Consolidated Financial Results for the fiscal year ended December 31, 2018 Unaudited [IFRS]

February 14, 2019

Company name: Tsubaki Nakashima Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Code number: 6464
URL: http://www.tsubaki-nakashima.com/en/
Representative: Tsutomu Takamiya, Director and Representative Executive Officer, CEO
Contact: Shakil Ohara, Director and Executive Officer, Senior EVP, CFO
Phone: +81-6-6224-0193
Date of the ordinary general shareholder's meeting March 22, 2019
Payment date of cash dividend March 25, 2019
Filing date of securities report March 29, 2019
Availability of supplementary briefing material on financial results: Available
Schedule of financial results briefing session: Scheduled

(Amounts of less than one million yen are rounded.)

1. Consolidated Financial Results for the fiscal year ended December 31, 2018 (January 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes		Net profit for the period		Net profit for the period attributable to owners of the parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Dec. 31, 2018	74,832	40.5	9,942	58.8	8,824	67.5	6,822	156.7	6,819	156.6	3,448	22.9
Dec. 31, 2017	53,244	44.3	6,259	(9.6)	5,266	(17.8)	2,658	(42.6)	2,658	(42.6)	2,804	29.0

	Basic earnings per share	Diluted earnings per share	Return on equity (ROE)	Profit before taxes/Total assets	Operating profit margin
	Yen	Yen	%	%	%
Dec. 31, 2018	171.45	167.46	15.1	6.4	13.3
Dec. 31, 2017	67.09	65.47	6.0	3.8	11.8

(Reference) EBITDA: Fiscal year ended December 31, 2018: ¥13,221 million (up 53.5%)
Fiscal year ended December 31, 2017: ¥8,613 million
EBITDA = Operating profit + depreciation and amortization.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent	Equity per share attributable to owners of the parent
	Million yen	Million yen	Million yen	%	Yen
As of Dec. 31, 2018	138,681	45,080	45,053	32.5	1,128.60
As of Dec. 31, 2017	139,576	44,606	44,582	31.9	1,120.98

In the second quarter consolidated accounting period, provisional accounting for business combinations has been finalized. By the settlement of provisional accounting, the review of the initial allocation of acquisition costs are reflected on previous fiscal year amounts.

(3) Consolidated Cash flows

	Cash flows from Operating Activities	Cash flows from Investing Activities	Cash flows from Financing Activities	Cash and cash equivalents at the end of the period
	Million yen	Million yen	Million yen	Million yen
Dec. 31, 2018	8,110	(3,351)	(3,158)	13,304
Dec. 31, 2017	5,131	(43,834)	31,633	12,001

2. Dividends

	Annual dividends					Dividend amount (Total)	Payout ratio (Consolidated)	Dividend/ Equity attributable to owners of the parent
	1st Quarter -end	2nd Quarter -end	3rd Quarter -end	Year -end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Dec. 31, 2017	-	31.00	-	33.00	64.00	2,541	95.4	5.7
Fiscal year ended Dec. 31, 2018	-	39.00	-	40.00	79.00	3,158	46.1	7.0
Fiscal year ending Dec. 31, 2019 (Forecast)		40.00	-	41.00	81.00		-	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes		Net profit for the period attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending June 30, 2019	36,600	(5.9)	5,500	1.9	5,100	5.4	3,750	6.7	93.94
Full year	77,000	2.9	11,700	17.7	10,900	23.5	8,000	17.3	200.40

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2018: 40,653,500 shares

December 31, 2017: 40,340,800 shares

2) Total number of treasury shares at the end of the period:

December 31, 2018: 733,610 shares

December 31, 2017: 571,075 shares

3) Average number of shares during the period:

Fiscal year ended December 31, 2018: 39,774,300 shares

Fiscal year ended December 31, 2017: 39,614,656 shares

* These financial results are outside the scope of audit by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed to be reasonable, and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from these forecasts due to a wide range of factors.

1. Qualitative Information on Financial Results

(1) Explanation of Business Results

The world economy during the fiscal year ended December 31, 2018 generally remained firm despite concerns about economic deceleration exacerbated by intensified trade friction between the US and China, unstable political situation in Europe and the US, increased geopolitical risk, soaring resource prices, etc. In Japan, although some economies were affected by successive natural disasters, the gradual recovery trend continued.

In this environment, the Company continued to make business efforts and for the fiscal year ended December 31, 2018, sales increased 40.5% year on year to ¥74,832 million (an increase of 39. 3% excluding the impact of exchange rates for overseas consolidated subsidiaries; of which, sales for the PBC acquired from NN, Inc. US (the "former PBC") during the previous fiscal year was ¥31,974 million.).

As for profits, operating profit increased 58.8% year on year to ¥9,942 million (an increase of 62.9% excluding one-time cost and the impact of exchange rates for overseas consolidated subsidiaries; of which, operating profit for the former PBC was ¥2,468 million).

