



FUJI
innovative spirit

2017

ANNUAL REPORT

Fiscal year ended March 31, 2017

| **Financial Summary** |

FUJI MACHINE MFG. CO., LTD.

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Five-Year Summary

FUJI MACHINE MFG. CO., LTD and Consolidated Subsidiaries

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note)
	2013	2014	2015	2016	2017	2017
For the Year						
Orders	¥ 62,783	¥ 68,269	¥ 92,019	¥ 82,651	¥ 94,024	\$ 839,500
Net sales	64,349	65,566	85,266	86,642	86,397	771,402
Domestic	8,467	7,769	9,903	15,337	11,877	106,045
Overseas	55,882	57,797	75,363	71,305	74,520	665,357
Operating income	3,914	3,028	12,067	11,902	9,794	87,446
Income before income taxes	4,133	3,720	12,797	11,012	9,948	88,821
Net income attributable to owners of the parent	2,699	2,593	8,629	7,237	7,055	62,991
Capital expenditures	7,253	6,937	4,917	5,641	6,175	55,134
Depreciation	3,922	5,002	5,352	4,934	5,158	46,054
Research and development expenses	7,884	6,334	7,491	6,613	6,789	60,616
Cash flows from operating activities	7,331	13,770	9,477	8,086	17,380	155,179
Cash flows from investing activities	(7,372)	(7,885)	(5,463)	(6,308)	(10,160)	(90,714)
Free cash flows	(41)	5,885	4,014	1,778	7,220	64,465
Cash flows from financing activities	(4,116)	(4,393)	(2,005)	4,273	(10,916)	(97,464)
At Year-End						
Total assets	¥ 131,090	¥ 135,942	¥ 153,890	¥ 156,958	¥ 158,407	\$ 1,414,348
Net assets	115,739	120,794	135,044	132,069	130,948	1,169,178
Cash and cash equivalents at end of year	47,877	50,659	54,207	59,357	55,359	494,277
Number of employees (Persons)	2,013	2,027	2,104	2,108	2,117	
Per Share Data (yen and U.S. dollars)						
Net income						
— Basic	¥ 27.60	¥ 26.52	¥ 88.27	¥ 74.13	¥ 76.19	\$ 0.68
— Diluted	-	-	-	74.03	70.90	0.63
Net assets	1,183.90	1,235.64	1,379.19	1,372.18	1,461.63	13.05
Cash dividends	13.75	16.00	28.00	28.00	30.00	0.27
Ratios (%)						
Overseas sales ratio	86.8	88.2	88.4	82.3	86.3	
Operating income ratio	6.1	4.6	14.2	13.7	11.3	
R&D expense ratio to net sales	12.3	9.7	8.8	7.6	7.9	
Return on assets	2.0	1.9	6.0	4.7	4.5	
Return on equity	2.4	2.2	6.8	5.4	5.4	
Equity ratio	87.9	88.9	87.6	84.0	82.5	

Note: U.S. dollar amounts are converted from Japanese yen, for convenience only, at the rate of ¥112 to U.S.\$1.00.

Analysis of Operating Results

Overview

In the fiscal year ended March 31, 2017, while the Japanese economy saw the business environment recover moderately, companies continued a cautious stance toward capital investment. In terms of the global economy, the European economy continued a moderate recovery and there were signs of recovery in the manufacturing industry in North America against the backdrop of improved corporate earnings. In China, capital investment showed signs of improvement as well after the continuing manufacturing industry slowdown.

In this environment, under the slogan of “Excite and Inspire,” the Company and its subsidiaries (hereinafter referred to as the “Group”) have taken on the challenge of reforming, and have undertaken efforts to develop highly original products as one of the world’s leading robot manufacturers, while striving to promote swift management and to provide the market with products that are highly cost competitive in a timely manner. We have also worked to improve customer satisfaction by strengthening the domestic and overseas sales and service systems, through cooperation among the Group companies and expansion of the dealer network, and by promoting solution-based sales approaches. At the same time, we have sought to improve profitability through efforts to pursue exhaustive QCD (quality, cost, and delivery) by strengthening supply chains and through production reforms.

Starting from the fiscal year ended March 31, 2017, the reportable segment formerly known as “Electronics Assembly Equipment” has been changed to “Robotic Solutions.” This change is in name only, and does not have any impact on segment information.

Net sales

Net sales for the fiscal year ended March 31, 2017, decreased by ¥245 million (0.3%) from the previous fiscal year, to ¥86,397 million, due to decreased sales in the Machine Tools segment despite higher sales in the Robotic Solutions segment.

Overseas sales increased by ¥3,215 million (4.5%) from the previous fiscal year, to ¥74,520 million, due to strong demand in the markets of automotive equipment and computer equipment including servers thanks to the spread of IoT, as well as sales expansion in the major market of China. Furthermore, the percentage of overseas sales to total net sales was 86.3% (China: 45.1%, United States: 12.5%, Other Asian countries: 12.0%, Europe: 11.4%, Others: 5.3%), representing an increase of 4.0 percentage points from the previous fiscal year. Meanwhile, domestic sales decreased by ¥3,460 million (22.6%) from the previous fiscal year, to ¥11,877 million, due to factors including sluggish demand in automotive-related machine tools, the Company’s focus market.

Operating income

Operating income decreased by ¥2,108 million (17.7%) from the previous fiscal year, to ¥9,794 million, due mainly to the effects of falling sales prices as a result of fierce price competition and yen appreciation, and an increase in fixed costs, despite an increase in the number of units sold and efforts to reduce costs through cost cutting and increasing efficiency.

Net income attributable to owners of the parent

In terms of other income (expenses), income (net) of ¥154 million was reported, due mainly to the absence of the impact of impairment loss on fixed assets associated with the consolidated subsidiary, Kunshan Fuji Machine Mfg. Co., Ltd., which was recorded in the previous fiscal year, a decrease in foreign exchange loss, and an increase in dividend income, which, in turn, resulted in income before income taxes of ¥9,948 million, a slighter drop of ¥1,064 million (9.7%) compared with the decrease recorded in the previous fiscal year.

Net income attributable to owners of the parent decreased by ¥182 million (2.5%) from the previous fiscal year, to ¥7,055 million.

In addition to the results above, the average number of shares during the period decreased due to an increase in treasury stock, and net income per share increased by ¥2.06, to ¥76.19, from the ¥74.13 recorded in the previous fiscal year.

Business Results by Segment

Robotic Solutions

In the Robotic Solutions business, net sales increased by ¥3,318 million (4.7%) from the previous fiscal year to ¥74,105 million, and operating income was ¥14,546 million (up 0.1% from the previous fiscal year) due mainly to a fall in sale price stemming from yen appreciation.

While certain segments of the markets appeared to be cautious in investing in capital equipment due to uncertainties continuing to the second quarter, movements toward active investment were seen from the third quarter. In addition to the Company’s main market of telecommunications equipment, demand was strong in the markets of automotive equipment and computer equipment including servers thanks to the spread of IoT, and sales expanded particularly in the major market of China.

Machine Tools

In the Machine Tools business, net sales decreased by ¥3,626 million (24.8%) from the previous fiscal year to ¥10,997 million, and operating loss was ¥713 million (operating income for the previous fiscal year was ¥614 million).

Due to sluggish demand in the Company’s focus market of automotive-related machine tools, sales decreased mainly in Japan and North America.

Research and Development Expenses and Capital Expenditures

Research and development expenses

Based on the company motto, “We will endeavor to work hard in research and development to provide excellent techniques to respond to customer confidence,” the Group continues to make untiring efforts in the research and development of state-of-the-art automated equipment and systems to meet the needs of the world’s most advanced customers.

Research and development expenses increased by ¥176 million (2.7%) from the previous fiscal year, to ¥6,789 million.

Major research and development activities included further reinforcement of the functions of robotic mounters including the mainstay NXT Series in the Robotic Solutions segment, and development to introduce next term’s strategic machines to market. The Company also carried out development to enhance the functions of Nexim, the integrated manufacturing system that will enable smart factory solutions in the customers’ electronics mounting process.

Capital expenditures

Total capital expenditures increased by ¥534 million (9.5%) from the previous fiscal year, to ¥6,175 million.

