Consolidated Financial Statements

for the Year Ended March 31, 2017 and Independent Auditor's Report

EIZO Corporation and Subsidiaries

EIZO Corporation

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of EIZO Corporation:

We have audited the accompanying consolidated balance sheet of EIZO Corporation and its subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EIZO Corporation and its subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 22, 2017

Member of
Deloitte Touche Tohmatsu Limited

EIZO Corporation and Subsidiaries

Consolidated Balance Sheet
March 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 24,794	¥ 20,221	$ 221,375
Short-term investments (Notes 4 and 13)	310	796	2,768
Notes and accounts receivable (Note 13):			
Trade notes	214	124	1,911
Trade accounts	16,759	17,014	149,634
Other	420	497	3,750
Allowance for doubtful receivables	(139)	(125)	(1,241)
Inventories (Note 5)	24,415	23,912	217,991
Deferred tax assets (Note 9)	1,861	1,792	16,616
Prepaid expenses and other current assets	700	541	6,250
Total current assets	69,334	64,772	619,054
PROPERTY, PLANT, AND EQUIPMENT:			
Land	2,964	2,824	26,464
Buildings and structures	14,914	14,312	133,161
Machinery and equipment	4,715	4,122	42,098
Furniture and fixtures	6,303	5,931	56,277
Construction in progress	75	29	670
Total	28,971	27,218	258,670
Accumulated depreciation	(17,199)	(16,216)	(153,563)
Net property, plant, and equipment	11,772	11,002	105,107
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 13)	31,558	26,528	281,768
Goodwill	423	313	3,777
Deferred tax assets (Note 9)	226	237	2,018
Other assets	1,847	1,940	16,490
Total investments and other assets	34,054	29,018	304,053
TOTAL	¥115,160	¥104,792	$1,028,214

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 13)	¥ 1,797	¥ 1,912	$ 16,045
Accounts payable (Note 13):			
Trade accounts	7,695	5,995	68,705
Other	1,811	2,948	16,170
Income taxes payable	1,051	831	9,384
Accrued expenses	4,396	4,165	39,250
Other current liabilities	2,515	1,631	22,455
Total current liabilities	19,265	17,482	172,009
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 7)	3,171	3,090	28,313
Deferred tax liabilities (Note 9)	6,224	4,932	55,571
Other long-term liabilities	1,219	1,276	10,883
Total long-term liabilities	10,614	9,298	94,767
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Notes 8 and 16):			
Common stock—authorized, 65,000,000 shares; issued, 22,731,160 shares in 2017 and 2016	4,426	4,426	39,518
Capital surplus	4,314	4,314	38,518
Retained earnings	62,954	58,891	562,089
Treasury stock—at cost, 1,410,460 shares in 2017 and 1,410,426 shares in 2016	(2,662)	(2,662)	(23,768)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	17,039	13,503	152,134
Foreign currency translation adjustments	(505)	(126)	(4,508)
Defined retirement benefit plans	(285)	(334)	(2,545)
Total equity	85,281	78,012	761,438
TOTAL	¥115,160	¥104,792	$1,028,214

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥78,284	¥74,879	$698,964
COST OF SALES	53,921	52,884	481,437
Gross profit	24,363	21,995	217,527
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 11)	17,330	16,914	154,732
Operating income	7,033	5,081	62,795
OTHER INCOME (EXPENSES):			
Interest and dividend income	497	465	4,438
Interest expense	(1)	(2)	(9)
Foreign exchange loss—net	(482)	(264)	(4,304)
Gain on sales of securities (Note 4)	11	432	98
Loss on impairment of long-lived assets		(59)	
Other—net	48	(14)	428
Other income—net	73	558	651
INCOME BEFORE INCOME TAXES	7,106	5,639	63,446
INCOME TAXES (Note 9):			
Current	1,518	1,426	13,554
Deferred	(73)	11	(653)
Total income taxes	1,445	1,437	12,901
NET INCOME	5,661	4,202	50,545
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 5,661	¥ 4,202	$ 50,545