Net profit for the period attributable to owners of the parent increased 156.6% year on year to ¥6,819 million (an increase of 172.0% excluding one-time cost and the impact of exchange rates for overseas consolidated subsidiaries; of which, net profit for the period attributable to owners of the parent for the former PBC was ¥1,825 million.).

As such, under the management principle of "We will become a stellar corporation that realizes sustainable profitable growth and continues to create improvements in corporate value," the Group will strive to become a company that can further contribute to society and customers as "New TSUBAKI NAKASHIMA."

Performance by segment is as follows.

Precision Components Business

During the previous fiscal year, because of the inclusion of TN TENNESSEE, LLC. and eight other companies in the scope of consolidation due to stock acquisition for transferring the PBC of NN, Inc. US, the name of the segment has been changed from "Ball Business" to "Precision Components Business."

Sales of the Precision Components Business increased 44.4% year on year to ¥68,864 million. Segment profit (operating profit) increased 59.0% year on year to ¥8,899 million.

Linear Business

Sales of the Linear Business increased 7.7% year on year to ¥5,595 million. Segment profit (operating profit) increased 121.0% year on year to ¥713 million.

Other Business

Sales of other businesses increased 0.2% year on year to ¥373 million. Segment profit (operating profit) decreased 3.5% year on year to ¥330 million.

(2) Explanation of Financial Position

Current assets as of the fiscal year ended increased ¥1,352 million from the end of the previous fiscal year to ¥54,469 million. This is attributable to increases in cash and cash equivalents by¥1,303 million, inventories by ¥1,700 million, and decrease in Trade and other receivables by ¥1,993 million.

Non-current assets decreased ¥2,247 million from the end of the previous fiscal year to ¥84,212 million. This is attributable to decreases in Property, plant and equipment, net by ¥1,333 million and intangible assets, net and goodwill by ¥853 million.

Current liabilities increased ¥8,224 million from the end of the previous fiscal year to ¥19,395 million.

This is attributable to increases in loans and borrowings by ¥8,500 million, and decrease in income taxes payable by ¥240 million.

Non-current liabilities decreased ¥9,593 million from the end of the previous fiscal year to ¥74,206 million. This is attributable to a decrease in loans and borrowings by ¥9,025 million and deferred tax liabilities by ¥287 million.

Equity increased ¥474 million from the end of the previous fiscal year to ¥45,080 million. This is attributable to an increase in retained earnings by ¥3,913 million and treasury stock by ¥468 million, and in accumulated other comprehensive loss by ¥3,329 million.

In the second quarter consolidated accounting period, provisional accounting for business combinations has been finalized. By the settlement of provisional accounting, the review of the initial allocation of acquisition costs are reflected on previous fiscal year amounts.

(Analysis of Status of Cash Flows)

Cash and cash equivalents as of the fiscal year ended increased ¥1,303 million year on year to ¥13,304 million. The status of cash flows of each activity during the fiscal year ended December 31, 2018 and its cause are as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥8,110 million. This is attributable to cash increase factors including profit before taxes of ¥8,824 million, depreciation and amortization of ¥3,279 million and increase in trade and other payables of ¥385 million, despite cash decrease factors including increase in inventories of ¥2,510 million and income taxes paid of ¥2,988 million.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥3,351 million. This is attributable to payments for acquisition of property, plant and equipment of ¥3,083 million, acquisition of intangible assets of ¥202 million, and payments for acquisition of subsidiary stock of ¥90 million.

(Cash Flows from Financing Activities)

Net cash used in financing activities amounted to ¥3,158 million. This is attributable to cash dividends paid of ¥2,861 million, repayments of long-term loans and borrowings of ¥155 million, payments for purchase of treasury stock of ¥468 million and proceeds from exercise of subscription rights of ¥326 million.

(Reference) Cash flow-related financial indicators

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Ratio of equity attributable to owners of the parent (%)	31.9	32.5
Ratio of equity attributable to owners of the parent at market value (%)	76.5	46.7
Ratio of interest-bearing liabilities to cash flows (%)	1,415.1	888.6
Interest coverage ratio (times)	9.7	10.0

Ratio of equity attributable to owners of the parent: Equity attributable to owners of the parent / Total assets

Ratio of equity attributable to owners of the parent at market value: Market capitalization / Total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities / Cash flows

Interest coverage ratio: Cash flows / Interest expense
Notes: 1. All the above indicators are calculated using consolidated financial figures under IFRS.
2. “Market capitalization” is calculated based on the total number of issued shares excluding treasury stock.
3. “Cash flows” refers to cash flows from operating activities.
4. “Interest-bearing liabilities” covers all liabilities bearing interest recorded in the consolidated statement of financial position.

(4) Future Outlook

The Group’s financial results are affected by end users, including the automobile industry and machine tool industry, as well as exchange rate fluctuations through translation into yen for consolidated accounting.

Regarding the consolidated financial results forecast for the fiscal year ending December 31, 2019, the Group expects sales of ