	$ 817,801	$ —	$ 817,801
Intersegment sales or transfers	17	365	383	(383)	—
Total sales	$ 801,176	$ 17,007	$ 818,184	$ (383)	$ 817,801
Segment income (loss)	$ 113,416	$ (5,878)	$ 107,538	$ (26,173)	$ 81,364
Segment assets	940,007	26,782	966,790	614,459	1,581,250
Other:					
Depreciation	51,627	214	51,842	1,568	53,411
Increase in property, plant and equipment and intangible assets	58,226	1,227	59,454	1,200	60,654

Related Information

For the Fiscal Period Ended December 31, 2017 and the Fiscal Year Ended March 31, 2017

(1) *Information about geographical areas*

(a) Sales

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Japan	¥ 19,319	¥ 22,933	$ 170,970
Taiwan	40,469	34,331	358,136
Korea	11,229	9,830	99,374
U.S.A.	9,591	9,664	84,882
Other areas	11,801	12,004	104,437
Total	¥ 92,411	¥ 88,764	$ 817,801

Note: Sales are classified in countries or regions based on location of customers.

(b) Property, Plant and Equipment

	Millions of yen		Thousands of U.S. dollars
	2017/12	2017/3	2017/12
Japan	¥ 29,006	¥ 27,685	$ 256,695
Taiwan	7,933	7,111	70,209
Korea	11,525	11,997	101,997
U.S.A.	2,949	2,770	26,100
Other areas	288	101	2,552
Total	¥ 51,703	¥ 49,666	$ 457,556

(2) *Information about major customers*

		Sales amount		
Name of customers	Relevant segment	Millions of yen		Thousands of U.S. dollars
		2017/12	2017/3	2017/12
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business	¥ 23,263	¥ 18,109	$ 205,870

Related party transactions

For the Fiscal Year Ended March 31, 2017

(1) *Directors and corporate auditors and principal shareholders*

					Millions of yen		
Type	Name	Ratio of voting rights held (%)	Relationship	Transaction	Transaction amount (Thousands of shares)	Account	Balance
Director	Ikuo Akutsu	(Held) Direct 0.03	Representative Director President of CEO	Exercise of stock options (Note)	¥21 (12)	—	—
Director	Harutoshi Sato	(Held) Direct 0.02	Director	Exercise of stock options	11 (6)	—	—

Note: Stock acquisition rights were approved at the board of directors held on December 3, 2012 based on the resolution at the ordinary general meeting of shareholders held on June 27, 2012.

CAUTIONARY STATEMENT

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.