Major capital expenditures included the acquisition of software for sales in the market and introduction of machinery and equipment for the development and manufacturing of robotic mounters in the Robotic Solutions segment, resulting in capital expenditures of ¥5,172 million.

Financial Position and Cash Flows

Analysis of financial position

(Assets)

Current assets at the end of the fiscal year ended March 31, 2017 decreased by ¥2,630 million from the end of the previous fiscal year to ¥111,544 million. This was mainly due to decreases of ¥3,998 million in cash and cash equivalents and ¥1,549 million in notes and accounts receivable, net of allowance for doubtful accounts. Investments and other assets and property, plant and equipment increased by ¥4,079 million from the end of the previous fiscal year to ¥46,863 million. This was mainly due to an increase of ¥3,643 million in investment securities.

As a result, total assets increased by ¥1,449 million from the end of the previous fiscal year to ¥158,407 million.

(Liabilities)

Current liabilities at the end of the fiscal year ended March 31, 2017 increased by ¥2,172 million from the end of the previous fiscal year to ¥14,014 million. This was mainly due to increases of ¥838 million in income taxes payable and ¥424 million in notes and accounts payable. Long-term liabilities increased by ¥398 million from the end of the previous fiscal year to ¥13,445 million. This was mainly due to an increase of ¥665 million in deferred tax liabilities.

As a result, total liabilities increased by ¥2,570 million from the end of the previous fiscal year to ¥27,459 million.

(Net assets)

Total net assets at the end of the fiscal year ended March 31, 2017 decreased by ¥1,121 million from the end of the previous fiscal year to ¥130,948 million. This was mainly due to an increase of ¥8,147 million in treasury stock and dividends of surplus of ¥2,739 million which have more than offset net income attributable to owners of the parent of ¥7,055 million and the increase of ¥2,188 million in net unrealized gains on available-for-sale securities.

As a result of the above, equity ratio declined from 84.0% at the end of the previous fiscal year, to 82.5%. Net assets per share rose from ¥1,372.18 at the end of the previous fiscal year, to ¥1,461.63.

Analysis of cash flows

Net cash provided by operating activities was ¥17,380 million (¥8,086 million in the previous fiscal year). This was mainly due to income before income taxes of ¥9,948 million and depreciation of ¥5,158 million.

Net cash used in investing activities was ¥10,160 million (¥6,308 million in the previous fiscal year). This was mainly due to purchase of property, plant and equipment and intangible assets of ¥6,490 million, and an increase in short-term investments of ¥2,865 million.

Net cash used in financing activities was ¥10,916 million (¥4,273 million was provided by in the previous fiscal year).

This was mainly due to purchase of treasury stock of ¥8,147 million and dividends paid of ¥2,739 million.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2017 decreased by ¥3,998 million (6.7%) from the end of the previous fiscal year to ¥55,359 million.

Basic Policy for Profit Distribution

With regard to the Company's basic policy for profit sharing, we strive to maintain stable dividends, paying attention to capital demands for future business development as well as considering the continuous return of profits to shareholders as one of the most important management measures.

In addition, retained earnings are used to develop products to meet market demands, to improve and strengthen the Company's business structure, including capital rationalization and investment, and to make strategic investments for future growth.

For the purpose of further enhancing its return of profits to shareholders and executing flexible capital policies by improving capital efficiency, the Company acquired its treasury stock during the period from March 10, 2016 to February 28, 2017. The Company acquired 8,304 thousand shares for a total of ¥10,000 million, bringing the number of treasury stock as of March 31, 2017 to 8,373 thousand shares.

Year-end dividends were ¥15.00 per share, based on the basic policy for profit sharing, and together with interim dividends of ¥15.00 per share, the Company decided to pay out total annual dividends of ¥30.00 per share.

Business and Other Risks

The following covers the main risks which would likely have a large impact on the Group's financial position and operating results.

The items in this document relating to possible future events are as determined by the Group as of the end of the consolidated fiscal year.

(1) Impact of changes in the market environment

The demand for robotic solutions, which is the core element of the Group's business, changes based on the influence of market trends for electronics such as smartphones and computer products. The demand for machine tools changes based on the influence of capital investment trends in the automotive industry, who are the primary customers. There is a possibility that these changes in demand may impact financial results.

(2) Impact of pricing competition

There are cases in which the Group may be in a situation where it is difficult to decide upon a profitable cost because of pricing competition with competitors and requirements to lower equipment procurement costs according to drops in market values for the electronics and automotive products manufactured by customers.

While the Group are focused on improving profitability through developing products which are cost competitive, strengthening services, promoting solution-based sales, and pursuing cost reduction through improved production, there may be an impact on financial results in cases where drops in selling prices greatly exceed the Group's expectations and continue for an extended period.

(3) Impact of fluctuating exchange rates

A large proportion of the Group's net sales is from overseas, in accordance with proactive expansion of the Group's manufacturing customers overseas, particularly the manufacturing base centralized to Asian regions such as China. To avoid exchange risks during export activities, the Group's transactions are based in Japanese currency. However, there are cases in which fluctuations in exchange rates may lower the Group's cost competitiveness in comparison to competitors, which may impact financial results. Also, the general rule for transactions with consolidated subsidiary companies overseas (United States, Germany, China) is that those transactions are based in foreign currency and thus it is possible that sudden changes in exchange rates may impact financial results.

(4) Impact of technology development

The Group is continuously in a state of proactive development investment and technology development based on an understanding of customer requirements. However, there is a risk that financial results could be impacted if the developed technology becomes obsolete or if the developed products cannot be sold as planned because of elevated customer requirements or new innovations.

The Group has acquired quality management system standard ISO9001 and we are diligently strengthening our quality assurance system and service support system to contribute to customer satisfaction. However, The Group's products use leading-edge technology, also often using development technology from new fields, and thus unexpected problems can occur, which may impact financial

results.

(5) Impact of business activities in foreign markets

The group has placed sales offices in each region of the world and are engaged in global business expansion. However, changes in the political situations and economies of those countries may impact financial results.

(6) Impact of material procurement

Increased market value of the main materials which are used to build the Group's machines such as metals, castings, and electrical materials may impact financial results. There is also a possibility of supply being stopped because of a shortage in supply caused by a rapid increase and concentration of demand or because of a disaster or accident at the supplier. These could destabilize production, which may impact financial results.

(7) Impact of large-scale disasters

The Group has measures in place to minimize the damage caused by a disaster. However, should there be a disaster which exceeds expectations or if there is a pandemic of an infectious disease such as novel influenza viruses, this may impact financial results. In particular Aichi Prefecture, where the majority of the Group's production is centered, is an area which promotes disaster prevention measures against Nankai Trough earthquakes. If a large scale earthquake occurs in this area, production and delivery activities could stop because of damage to production equipment or suspension of logistics, which may impact financial results.

(8) Impact of intellectual property

The group seeks to protect the products it develops and produces by acquiring patent rights and through trademarks, but it is a possibility that we cannot fully prevent third parties from manufacturing and selling similar products which wrongfully utilize intellectual property held by the Group. The Group is also always careful not to infringe on the intellectual property rights of a third party when developing products. However, there is a possibility that intellectual property may be infringed upon, resulting in a third party instituting legal proceedings against us, which may impact financial results.

(9) Impact of legal restrictions

The Group accepts the various legal restrictions and environmental laws which apply in the countries and territories in which the Group performs business activities, including the permissions needed relating to business investment, export restrictions, and tariffs. We are striving to have continuous compliance. However, it is possible that the Group may be subject to legal proceedings from the regulatory authority, which may impact financial results.

(10) Impact of information security

The group has constructed an information management system and employs thorough security measures and instruction for employees. However, if an impediment which could not have been predicted such as a computer virus, unauthorized access, or cyberattack occurs, it is possible that the Group's trust level could be lowered and customers could require compensation for damages owing to the suspension of production and other business activities, and information leaks. Such occurrences may impact financial results.