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥265.54	¥197.10	$2.37
Cash dividends applicable to the year	75.00	65.00	0.67

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥5,661	¥4,202	$50,545
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):			
Unrealized gain (loss) on available-for-sale securities	3,536	(3,855)	31,571
Foreign currency translation adjustments	(379)	(374)	(3,383)
Defined retirement benefit plans	49	132	438
Total other comprehensive income (loss)	3,206	(4,097)	28,626
COMPREHENSIVE INCOME	¥8,867	¥ 105	$79,171
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥8,867	¥105	$79,171

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2017

	Thousands	Millions of Yen							
						Accumulated Other Comprehensive Income			
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2015	21,321	¥4,426	¥4,314	¥56,075	¥(2,661)	¥17,358	¥ 248	¥(466)	¥79,294
Net income				4,202					4,202
Cash dividends, ¥65 per share				(1,386)					(1,386)
Purchase of treasury stock					(1)				(1)
Net decrease in unrealized gain on available-for-sale securities						(3,855)			(3,855)
Net change in foreign currency translation adjustments							(374)		(374)
Net change in defined retirement benefit plans								132	132
BALANCE, MARCH 31, 2016	21,321	4,426	4,314	58,891	(2,662)	13,503	(126)	(334)	78,012
Net income				5,661					5,661
Cash dividends, ¥75 per share				(1,598)					(1,598)
Purchase of treasury stock									
Net increase in unrealized gain on available-for-sale securities						3,536			3,536
Net change in foreign currency translation adjustments							(379)		(379)
Net change in defined retirement benefit plans								49	49
BALANCE, MARCH 31, 2017	21,321	¥4,426	¥4,314	¥62,954	¥(2,662)	¥17,039	¥(505)	¥(285)	¥85,281

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2016	$39,518	$38,518	$525,813	$(23,768)	$120,563	$(1,125)	$(2,983)	$696,536
Net income			50,545					50,545
Cash dividends, $0.67 per share			(14,269)					(14,269)
Purchase of treasury stock								
Net increase in unrealized gain on available-for-sale securities					31,571			31,571
Net change in foreign currency translation adjustments						(3,383)		(3,383)
Net change in defined retirement benefit plans							438	438
BALANCE, MARCH 31, 2017	$39,518	$38,518	$562,089	$(23,768)	$152,134	$(4,508)	$(2,545)	$761,438

See notes to consolidated financial statements.

EIZO Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 7,106	¥5,639	$63,446
Adjustments for:			
Income taxes—paid	(1,341)	(1,263)	(11,973)
Depreciation and amortization	2,094	1,843	18,696
Amortization of goodwill	274	205	2,446
Provision of allowance for doubtful receivables	16	(30)	143
Foreign exchange loss—net	129	94	1,152
Gain on sales of securities	(11)	(432)	(98)
Loss on impairment of long-lived assets		59	
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	11	346	98
(Increase) decrease in inventories	(732)	782	(6,536)
Increase (decrease) in accounts payable	1,788	(304)	15,964
Increase in accrued expenses	279	273	2,491
Increase in liability for retirement benefits	143	146	1,277
Other—net	778	(585)	6,948
Total adjustments	3,428	1,134	30,608
Net cash provided by operating activities	10,534	6,773	94,054
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(3,028)	(2,733)	(27,036)
Purchases of software and other long-lived assets	(367)	(465)	(3,277)
Proceeds from sales of short-term investments and investment securities	512	2,244	4,571
Purchases of short-term investments and investment securities	(34)	(1,959)	(304)
Payment for acquisition of business	(1,251)		(11,170)
Decrease (increase) in other assets	10	(120)	91
Net cash used in investing activities	(4,158)	(3,033)	(37,125)
FINANCING ACTIVITIES:			
Purchase of treasury stock		(1)	
Dividends paid	(1,599)	(1,385)	(14,277)
Net cash used in financing activities	(1,599)	(1,386)	(14,277)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	(204)	(156)	(1,822)
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 4,573	¥2,198	$40,830

(Continued)

EIZO Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCREASE IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 4,573	¥ 2,198	$ 40,830
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,221	18,023	180,545
CASH AND CASH EQUIVALENTS, END OF YEAR	¥24,794	¥20,221	$221,375

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF 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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the 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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which EIZO Corporation (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 ¥112 to $1, the approximate rate of exchange at March 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation—***The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 16 (16 in 2016) subsidiaries (together, the "Group").

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

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 also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—***Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development ("R&D"); and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

c. ***Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

During the year ended March 31, 2017, the Company has acquired the endoscopy monitor business from Panasonic Healthcare Holdings Co., Ltd. For further information, please refer to Note 3.

d. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, and commercial paper, all of which mature or become due within three months of the date of acquisition.

e. ***Inventories***—Inventories are stated at the lower of cost, determined by the average method for finished products and work in process and by the moving-average method for raw materials, or net selling value.

f. ***Short-Term Investments and Investment Securities***—Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; and (2) available-for-sale securities, which are not classified as either trading securities or held to maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable 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.

g. ***Property, Plant, and Equipment***—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its domestic subsidiaries acquired after April 1, 1998, buildings improvements and structures acquired on or after April 1, 2016, and all property, plant, and equipment of foreign subsidiaries. The range of useful lives is principally from 15 to 50 years for buildings and structures, from 7 to 10 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

Pursuant to an amendment to the Corporate Tax Act, the Company and its Japanese subsidiaries adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect of this change is immaterial on profit and loss for the year ended March 31, 2017.

h. ***Goodwill***—Goodwill is amortized over 10 years or less by the straight-line method. Immaterial goodwill may be charged entirely to income at acquisition. Amortization of goodwill is ¥274 million ($2,446 thousand) and ¥205 million for the years ended March 31, 2017 and 2016, respectively.

i. ***Long-Lived Assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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.

j. ***Retirement and Pension Plans***—The Company and certain of its domestic subsidiaries have a defined contribution pension plan and unfunded retirement benefit plans. Other domestic subsidiaries have a defined benefit pension plan and unfunded retirement benefit plans. Certain foreign subsidiaries have either a defined contribution plan or defined benefit plan. Additionally, the Company or its subsidiaries may add premium severance pay.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over five years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

Retirement benefits to directors and Audit & Supervisory Board members are recorded at the amount that would be required if the directors and Audit & Supervisory Board members retired at the consolidated balance sheet date. In June 2004, the retirement benefit system was abolished and the amount required to be paid at the time of the abolishment will be paid to directors and Audit & Supervisory Board members upon their retirement.

k. ***R&D Costs***—R&D costs are charged to income as incurred.

l. ***Software Development Contracts***—Revenue from sales of customized software and costs of development of the customized software should be recognized by the percentage-of-completion method if the outcome of a development contract can be estimated reliably. When total revenue, total costs, and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of a development contract can be estimated reliably. If the outcome of a development contract cannot be reliably estimated, the completed contract method should be applied. When it is probable that the total costs will exceed total revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on development contracts.

m. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement 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.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

The Group files a tax return under the consolidated corporate tax system in Japan, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

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

o. ***Foreign Currency Financial Statements***—The balance sheet accounts of the 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.

Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of foreign subsidiaries are translated into Japanese yen at the average exchange rate.

p. ***Derivatives***—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: all derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income.

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

Cash dividends per share shown in the consolidated statement of income are presented on an accrual basis, and include interim dividends paid and year-end dividends to be approved after the consolidated balance sheet date.

Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the years ended March 31, 2017 and 2016.

3. BUSINESS COMBINATION

Year Ended March 31, 2017

(Business Combination by Acquisition)

a. Outline of the business combination

(1) Name of the acquired company and its business outline

Name of the acquired company:	Panasonic Healthcare Holdings Co., Ltd.
Business outline:	Operating room and endoscopy monitor business

(2) Major reasons for the business combination

Panasonic Healthcare Holdings Co., Ltd. has been developing its endoscopy monitor business. The Company has built strong partnerships globally with manufacturers of endoscopy monitors and other medical equipment and its products are in wide use in operating rooms around the world.

By this acquisition, the Company can provide a complete lineup of endoscopy monitors, including 3D and 4K monitors. In addition, integrating the technologies of the Company and the acquired business gives the Company a significant competitive advantage in product development for accelerating the growth of its healthcare business.

(3) Date of business combination

July 31, 2016

(4) Legal form of business combination

Acquisition of business

b. The period for which the operations of the acquired company are included in the consolidated financial statements

The operations of the acquired business for the eight months from July 31, 2016 to March 31, 2017, were included in the consolidated statement of income for the year ended March 31, 2017.

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥1,251	$11,170
Acquisition cost	¥1,251	$11,170

d. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred

¥404 million ($3,607 thousand)

(2) Reasons for the goodwill incurred

Goodwill is incurred from expected excess earnings power in the future arising from further business development.

(3) Method and period of amortization

The goodwill incurred from this acquisition is amortized on a straight-line basis over three years.

e. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 405	$ 3,616
Noncurrent assets	931	8,313
Total assets acquired	1,336	11,929
Current liabilities	8	71
Noncurrent liabilities	77	688
Total liabilities assumed	85	759
Net assets acquired	¥1,251	$11,170

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Short-term investments—			
Trust fund investments	¥ 310	¥ 796	$ 2,768
Total	¥ 310	¥ 796	$ 2,768
Investment securities:			
Marketable equity securities	¥31,406	¥26,483	$280,411
Nonmarketable equity securities	149	41	1,330
Others	3	4	27
Total	¥31,558	¥26,528	$281,768

The cost and aggregate fair value of short-term investments and investment securities at March 31, 2017 and 2016, were as follows:

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 310
Available for sale:				
Equity securities	¥7,044	¥24,362		¥31,406
Others	3			3
Total	¥7,047	¥24,362		¥31,409
March 31, 2016				
Securities classified as:				
Trading				¥ 796
Available for sale:				
Equity securities	¥7,149	¥20,092	¥758	¥26,483
Others	3	1		4
Total	¥7,152	¥20,093	¥758	¥26,487

	Thousands of U.S. Dollars			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				$ 2,768
Available for sale:				
Equity securities	$62,893	$217,518		$280,411
Others	27			27
Total	$62,920	$217,518		$280,438

5. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Finished products	¥10,284	¥ 8,803	$ 91,821
Work in process	4,501	5,112	40,188
Raw materials and supplies	9,630	9,997	85,982
Total	¥24,415	¥23,912	$217,991

6. SHORT-TERM BANK LOANS

Short-term bank loans at March 31, 2017 and 2016, consisted of notes to banks. The weighted-average annual interest rate applicable to the short-term bank loans was 0.07% and 0.07% at March 31, 2017 and 2016, respectively.

7. RETIREMENT AND PENSION PLANS

The Company and certain of its subsidiaries have severance payment plans for employees, directors, and Audit & Supervisory Board members.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are given in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from the Company, certain subsidiaries, or a trustee. Employees of the Company or certain subsidiaries are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥3,937	¥3,945	$35,152
Current service cost	229	203	2,045
Interest cost	18	22	161
Actuarial losses (gains)	68	(36)	607
Benefits paid	(178)	(168)	(1,589)
Others	(80)	(29)	(715)
Balance at end of year	¥3,994	¥3,937	$35,661

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥949	¥961	$8,473
Expected return on plan assets	27	24	241
Actuarial gains (losses)	4	(43)	36
Contributions from the employer	43	49	384
Benefits paid	(78)	(39)	(696)
Others	(21)	(3)	(188)
Balance at end of year	¥924	¥949	$8,250

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥1,701	¥1,720	$15,188
Plan assets	(924)	(949)	(8,250)
Total	777	771	6,938
Unfunded defined benefit obligation	2,292	2,218	20,464
Net liability for defined benefit obligation	¥3,069	¥2,989	$27,402

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥3,069	¥2,989	$27,402
Net liability for defined benefit obligation	¥3,069	¥2,989	$27,402

(4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥229	¥203	$2,045
Interest cost	18	22	161
Expected return on plan assets	(27)	(24)	(241)
Recognized actuarial losses	115	136	1,027
Others	42	61	374
Net periodic benefit costs	¥377	¥398	$3,366

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Actuarial gains	¥(35)	¥(127)	$(313)
Total	¥(35)	¥(127)	$(313)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized actuarial losses	¥328	¥362	$2,929
Total	¥328	¥362	$2,929

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Debt investments	52%	53%
Equity investments	15	16
Cash and cash equivalents	4	2
Others	29	29
Total	100%	100%

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2017 and 2016, are set forth as follows:

	2017	2016
Discount rate	0.2%–1.6%	0.1%–1.6%
Expected rate of return on plan assets	5.3%	4.5%

The expected raise rate is based on the index of the raise calculated by age as of March 31, 2013.

(9) Defined contribution plan

The required contribution amounts of the Group for the years ended March 31, 2017 and 2016, were ¥221 million ($1,973 thousand) and ¥215 million, respectively.

The liability for retirement benefits at March 31, 2017 and 2016, for directors and Audit & Supervisory Board members was ¥102 million ($911 thousand) and ¥102 million, respectively.

8. 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. Additionally, for companies that meet certain criteria, including (1) having a board of directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the board of directors of companies with an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by their nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 23, 2016. The Company meets all the above criteria, and accordingly, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations 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 aggregate amount of the 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 within equity 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 a 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.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.7% and 32.8% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Inventories	¥ 772	¥ 775	$ 6,893
Liability for retirement benefits	810	719	7,232
Tax loss carryforwards	1,067	1,309	9,527
Accrued expenses	798	744	7,125
Other	1,713	1,560	15,295
Less valuation allowance	(1,895)	(2,166)	(16,920)
Total	3,265	2,941	29,152
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(7,324)	(5,833)	(65,393)
Other	(113)	(52)	(1,009)
Total	(7,437)	(5,885)	(66,402)
Net deferred tax liabilities	¥(4,172)	¥(2,944)	$(37,250)

Deferred tax assets and liabilities were included in the consolidated balance sheet as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current assets—deferred tax assets	¥ 1,861	¥ 1,792	$ 16,616
Investments and other assets—deferred tax assets	226	237	2,018
Current liabilities—other current liabilities	(35)	(41)	(313)
Long-term liabilities—deferred tax liabilities	(6,224)	(4,932)	(55,571)
Net deferred tax liabilities	¥(4,172)	¥(2,944)	$(37,250)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.7%	32.8%
Tax credit for research expenses	(5.4)	(4.1)
Tax credit for investments	(1.9)	(0.3)
Decrease in valuation	(2.2)	(5.0)
Effect of reduction of income tax rates on deferred tax assets		2.5
Other—net	(0.9)	(0.4)
Actual effective tax rate	20.3%	25.5%

At March 31, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥4,746 million ($42,375 thousand) that are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 15	$ 134
2019	54	482
2020 and thereafter	4,677	41,759
Total	¥4,746	$42,375

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2017 and 2016, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Salaries for employees	¥5,288	¥5,382	$47,214
Provision for bonuses	372	321	3,321
Retirement benefit expenses	303	293	2,705
Provision for product warranty liabilities	401	436	3,580
R&D expenses	5,330	4,962	47,589
Provision for loss on recycling of monitors	(93)	(70)	(830)
Provision of allowance for doubtful accounts	43	(7)	384

11. R&D COSTS

R&D costs charged to income were ¥5,625 million ($50,223 thousand) and ¥5,387 million for the years ended March 31, 2017 and 2016, respectively.

12. LEASES

The minimum rental commitments under noncancelable operating leases at March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥250	¥238	$2,232
Due after one year	488	350	4,357
Total	¥738	¥588	$6,589

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments based on its capital expenditure plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are not used, 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*

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Short-term investment and investment securities, mainly equity instruments of customers and suppliers of the Group, debt securities and funds in trust are exposed to credit risk and the risk of fluctuation in market price and interest rate.

All payment terms of payables, such as trade accounts, are within one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency, as noted above.

Short-term bank loans are used to hedge the exchange risk for nontrade receivables denominated in foreign currency. The payment term is within three months after the consolidated balance sheet date. The loans are traded in foreign currency and have variable interest rates. Thus, they are exposed to the market risk of fluctuation in exchange rate and interest rates.

Derivatives mainly include forward foreign currency contracts that are used to manage exposure to risk of changes in foreign currency exchange rates of receivables and payables. Please see Note 14 for more details about derivatives.

(3) *Risk Management for Financial Instruments*

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to debt securities, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with in its internal guidelines. Please see Note 14 for information about derivatives.

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

Market risk management (foreign exchange rate risk and interest rate risk)

Foreign currency trade receivables, payables and short-term bank loans are exposed to fluctuations in foreign currency exchange rates. Such foreign exchange rate risk is hedged occasionally by forward foreign currency contracts.

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

The basic policies regarding derivative transactions have been approved by the Chief Financial Officer based on internal guidelines that prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transactions and balances with customers is made and the transaction data is reported to the Chief Financial Officer on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with adequate financial planning by the corporate treasury department.

(4) *Concentration of Credit Risk*

As of March 31, 2017, 13.3% of total receivables are from specific major customers of the Group.

(5) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead.

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

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥24,794	¥24,794	
Notes and accounts receivable	17,393		
Allowance for doubtful receivables	(139)		
Notes and accounts receivable (net)	17,254	17,254	
Short-term investments and investment securities	31,718	31,718	
Total	¥73,766	¥73,766	
Accounts payable	¥ 9,506	¥ 9,506	
Short-term bank loans	1,797	1,797	
Total	¥11,303	¥11,303	
Derivatives	¥ 18	¥ 18	
March 31, 2016			
Cash and cash equivalents	¥20,221	¥20,221	
Notes and accounts receivable	17,635		
Allowance for doubtful receivables	(125)		
Notes and accounts receivable (net)	17,510	17,510	
Short-term investments and investment securities	27,283	27,283	
Total	¥65,014	¥65,014	
Accounts payable	¥ 8,943	¥ 8,943	
Short-term bank loans	1,912	1,912	
Total	¥10,855	¥10,855	
Derivatives	¥ 4	¥ 4	

March 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$221,375	$221,375	
Notes and accounts receivable	155,295		
Allowance for doubtful receivables	(1,241)		
Notes and accounts receivable (net)	154,054	154,054	
Short-term investments and investment securities	283,196	283,196	
Total	$658,625	$658,625	
Accounts payable	$ 84,875	$ 84,875	
Short-term bank loans	16,045	16,045	
Total	$100,920	$100,920	
Derivatives	$ 161	$ 161	

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Notes and Accounts Receivable

The carrying values of notes and accounts receivables approximate fair value because of their short-term settlement periods. The allowance for doubtful receivables is deducted from notes and accounts receivable.

Short-Term Investments and Investment Securities

The fair values of short-term investments and investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. Fair value information for the short-term investments and investment securities by classification is included in Note 4.

Accounts Payable and Short-Term Bank Loans

The carrying values of accounts payable and short-term bank loans approximate fair value because of their short-term settlement periods.

Derivatives

Fair value information for derivatives is included in Note 14.

(*b*) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥149	¥41	$1,330

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

	Millions of Yen			
March 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥24,791			
Receivables	17,393			
Total	¥42,184			
March 31, 2016				
Cash and cash equivalents	¥20,218			
Receivables	17,635			
Total	¥37,853			

	Thousands of U.S. Dollars			
March 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$221,348			
Receivables	155,295			
Total	$376,643			

14. DERIVATIVES

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

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's 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 that regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

Derivative transactions to which hedge accounting is not applied at March 31, 2017 and 2016, were as follows:

	Millions of Yen			
March 31, 2017	Contract Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—				
Selling Euro	¥1,491		¥18	¥18
March 31, 2016				
Foreign currency forward contracts:				
Selling Euro	¥438		¥10	¥10
Buying U.S. dollar	175		(6)	(6)

	Thousands of U.S. Dollars			
March 31, 2017	Contract Amount	Contract Amount Due after 1 Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—				
Selling Euro	$13,313		$161	$161

The fair value of derivative transactions is measured at the quoted price obtained from financial institutions.

15. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income and loss for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥5,027	¥(5,470)	$44,884
Reclassification adjustments to profit or loss		(432)	
Amount before income tax effect	5,027	(5,902)	44,884
Income tax effect	(1,491)	2,047	(13,313)
Total	¥3,536	¥(3,855)	$31,571
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (379)	¥ (374)	$ (3,383)
Amount before income tax effect	(379)	(374)	(3,383)
Total	¥ (379)	¥ (374)	$ (3,383)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (107)	¥ (5)	$ (955)
Reclassification adjustments to profit or loss	142	132	1,268
Amount before income tax effect	35	127	313
Income tax effect	14	5	125
Total	¥ 49	¥ 132	$ 438
Total other comprehensive income (loss)	¥3,206	¥(4,097)	$28,626

16. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2017, was approved at the board of directors' meeting held on May 18, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40 ($0.4) per share	¥853	$7,616

17. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) ***Description of Reportable Segments***

The Group is primarily engaged in the manufacture, development, and sale of visual display systems and related products. The Group consists of this single industry, and therefore, it is not required to disclose separate financial information by segment.

(2) ***Information about Products and Services***

	Millions of Yen			
	2017			
	Visual Display Systems	Amusement Monitors	Other	Total
Sales to external customers	¥55,348	¥18,409	¥4,527	¥78,284

	Millions of Yen			
	2016			
	Visual Display Systems	Amusement Monitors	Other	Total
Sales to external customers	¥54,626	¥15,279	¥4,974	¥74,879

	Thousands of U.S. Dollars			
	2017			
	Visual Display Systems	Amusement Monitors	Other	Total
Sales to external customers	$494,179	$164,366	$40,419	$698,964

(3) ***Information about Geographical Areas***

(*a*) *Sales*

Millions of Yen				
2017				
Japan	Europe	North America	Other	Total
¥44,123	¥25,699	¥5,322	¥3,140	¥78,284

Millions of Yen				
2016				
Japan	Europe	North America	Other	Total
¥40,457	¥25,929	¥5,116	¥3,377	¥74,879

Thousands of U.S. Dollars				
2017				
Japan	Europe	North America	Other	Total
$393,955	$229,455	$47,518	$28,036	$698,964

Note: Sales are classified by country or region based on the location of customers.

(*b*) *Property, plant, and equipment*

The amount of property, plant, and equipment located in Japan exceeds 90% of the amount of property, plant, and equipment in the consolidated balance sheet, and thus, there is no requirement to disclose such geographic information.

(4) *Information about Major Customers*

	Millions of Yen
	2017
Name of Customers	Sales
JT Japan Technicals	¥21,841

	Millions of Yen
	2016
Name of Customers	Sales
JT Japan Technicals	¥18,960

	Thousands of U.S. Dollars
	2017
Name of Customers	Sales
JT Japan Technicals	$195,009

* * * * * *