Consolidated Balance Sheets

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 55,359	¥ 59,357	\$ 494,277
Short-term investments (Notes 3 and 6)	4,168	1,290	37,214
Notes and accounts receivable, net of allowance for doubtful accounts (Notes 3 and 4)	21,397	22,946	191,045
Inventories (Note 5)	27,101	27,326	241,973
Deferred tax assets (Note 15)	3,044	2,851	27,178
Other current assets	475	404	4,241
Total current assets	111,544	114,174	995,928
Investments and other assets:			
Investment securities (Notes 3 and 6)	22,058	18,415	196,946
Investment in affiliated companies	-	94	-
Intangible assets (Note 7)	6,462	5,863	57,696
Deferred tax assets (Note 15)	89	126	795
Other assets	383	492	3,420
Total investments and other assets	28,992	24,990	258,857
Property, plant and equipment:			
Land	4,076	3,942	36,393
Buildings and structures	22,949	22,430	204,902
Machinery, equipment and vehicles	14,580	14,062	130,178
Tools, furniture and fixtures	7,369	7,094	65,795
Construction in progress	110	329	982
Total property, plant and equipment	49,084	47,857	438,250
Less accumulated depreciation	(31,213)	(30,063)	(278,687)
Total net property, plant and equipment	17,871	17,794	159,563
Total assets	¥ 158,407	¥ 156,958	\$ 1,414,348

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Liabilities and Net assets			
Current liabilities:			
Current portion of long-term debt (Notes 3 and 9)	¥ 31	¥ -	\$ 277
Notes and accounts payable (Notes 3 and 8)	5,759	5,335	51,420
Accrued expenses	3,860	3,826	34,464
Income taxes payable	1,691	853	15,098
Provision for product warranties	845	868	7,545
Other current liabilities	1,828	960	16,321
Total current liabilities	14,014	11,842	125,125
Long-term liabilities:			
Long-term debt (Notes 3 and 9)	10,040	10,050	89,643
Net defined benefit liability (Note 10)	859	1,107	7,670
Deferred tax liabilities (Note 15)	2,502	1,837	22,339
Other long-term liabilities	44	53	393
Total long-term liabilities	13,445	13,047	120,045
Total liabilities	27,459	24,889	245,170
Net assets (Note 13):			
Shareholders' equity:			
Common stock: 390,000,000 shares authorized and 97,823,748 shares issued	5,879	5,879	52,491
Capital surplus	5,414	5,414	48,339
Retained earnings	119,791	115,475	1,069,563
Less treasury stock, at cost: 8,372,922 shares in 2017 and 1,698,068 shares in 2016	(10,055)	(1,908)	(89,777)
Total shareholders' equity	121,029	124,860	1,080,616
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	7,740	5,552	69,107
Foreign currency translation adjustments	1,892	2,149	16,893
Remeasurements of defined benefit plans (Note 10)	83	(660)	741
Total accumulated other comprehensive income	9,715	7,041	86,741
Noncontrolling interests	204	168	1,821
Total net assets	130,948	132,069	1,169,178
Total liabilities and net assets	¥ 158,407	¥ 156,958	\$ 1,414,348

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating revenue:			
Net sales (Note 17)	¥ 86,397	¥ 86,642	\$ 771,402
Operating costs and expenses:			
Costs of goods sold	53,004	52,169	473,250
Selling, general and administrative expenses	23,599	22,571	210,706
	<u>76,603</u>	<u>74,740</u>	<u>683,956</u>
Operating income (Note 17)	<u>9,794</u>	<u>11,902</u>	<u>87,446</u>
Other income (expenses):			
Interest and dividend income	539	464	4,812
Interest expense	(3)	(7)	(27)
Foreign exchange (loss) gain	(248)	(635)	(2,214)
Loss on sales and disposals of property, plant and equipment and intangible assets	(131)	(187)	(1,170)
Impairment loss on fixed assets (Note 14)	(11)	(982)	(98)
Loss on step acquisitions (Note 16)	(94)	-	(839)
Loss on revaluation of investment securities (Note 6)	(204)	-	(1,821)
Other, net	306	457	2,732
	<u>154</u>	<u>(890)</u>	<u>1,375</u>
Income before income taxes	<u>9,948</u>	<u>11,012</u>	<u>88,821</u>
Income taxes (Note 15):			
Current	3,347	3,225	29,884
Deferred	(459)	525	(4,099)
Total income taxes	<u>2,888</u>	<u>3,750</u>	<u>25,785</u>
Net income	7,060	7,262	63,036
Less net income attributable to noncontrolling interests			
	<u>5</u>	<u>25</u>	<u>45</u>
Net income attributable to owners of the parent	<u>¥ 7,055</u>	<u>¥ 7,237</u>	<u>\$ 62,991</u>
	<u>Yen</u>		<u>U.S. dollars</u>
Per share:			
Net income			
-Basic	¥ 76.19	¥ 74.13	\$ 0.68
-Diluted	70.90	74.03	0.63
Cash dividends (Note 13)	30.00	28.00	0.27

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net Income	¥ 7,060	¥ 7,262	\$ 63,036
Other comprehensive income (Note 18):			
Net unrealized gains on available-for-sale securities	2,188	(2,554)	19,536
Foreign currency translation adjustments	(226)	(1,480)	(2,018)
Remeasurements of defined benefit plans	743	(1,024)	6,634
Total other comprehensive income	2,705	(5,058)	24,152
Comprehensive income	¥ 9,765	¥ 2,204	\$ 87,188
Comprehensive income attributable to:			
Owners of the parent	¥ 9,729	¥ 2,255	\$ 86,866
Noncontrolling interests	36	(51)	322
Total comprehensive income	¥ 9,765	¥ 2,204	\$ 87,188

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2017 and 2016

	Shareholders' equity						Accumulated other comprehensive income					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for- sale securities	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
Balance at April 1, 2015	97,823,748	¥ 5,879	¥ 5,414	¥ 111,562	¥ (52)	¥ 122,803	¥ 8,106	¥ 3,552	¥ 364	¥ 12,022	¥ 219	¥ 135,044
Net income for the year attributable to owners of the parent	-	-	-	7,237	-	7,237	-	-	-	-	-	7,237
Cash dividends	-	-	-	(3,324)	-	(3,324)	-	-	-	-	-	(3,324)
Purchases of treasury stock	-	-	-	-	(1,856)	(1,856)	-	-	-	-	-	(1,856)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(2,554)	(1,403)	(1,024)	(4,981)	(51)	(5,032)
Balance at March 31, 2016	97,823,748	5,879	5,414	115,475	(1,908)	124,860	5,552	2,149	(660)	7,041	168	132,069
Net income for the year attributable to owners of the parent	-	-	-	7,055	-	7,055	-	-	-	-	-	7,055
Cash dividends	-	-	-	(2,739)	-	(2,739)	-	-	-	-	-	(2,739)
Purchases of treasury stock	-	-	-	-	(8,147)	(8,147)	-	-	-	-	-	(8,147)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	2,188	(257)	743	2,674	36	2,710
Balance at March 31, 2017	97,823,748	¥ 5,879	¥ 5,414	¥ 119,791	¥ (10,055)	¥ 121,029	¥ 7,740	¥ 1,892	¥ 83	¥ 9,715	¥ 204	¥ 130,948

	Shareholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Thousands of U.S. dollars (Note 1)										
Balance at March 31, 2016	\$ 52,491	\$ 48,339	\$ 1,031,027	\$ (17,036)	\$ 1,114,821	\$ 49,571	\$ 19,188	\$ (5,893)	\$ 62,866	\$ 1,500	\$ 1,179,187
Net income for the year attributable to owners of the parent	-	-	62,991	-	62,991	-	-	-	-	-	62,991
Cash dividends	-	-	(24,455)	-	(24,455)	-	-	-	-	-	(24,455)
Purchases of treasury stock	-	-	-	(72,741)	(72,741)	-	-	-	-	-	(72,741)
Net changes in items other than shareholders' equity	-	-	-	-	-	19,536	(2,295)	6,634	23,875	321	24,196
Balance at March 31, 2017	<u>\$ 52,491</u>	<u>\$ 48,339</u>	<u>\$ 1,069,563</u>	<u>\$ (89,777)</u>	<u>\$ 1,080,616</u>	<u>\$ 69,107</u>	<u>\$ 16,893</u>	<u>\$ 741</u>	<u>\$ 86,741</u>	<u>\$ 1,821</u>	<u>\$ 1,169,178</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

For the Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 9,948	¥ 11,012	\$ 88,821
Adjustments for:			
Depreciation	5,158	4,934	46,054
Impairment loss on fixed assets	11	982	98
Loss on sales and disposals of property, plant and equipment and intangible assets	131	187	1,170
(Decrease) increase in provision for product warranties	(20)	(22)	(179)
Increase (decrease) in net defined benefit liability	823	(681)	7,348
Decrease (increase) in trade receivables	2,038	(2,422)	18,197
Decrease (increase) in inventories	107	102	955
Increase (decrease) in trade payables	943	21	8,420
Other, net	387	(667)	3,455
Subtotal	19,526	13,446	174,339
Interest and dividends received	541	465	4,831
Interest paid	(3)	(7)	(27)
Income taxes paid	(2,684)	(5,818)	(23,964)
Net cash provided by operating activities	17,380	8,086	155,179
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	(2,865)	(1,158)	(25,580)
Purchases of property, plant and equipment and intangible assets	(6,490)	(5,183)	(57,946)
Proceeds from sales of property, plant and equipment and intangible assets	192	442	1,714
Purchases of investment securities	(999)	(310)	(8,920)
Payments for investments in capital of affiliated companies	-	(94)	-
Proceeds from investments in capital of subsidiaries resulting in change in scope of consolidation (Note 19)	16	-	143
Other, net	(14)	(5)	(125)
Net cash used in investing activities	(10,160)	(6,308)	(90,714)
Cash flows from financing activities:			
Repayments of long-term debt	-	(600)	-
Proceeds from issuance of long-term debt	-	10,050	-
Dividends paid	(2,739)	(3,321)	(24,455)
Purchase of treasury stock	(8,147)	(1,856)	(72,741)
Other, net	(30)	-	(268)
Net cash (used in) provided by financing activities	(10,916)	4,273	(97,464)
Effect of exchange rate changes on cash and cash equivalents	(302)	(901)	(2,697)
Net (decrease) increase in cash and cash equivalents	(3,998)	5,150	(35,696)
Cash and cash equivalents at beginning of year	59,357	54,207	529,973
Cash and cash equivalents at end of year	¥ 55,359	¥ 59,357	\$ 494,277

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

FUJI MACHINE MFG. CO., LTD. and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of FUJI MACHINE MFG. CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instrument 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 application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instrument and Exchange Act. In preparing these consolidated financial statements, certain reclassifications 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. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of the Japanese yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan, using the approximate rate prevailing at March 31, 2017, which was ¥112 to U.S. \$1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliated companies not accounted for using the equity method are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would have been immaterial. All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealized profits included in assets resulting from transactions within the Group have also been eliminated.

The number of consolidated subsidiaries and affiliated companies for the years ended March 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Consolidated subsidiaries:		
Domestic	2	2
Overseas	7	6
Affiliated companies stated at cost	-	1

From the year ended March 31, 2017, an overseas subsidiary, which was an affiliated company stated at cost, has been included in the scope of consolidation due to the acquisition of additional investments in capital.

Four overseas subsidiaries close their books on December 31, three months earlier than the Company and the other consolidated subsidiaries. The Company uses the financial statements of one of the subsidiaries as of its year-end date because the difference between its fiscal year-end date and that of the Company was not more than three months. Significant transactions for the period between the subsidiary's fiscal year-end date and the Company's year-end date have been adjusted for on consolidation. For the other three subsidiaries, the Company uses the financial statements which are compiled by temporary closings of their accounts as of March 31.

(Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)

The Company has adopted ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." PITF No. 18 requires that the accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using its foreign subsidiaries' financial statements prepared in accordance with either IFRS or U.S. generally accepted accounting principles ("U.S. GAAP"). In this case, adjustments for the following four items are required in the consolidation process so that the impact on net income is accounted for in accordance with Japanese GAAP, unless the impact is not material.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

(b) Cash equivalents

The Group considers cash equivalents to be short-term, highly liquid instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value purchased with an original maturity of three months or less.

(c) Investments and marketable securities

The Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale” securities. The classification determines the respective accounting method to be applied under the accounting standards for financial instruments. According to the investment policy of the Group, its securities portfolio consists of held-to-maturity and available-for-sale securities. The accounting standard requires that held-to-maturity securities be stated at amortized cost and available-for-sale securities for which fair value is available be stated at fair value and that net unrealized gains and losses on such securities be recorded as a component of accumulated other comprehensive income, net of applicable income taxes. Gains and losses on the disposition of available-for-sale securities are computed using the moving average method. Available-for-sale securities without available fair values are carried at cost determined using the moving average method. Adjustments in the carrying value of individual investment securities are charged to income through write-downs when a decline in value is deemed to be other than temporary.

(d) Inventories

In accordance with the accounting standard for measurement of inventories, inventories held for sale in the ordinary course of business are stated at the lower of cost or net realizable value. If the net realizable value falls below the cost at the end of the period, the cost basis is reduced to net realizable value and regarded as decreased profitability of inventories. Finished goods and work-in-process are measured principally using the specific identification method. Raw materials and supplies are measured principally using the moving average method.

(e) Allowance for doubtful accounts

An allowance for doubtful accounts has been provided at the aggregate amount of estimated credit loss based on individual reviews of certain doubtful or troubled receivables. A general reserve for other receivables is also provided based on the historical loss experience for certain past periods.

(f) Property, plant and equipment and depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost and depreciated principally by the declining balance method based on the estimated useful life of the asset.

(Changes in accounting policies for depreciation)

In line with the revisions to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (PITF No. 32, June 17, 2016) from the fiscal year ended March 31, 2017. Accordingly, the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 has been changed from the declining balance method to the straight-line method. The effect on income was not material.

(g) Intangible assets

Intangible assets are amortized using the straight-line method. Software for sales is amortized using the straight-line method over the estimated economic life. Software for internal use is amortized using the straight-line method over the estimated useful life.

(h) Impairment of fixed assets

The Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Impairment of Fixed Assets" and the related practical guidance. The standard requires fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured by the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and other forms of property, including intangible assets, and are to be grouped at the lowest levels for which there are identifiable cash flows separate from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets of the Company and its domestic consolidated subsidiaries, other than idle or unused property, are grouped into cash generating units based on the managerial accounting classifications.

(i) Employee retirement benefits

The difference between retirement benefit obligations and plan assets has been recognized as net defined benefit liability. To calculate the retirement benefit obligations, the benefit formula basis is used to allocate estimated retirement benefits. Actuarial differences that are yet to be recognized are recognized in the year following the year in which they arise. A net defined benefit liability and retirement benefit costs of certain consolidated subsidiaries are calculated using the simplified method as permitted by the accounting standard for retirement benefits.

(j) Provision for product warranties

A provision for product warranties is calculated based on the actual historical ratio of repair costs per corresponding product sales to provide for future repairs during free of charge product warranty periods.

(k) Translation of foreign currency accounts

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rate prevailing at the fiscal year-end. For financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rate in effect at the respective fiscal year-end. All income and expense accounts are translated at the average rate of exchange for the fiscal year. Translation differences, after allocating portions attributable to noncontrolling interests, have been reported in foreign currency translation adjustments as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

(l) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2017 and 2016 were included in selling, general and administrative expenses in the accompanying consolidated statements of income in the amount of ¥6,789 million (\$60,616 thousand) and ¥6,613 million, respectively.

(m) Enterprise taxes

The Group calculates and records enterprise taxes based on the “added value” and “capital” amounts when levied as sizebased corporate taxes for local government enterprise taxes. Such taxes are included in selling, general and administrative expenses.

(n) Income taxes

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognized as the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date and the promulgation date for the years ended March 31, 2017 and 2016, respectively.

Effective from the fiscal year ended March 31, 2017, the Company and its domestic subsidiaries adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(o) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors or the general meeting of stockholders.

(p) Per share data

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the year. Unless there is an antidilutive effect, diluted net income per share is calculated to reflect the potential dilution assuming that all convertible bonds are converted at the time of issue.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective year.

3. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for financial instruments

The Group does not permit the investment of surplus funds in transactions other than short-term bank deposits and uses financing from banks and other financial institutions.

Derivative transactions are used for the purpose of hedging against the risk of fluctuations in interest rates on borrowings. The Group does not enter into derivative transactions for speculative purpose.

(b) Financial instruments and risk management

The Group is exposed to credit risk primarily with respect to trade receivables. In order to reduce the credit risk of these receivables, the Group manages settlement dates and amounts due for counterparties according to internal rules and reviews the credit capacity of principal customers on a regular basis.

Securities and investment securities are chiefly held-to-maturity debt securities and shares of companies with which the Group has business relationships. While these securities are exposed to risks of market price fluctuations, market prices obtained on a regular basis are reported to the Board of Directors.

Trade payables are generally due within one year.

The Group acquires funds for its business plans from bank borrowings and the issuance of bonds. Borrowings with floating interest rates expose the Group to risks associated with fluctuations in interest rates. In connection with some long term borrowings, the Group enters into interest rate swaps to avoid the risk of interest rate fluctuations and to fix interest payments.

The Group is a party to derivative financial instruments such as interest rate swaps in the normal course of business. Pursuant to the Group's internal rules for risk management, contract balances for derivatives are limited to certain anticipated transactions and credit risk is reduced by limiting counterparties to highly creditworthy financial institutions. Payables are exposed to liquidity risk that the Group manages in ways such as preparing monthly cash management plans.

(2) Fair values of financial instruments

The fair value and carrying value of financial statements other than unlisted equity securities for which the fair value was extremely difficult to determine at March 31, 2017 and 2016 were as follows.

	<u>Carrying value</u>	<u>Fair value</u>	<u>Differences</u>
	Millions of yen		
At March 31, 2017:			
Financial assets:			
Cash and cash equivalents	¥ 55,359	¥ 55,359	¥ -
Short-term investments	4,168	4,165	(3)
Trade notes and accounts receivable	18,004	18,004	-
Investment securities:			
Available-for-sale securities	21,978	21,978	-
Total	<u>¥ 99,509</u>	<u>¥ 99,506</u>	<u>¥ (3)</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 5,251	¥ 5,251	¥ -
Current portion of long-term debt	31	31	-
Bonds	10,040	11,465	1,425
Total	<u>¥ 15,322</u>	<u>¥ 16,747</u>	<u>¥ 1,425</u>
	<u>Carrying value</u>	<u>Fair value</u>	<u>Differences</u>
	Millions of yen		
At March 31, 2016:			
Financial assets:			
Cash and cash equivalents	¥ 59,357	¥ 59,357	¥ -
Short-term investments	1,290	1,290	-
Trade notes and accounts receivable	19,930	19,930	-
Investment securities:			
Available-for-sale securities	18,258	18,258	-
Total	<u>¥ 98,835</u>	<u>¥ 98,835</u>	<u>¥ -</u>
Financial liabilities:			
Trade notes and accounts payable	¥ 4,428	¥ 4,428	¥ -
Current portion of long-term debt	-	-	-
Bonds	10,050	10,520	470
Total	<u>¥ 14,478</u>	<u>¥ 14,948</u>	<u>¥ 470</u>
	Thousands of U.S. dollars		
At March 31, 2017:			
Financial assets:			
Cash and cash equivalents	\$ 494,277	\$ 494,277	\$ -
Short-term investments	37,214	37,187	(27)
Trade notes and accounts receivable	160,750	160,750	-
Investment securities:			
Available-for-sale securities	196,232	196,232	-
Total	<u>\$ 888,473</u>	<u>\$ 888,446</u>	<u>\$ (27)</u>
Financial liabilities:			
Trade notes and accounts payable	\$ 46,884	\$ 46,884	\$ -
Current portion of long-term debt	277	277	-
Bonds	89,643	102,366	12,723
Total	<u>\$ 136,804</u>	<u>\$ 149,527</u>	<u>\$ 12,723</u>

Notes:

(1) Details of the methods and assumptions used to estimate the fair value of financial instruments are summarized below:

(i) Cash and cash equivalents and trade notes and accounts receivable

The fair value is approximately equal to the carrying value due to their short-term maturities.

(ii) Short-term investments and investment securities

The fair value of investment equity securities is based on quoted market prices. The fair value of debt securities is based on prices provided by corresponding financial institutions. The fair value of short-term investment is approximately equal to the carrying value due to their short-term maturities.

(iii) Trade notes and accounts payable and current portion of long-term debt

The fair value is approximately equal to the carrying value due to their short-term maturities.

(iv) Bonds

The fair value of convertible bonds is principally based on prices provided by correspondent financial institutions.

(2) The following securities were not included in the table above because their fair values were extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥ 80	¥ 157	\$ 714

(3) Expected maturities of financial assets at March 31, 2017 were as follows:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
	Millions of yen			
Financial assets:				
Cash and cash equivalents	¥ 55,359	¥ -	¥ -	¥ -
Short-term investments	2,400	-	-	-
Trade notes and accounts receivable	18,004	-	-	-
Investment securities				
Other securities with maturity	1,768	-	500	-
Total	¥ 77,531	¥ -	¥ 500	¥ -

	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	Due after 10 years
Financial assets:				
Cash and cash equivalents	\$ 494,277	\$ -	\$ -	\$ -
Short-term investments	21,429	-	-	-
Trade notes and accounts receivable	160,750	-	-	-
Investment securities				
Other securities with maturity	15,785	-	4,464	-
Total	\$ 692,241	\$ -	\$ 4,464	\$ -

(4) Contractual maturities of bonds and long-term debt at March 31, 2017 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
Bonds		
2021	¥ 10,000	\$ 89,286
Long-term debt		
2017	31	277
Total	¥ 10,031	\$ 89,563

4. Notes and Accounts Receivable

At March 31, 2017 and 2016, notes and accounts receivable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trade	¥ 18,004	¥ 19,930	\$ 160,750
Other	3,413	3,080	30,473
Less allowance for doubtful accounts	(20)	(64)	(178)
Total	¥ 21,397	¥ 22,946	\$ 191,045

5. Inventories

At March 31, 2017 and 2016, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods	¥ 7,463	¥ 6,231	\$ 66,634
Work-in-process	14,158	15,256	126,411
Raw materials and supplies	5,480	5,839	48,928
Total	¥ 27,101	¥ 27,326	\$ 241,973

Loss on the write-down of ¥389 million (\$3,473 thousand) and ¥284 million were recognized as costs of goods sold for the years ended March 31, 2017 and 2016, respectively.

6. Investment Securities

(1) At March 31, 2017 and 2016, short-term investments consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities with fair value:			
Bonds	¥ 2,400	¥ -	\$ 21,429
Time deposits with an original maturity of more than three months	1,768	1,290	15,785
Total	¥ 4,168	¥ 1,290	\$ 37,214

At March 31, 2017 and 2016, the carrying value and fair value of held-to-maturity debt securities were as follows:

	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
	Millions of yen			
At March 31, 2017:				
Bonds	¥ 2,400	¥ -	¥ (3)	¥ 2,397
At March 31, 2016:				
Bonds	¥ -	¥ -	¥ -	¥ -
	Thousands of U.S. dollars			
At March 31, 2017:				
Bonds	\$ 21,429	\$ -	\$ (27)	\$ 21,402

(2) At March 31, 2017 and 2016, available-for-sale securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities with fair value:			
Equity securities	¥ 21,460	¥ 17,938	\$ 191,607
Bonds	518	320	4,625
Total securities with fair value	21,978	18,258	196,232
Unlisted securities without fair value	80	157	714
Total	¥ 22,058	¥ 18,415	\$ 196,946

At March 31, 2017 and 2016, the cost and fair value of available-for-sale securities were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of yen				
At March 31, 2017:				
Equity securities	¥ 10,842	¥ 10,650	¥ (32)	¥ 21,460
Bonds	522	-	(4)	518
Total	<u>¥ 11,364</u>	<u>¥ 10,650</u>	<u>¥ (36)</u>	<u>¥ 21,978</u>
At March 31, 2016:				
Equity securities	¥ 10,173	¥ 8,028	¥ (263)	¥ 17,938
Bonds	321	0	(1)	320
Total	<u>¥ 10,494</u>	<u>¥ 8,028</u>	<u>¥ (264)</u>	<u>¥ 18,258</u>
Thousands of U.S. dollars				
At March 31, 2017:				
Equity securities	\$ 96,804	\$ 95,089	\$ (286)	\$ 191,607
Bonds	4,661	-	(36)	4,625
Total	<u>\$ 101,465</u>	<u>\$ 95,089</u>	<u>\$ (322)</u>	<u>\$ 196,232</u>

(3) At March 31, 2017 and 2016, loss on revaluation of available-for-sale securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities with fair value	¥ 129	¥ -	\$ 1,152
Unlisted securities without fair value	75	-	669
Total	<u>¥ 204</u>	<u>¥ -</u>	<u>\$ 1,821</u>

For available-for-sale securities with fair value whose fair value as of March 31, 2017 had declined by 30% or more of the acquisition costs and were deemed to be unrecoverable, the losses on devaluation were recognized. For available-for-sale securities without fair value whose net asset value as of March 31, 2017 had declined by more than 50% of the acquisition costs, the losses on devaluation were generally recognized.

7. Intangible Assets

At March 31, 2017 and 2016, intangible assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Software	¥ 6,430	¥ 5,841	\$ 57,411
Other intangible assets	32	22	285
Total	<u>¥ 6,462</u>	<u>¥ 5,863</u>	<u>\$ 57,696</u>

8. Notes and Accounts Payable

At March 31, 2017 and 2016, notes and accounts payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trade	¥ 5,251	¥ 4,428	\$ 46,884
Other	508	907	4,536
Total	¥ 5,759	¥ 5,335	\$ 51,420

9. Long-term Debt

At March 31, 2017 and 2016, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Zero coupon unsecured convertible bonds, due March 2021	¥ 10,040	¥ 10,050	\$ 89,643
2.7% unsecured bank loans, due June 2017	31	-	277
Total	10,071	10,050	89,920
Less current portion	(31)	-	(277)
Total	¥ 10,040	¥ 10,050	\$ 89,643

Since a year-end dividend of ¥15.00 per share was approved and resolved at the 71st ordinary general shareholders' meeting held on June 29, 2017, which resulted in an annual dividend of ¥30.00 per share for the fiscal year ended March 31, 2017, the conversion price was retroactively adjusted to ¥1,466 from ¥1,468 as of April 1, 2017 in accordance with provisions on conversion price adjustments set forth in the terms and conditions of the zero coupon convertible bonds due March 2021.

For the period from November 26, 2020, the Company may, at its call option, redeem all, but not only some, of the zero coupon convertible bonds due March 2021, at 100% of the principal amount, subject to certain conditions.

At March 31, 2017, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 7 million-

To secure effective financing, the Company had committed line-of-credit agreements with six principal financial institutions as of March 31, 2017. The cumulative status of such agreements as of March 31, 2017 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Committed lines of credit	¥ 12,000	\$ 107,143
Loans utilized	-	-
Available credit	¥ 12,000	\$ 107,143

10. Employee Retirement Benefits

The Company has adopted defined contribution retirement plans, employees' pension fund plans and defined benefit pension plans.

The employees' pension fund plan under a multi-employer plan, in which the Company participates, has been dissolved as of November 1, 2016 when having obtained approval of dissolution by the Minister of Health, Labour and Welfare. The effect on income was not material. As information that would allow a determination of whether the value of the pension plan assets has been reasonably calculated in proportion to the contributions made by the Company is not available, the contributions required were accounted for using the accounting treatment similar to that used for defined contribution plans.

A domestic consolidated subsidiary participates in a small- and medium- sized enterprise mutual aid plan. Net defined benefit liability and retirement benefit expense of the consolidated subsidiary are calculated using the simplified method as permitted by the accounting standard for employee retirement benefits. The other consolidated subsidiaries have adopted defined contribution plans.

Information about employee retirement benefits for the years ended March 31, 2017 and 2016 was as follows:

Defined benefit plan

(1) Movement in retirement benefit obligations:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at April 1	¥ 8,083	¥ 7,232	\$ 72,170
Service cost	684	616	6,107
Interest cost	8	42	71
Actuarial differences	(105)	494	(937)
Benefits paid	(226)	(301)	(2,018)
Balance at March 31	¥ 8,444	¥ 8,083	\$ 75,393

(2) Movements in plan assets:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at April 1	¥ 6,976	¥ 6,932	\$ 62,286
Expected return on plan assets	191	190	1,705
Actuarial differences	15	(457)	134
Contributions paid by the employer	607	587	5,419
Benefits paid	(206)	(280)	(1,839)
Other	2	4	18
Balance at March 31	¥ 7,585	¥ 6,976	\$ 67,723

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations	¥ 8,444	¥ 8,083	\$ 75,393
Plan assets	(7,585)	(6,976)	(67,723)
Total net defined benefit liability at March 31	859	1,107	7,670
Net defined benefit liability	859	1,107	7,670
Total net defined benefit liability at March 31	¥ 859	¥ 1,107	\$ 7,670

(4) Retirement benefit costs:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 684	¥ 616	\$ 6,107
Interest cost	8	42	71
Expected return on plan assets	(191)	(190)	(1,705)
Amortization of actuarial differences	951	(537)	8,491
Total retirement benefit costs for the fiscal year	¥ 1,452	¥ (69)	\$ 12,964

(5) Remeasurements of defined benefit plans included in other comprehensive income before adjustment for tax effects:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial differences	¥ (1,071)	¥ 1,488	\$ (9,563)

(6) Remeasurements of defined benefit plans included in accumulated other comprehensive income before adjustment for tax effects:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized actuarial differences	¥ (120)	¥ 951	\$ (1,072)

(7) Plan assets:

(i) Plan assets comprise:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bonds	¥ 3,346	¥ 2,766	\$ 29,875
Equity securities	2,540	2,632	22,679
Short-term funds	230	115	2,054
General accounts of life insurance	734	690	6,553
Other	735	773	6,562
Total	¥ 7,585	¥ 6,976	\$ 67,723

(ii) Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	0.2%	0.1%
Long-term expected rate of return	2.8%	2.8%

The index for increase in salary by age at March 31, 2013 was used as the rate of increase in salary.

Defined contribution plan

The amounts of required contributions to defined contribution plans of the consolidated subsidiaries were ¥159 million (\$1,420 thousand) and ¥132 million for the years ended March 31, 2017 and 2016, respectively.

Multi-employer pension plans

The amount of required contribution to multi-employer pension plans was ¥140 million (\$1,250 thousand) and ¥325 million for the years ended March 31, 2017 and 2016, respectively.

The employees' pension fund conference of representatives, in which the Company participated, decided to dissolve the employees' pension fund on February 23, 2015. The employees' pension fund plans made an advance payment of ¥109,600 million on November 27, 2015 as a part of the policy reserves based on the approval of the future transfer of the substitutional portion on November 1, 2015.

Information regarding the funded status of the entire corporate pension plan available as of the end of the latest calculation period was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Latest calculation period	March 31, 2016:	March 31, 2015:	
Plan assets	¥ -	¥ 141,420	\$ -
Total of actuarial obligation and minimum policy reserve	-	157,294	-
Difference, resulting primarily from unamortized past service cost	¥ -	¥ (15,874)	\$ -
Ratio of the Company's contributions to total contributions to entire plan	-	6.8%	-

*1) The difference stated in above is mainly due to prior service cost of ¥21,107 million under pension financing calculation. For the said pension plan, prior service cost is amortized using the straight-line method for principal and interest over a period of 20 years.

*2) The ratio of the Company's contributions to total contributions to entire plan in the above does not correspond to the actual apportionment of burden of costs incurred by the Company.

11. Lease Commitments

At March 31, 2017 and 2016, the Group had commitments under noncancelable operating leases as lessee. The aggregate future minimum payments under these leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating leases:			
Due within one year	¥ 6	¥ 4	\$ 54
Due after one year	30	23	267
	¥ 36	¥ 27	\$ 321

12. Contingent Liabilities

There were no contingent liabilities at March 31, 2017 and 2016.

13. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of the additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The additional paid-in capital and legal earnings reserve have been included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2017 and 2016, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥1,450 million (\$12,946 thousand) and ¥1,450 million at March 31, 2017 and 2016 respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations. During the year ended March 31, 2017, the Company paid interim dividends of ¥15.00 per share, amounting to ¥1,394 million (\$12,446 thousand). In addition, on June 29, 2017, the annual meeting of stockholders of the Company approved cash dividends as an appropriation of retained earnings also in the amount of ¥15.00 per share, amounting to ¥1,342 million (\$11,982 thousand) to the shareholders of record at March 31, 2017.

14. Impairment Loss on Fixed Assets

Impairment loss recognized on the fixed assets for the years ended March 31, 2017, and 2016 was as follows:

Location	Usage	Assets	Thousands of	
			Millions of yen	U.S. dollars
			2017	2017
Aichi, Japan	Factory	Furniture and fixtures, etc.	¥ 11	\$ 98

In principle, business assets are classified into groups on which separate financial information is reported for management accounting purpose, and idle assets are grouped by individual asset.

The Group recognized impairment loss on fixed assets for the year ended March 31, 2017 because production facilities for the Others segment of EDEC LINSEY SYSTEM Co., Ltd. continued to generate losses or negative cash flows from operating activities and it is unlikely that the situation will improve in the future.

The recoverable amounts were measured by value in use, and because the future cash flows are negative, the recoverable amounts are determined to be memorandum value.

Location	Usage	Assets	Millions of yen	
			2016	
Kunshan, China	Factory	Building and other assets	¥	982

In principle, business assets are classified into groups on which separate financial information is reported for management accounting purpose, and idle assets are grouped by individual asset.

The Group recognized impairment loss on fixed assets for the year ended March 31, 2016 because the recoverability of certain investments was projected as difficult due to declines in the profits of Kunshan Fuji Machine Mfg. Co., Ltd.. The recoverable amounts were measured by net realizable values which were determined based on real estate appraisal values.

15. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Deferred tax assets:			2017
Loss on the write-down of inventories	¥ 1,239	¥ 1,136	\$ 11,063
Intercompany unrealized gains on inventories	804	777	7,179
Accrued expenses	702	660	6,268
Loss on the write-down of investment securities	530	469	4,732
Impairment loss on fixed assets	317	355	2,830
Net defined benefit liability	264	340	2,357
Provision for product warranties	258	264	2,304
Accrued enterprise taxes	106	63	946
Other	302	296	2,696
Subtotal of deferred tax assets	4,522	4,360	40,375
Less valuation allowance	(1,002)	(980)	(8,946)
Total deferred tax assets	3,520	3,380	31,429
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	(2,884)	(2,222)	(25,750)
Other	(5)	(18)	(45)
Total deferred tax liabilities	(2,889)	(2,240)	(25,795)
Net deferred tax assets	¥ 631	¥ 1,140	\$ 5,634

In assessing the realizability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At March 31, 2017 and 2016, a valuation allowance was provided to reduce deferred tax assets to the amount the management believed would be realizable.

Reconciliation of differences between the Japanese statutory tax rate and the effective income tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 was as follows:

	Percentage of pretax income
	2017
Japanese statutory income tax rate	30.8 %
Increase (decrease) due to:	
Tax exempt income	(0.4)
Changes in valuation allowances	0.8
Tax credit	(4.8)
Changes in tax rates of subsidiaries	1.0
Other	1.6
Effective income tax rate	29.0 %

For the year ended 31 March 2016, a reconciliation of the differences between the combined Japanese statutory income tax rate and the effective income tax rate on pretax income reflected in the accompanying consolidated statements of income was not disclosed as the difference between the rates was not material.

“Act on Partial Amendment to the Income Tax Act, etc.” (Act No. 15, 2016) and “Act on Partial Amendment to the Local Tax Act, etc.” (Act No. 13, 2016) were enacted on March 29, 2016, and accordingly, the corporate tax rate and other tax rates have been lowered from the fiscal year beginning on or after April 1, 2016. Due to this change, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been revised from the previous rate of 33.0%. A rate of 30.8% has been applied to temporary differences expected to be either deductible, taxable or expired in the fiscal years beginning on April 1, 2016 and 2017, while a rate of 30.6% has been applied to temporary differences expected to be either deductible, taxable, or expired in or after the fiscal year beginning on April 1, 2018. As a result of this change in tax rates, at March 31, 2016, deferred tax assets decreased by ¥2 million (\$18 thousand), deferred income taxes increased by ¥101 million (\$894 thousand), net unrealized gains on available-for-sale securities increased by ¥114 million (\$1,009 thousand) and remeasurements of defined benefit plans decreased by ¥15 million (\$133 thousand) from the amounts that would have been recorded without the change.

16. Business Combinations

Business combinations due to acquisition

1. Outline of business combination

(1) Name and business description of the acquired company

Name: Tower-Factory GmbH (hereinafter, “TF”)

Business description: Manufacturing and sales of Robotic Solutions peripheral devices

(2) Principal reasons for carrying out the business combination

The Company acquired TF, which has shown promising results in Germany, where high-mix, low volume production of variable items and volume are common, in order to provide the best solutions for smart factories.

(3) Date of business combination

March 29, 2017

(4) Legal form of business combination

Share acquisition with cash compensation

(5) Name of company after the business combination

No change

(6) Share of the voting rights acquired

Voting rights before the business combination: 34%

Voting rights additionally acquired on the business combination: 66%

Voting rights after the business combinations: 100%

(7) Main reason for determining the acquiring company

The shares were acquired by the Company using cash consideration.

2. Period of operations of the acquired company included in the consolidated financial statements

Not applicable.

3. Acquisition cost and breakdown of the acquired company

		<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Consideration for acquisition	Fair value of the shares held immediately before the additional acquisition as of the date of business combination	¥ -	\$ -
	Fair value of the shares acquired as of the date of business combination	<u>0</u>	<u>0</u>
Acquisition cost		<u>¥ 0</u>	<u>\$ 0</u>

4. Description and amount of main cost related to acquisition

Legal fees, etc.: ¥11 million (\$98 thousand)

5. Difference between the acquisition cost of the acquired company and the total amount of the acquisition
cost arising from transactions

Loss on step acquisitions: ¥94 million (\$839 thousand)

6. Amount of goodwill, reason for recognition and amortization method and period

(1) Amount of goodwill

¥3 million (\$27 thousand)

(2) Reason for recognition

The acquisition cost exceeded the fair value of the net assets of the acquired company at the time of the business combination.

(3) Amortization method and period

As the impact was not material, goodwill was fully amortized in the year ended March 31, 2017.

7. The major assets and liabilities of the acquired company as of the date of the business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 22	\$ 196
Noncurrent assets	46	411
Total assets	68	607
Current liabilities	71	634
Total liabilities	71	634

8. Estimated impact on the consolidated statements of income if the business combination had been completed at the beginning of the fiscal year ended March 31, 2017

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 86	\$ 768
Operating income	(17)	(152)
Ordinary income	(17)	(152)
Income before income taxes and minority interests	(41)	(366)
Net income	(41)	(366)
	Yen	U.S. dollars
Net income per share	¥ (0.44)	\$ (0.00)

(Calculation method for the estimated amount)

The estimated impacts in the above were calculated based on the difference between the sales and profit/loss which were calculated on the assumption that the business combination was completed at the beginning of the fiscal year and those in the consolidated statements of income. Those estimated impacts were not audited.

17. Segment Information

(a) General information about reportable segments:

The reportable segments of the Group are those units for which separate financial information can be obtained among the constituent units of the Group and which can be regularly examined by the Board of Directors of the Company to determine the allocation of management resources and to assess business performance.

The Group operates separate divisions based on the products and services provided. Each division plans comprehensive domestic and international strategies for its products and services and is engaged in developing its respective business activities. Thus, the Group has two reportable segments based on the two main types of products and services offered: Robotic Solutions and Machine Tools business. In the Robotic Solutions business, we produce mainly robotic mounters for electronic parts. In the Machine Tools business, we are focused on producing automatic lathes and other specialized machines.

For the fiscal year ended March 31, 2017 and thereafter, the reportable segment formerly known as “Electronics Assembly Equipment” has been changed to “Robotic Solutions.” This change is in name only, and does not have any impact on segment information. The information concerning the reportable segment for the fiscal year ended March 31, 2016 is described under the new name.

(b) Basis of measurement about reportable segment net sales, income, assets and other items:

The accounting procedures applied to the reportable segments are basically the same as those described in Note 2, “Summary of Significant Accounting Policies.” Reportable segment income is based on operating income. Intersegment sales and transfers are based on prevailing market prices.

(c) Information about reportable segments:

Information about reportable segment net sales, profit or loss, assets and other items for the years ended March 31, 2017 and 2016 was as follows:

	Reportable segments				Total	Adjustments	Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)			
Millions of yen							
For the year 2017:							
Net sales:							
External customers	¥ 74,105	¥ 10,997	¥ 85,102	¥ 1,295	¥ 86,397	¥ -	¥ 86,397
Intersegment sales/transfers	5	1	6	16	22	(22)	-
Total	¥ 74,110	¥ 10,998	¥ 85,108	¥ 1,311	¥ 86,419	¥ (22)	¥ 86,397
Segment income (loss) (*2)	14,546	(713)	13,833	(473)	13,360	(3,566)	9,794
Segment assets (*3)	73,568	13,031	86,599	1,445	88,044	70,363	158,407
Other items:							
Depreciation (*4)	4,387	462	4,849	68	4,917	241	5,158
Increase in property, plant and equipment and intangible assets (*4)	¥ 5,172	¥ 385	¥ 5,557	¥ 184	¥ 5,741	¥ 434	¥ 6,175
For the year 2016:							
	Reportable segments				Total	Adjustments	Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)			
Millions of yen							
Net sales:							
External customers	¥ 70,787	¥ 14,623	¥ 85,410	¥ 1,232	¥ 86,642	¥ -	¥ 86,642
Intersegment sales/transfers	2	-	2	3	5	(5)	-
Total	¥ 70,789	¥ 14,623	¥ 85,412	¥ 1,235	¥ 86,647	¥ (5)	¥ 86,642
Segment income (loss) (*2)	14,527	614	15,141	(356)	14,785	(2,883)	11,902
Segment assets (*3)	74,240	15,072	89,312	1,218	90,530	66,428	156,958
Other items:							
Depreciation (*4)	4,261	398	4,659	57	4,716	218	4,934
Increase in property, plant and equipment and intangible assets (*4)	¥ 4,781	¥ 534	¥ 5,315	¥ 93	¥ 5,408	¥ 233	¥ 5,641

	Reportable segments					Adjustments	Consolidated financial statements
	Robotic Solutions	Machine Tools	Total	Others (*1)	Total		
	Thousands of U.S. dollars						
For the year 2017:							
Net sales:							
External customers	\$ 661,652	\$ 98,187	\$ 759,839	\$ 11,563	\$ 771,402	\$ -	\$ 771,402
Intersegment sales/transfers	45	9	54	142	196	(196)	-
Total	\$ 661,697	\$ 98,196	\$ 759,893	\$ 11,705	\$ 771,598	\$ (196)	\$ 771,402
Segment income (loss) (*2)	129,875	(6,366)	123,509	(4,223)	119,286	(31,840)	87,446
Segment assets (*3)	656,857	116,348	773,205	12,902	786,107	628,241	1,414,348
Other items:							
Depreciation (*4)	39,170	4,125	43,295	607	43,902	2,152	46,054
Increase in property, plant and equipment and intangible assets (*4)	\$ 46,179	\$ 3,437	\$ 49,616	\$ 1,643	\$ 51,259	\$ 3,875	\$ 55,134

- *1) "Others" is a business segment that is not considered a reportable segment. It includes the manufacture of control equipment, PCB designing and manufacturing, software development and others for the years ended March 31, 2016 and the manufacture of control equipment and electronic equipment, and Image processing development for the years ended March 31, 2017.
- *2) Segment income adjustment consisted of corporate expenses amounting to ¥(3,574) million (\$ (31,911) thousand) and ¥(2,888) million, net of intersegment elimination of ¥8 million (\$71 thousand) and ¥5 million, respectively, for the years ended March 31, 2017 and 2016. Such corporate expenses consist mainly of general and administrative expenses and technical research expenses not attributable to the reportable segments.
- *3) Segment assets adjustment consisted of corporate assets amounting to ¥70,372 million (\$628,321 thousand) and ¥66,429 million, net of intersegment elimination of ¥(9) million (\$ (80) thousand) and ¥ (1) million, respectively, at March 31, 2017 and 2016. Such corporate assets consist mainly of surplus funds (cash and deposits), long-term investments (investment securities), assets related to technological research and administration divisions and other assets not attributable to the reportable segments.
- *4) Adjustments were attributable to technological research and administration divisions related items.

For the year ended March 31, 2016

(1) Information about products and services:

As this information has been presented under the segment information above, such information has been omitted.

(2) Information about geographic areas:

As of and for the years ended March 31, 2016, net sales and property, plant and equipment by geographic area were as follows:

	Japan	China	Other Asia	United States	Other North America	Europe	Other	Total
	Millions of yen							
Net sales	¥ 15,337	¥ 32,166	¥ 10,559	¥ 12,383	¥ 4,042	¥ 10,438	¥ 1,717	¥ 86,642
Ratio	17.7%	37.1%	12.2%	14.3%	4.7%	12.0%	2.0%	100.0%

	Japan	China	United States	Europe	Other	Total
	Millions of yen					
Property, plant and equipment	¥ 15,523	¥ 912	¥ 1,191	¥ 44	¥ 124	¥ 17,794
Ratio	87.2%	5.1%	6.7%	0.3%	0.7%	100.0%

(3) Information about major customers:

For the years ended March 31, 2016, information about major customers was as follows:

Name of customer	Net sales		Segment
	Millions of yen		
American Tec Co., Ltd. (China)	¥	15,010	Robotic Solutions

(e) Information about impairment loss on fixed assets in reportable segments:

Impairment loss on fixed assets for the years ended March 31, 2017 and 2016 was recognized in the amount of ¥11 million (\$98 thousand) and ¥982 million respectively.

However, as reportable segment income has been based on operating income, the impairment loss was not allocated to each reportable segment.

(f) Information about goodwill in reportable segments:

As this information was not material, it has been omitted.

18. Other Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized gains on available-for-sale securities			
Increase during the year	¥ 2,721	¥ (3,562)	\$ 24,294
Reclassification adjustments	129	-	1,152
Subtotal, before tax	2,850	(3,562)	25,446
Tax effect	(662)	1,008	(5,910)
Subtotal, net of tax	2,188	(2,554)	19,536
Foreign currency translation adjustments			
Increase during the year	(226)	(1,480)	(2,018)
Remeasurements of defined benefit plans			
Increase during the year	120	(951)	1,072
Reclassification adjustments	951	(537)	8,491
Subtotal, before tax	1,071	(1,488)	9,563
Tax effect	(328)	464	(2,929)
Subtotal, net of tax	743	(1,024)	6,634
Total other comprehensive income	¥ 2,705	¥ (5,058)	\$ 24,152

19. Cash Flow Information

Assets and liabilities of newly consolidated subsidiaries through acquisition of shares:

The assets and liabilities of TF, a newly consolidated subsidiary acquired through the purchase of investments in capital, and the net cash inflow for such acquisition, which were included in "Proceeds from investments in capital of subsidiaries resulting in change in scope of consolidation," for the year ended March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 22	\$ 196
Noncurrent assets	46	411
Current liabilities	(71)	(634)
Goodwill	3	27
Subtotal	0	0
Purchase cost of shares before acquisition of control	(94)	(839)
Loss on step acquisitions	94	839
Additional purchase cost of shares	0	0
Cash and cash equivalents of the newly consolidated subsidiary	(16)	(143)
Difference: Proceeds from investments in capital of subsidiaries resulting in change in scope of consolidation	¥ 16	\$ 143

Independent Auditor's Report



Independent Auditor's Report

To the Board of Directors of FUJI MACHINE MFG. Co., Ltd.:

We have audited the accompanying consolidated financial statements of FUJI MACHINE MFG. Co., Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016 and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of the Company 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017 and 2016 and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

KPMG AZSA LLC

July 10, 2017
Nagoya, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

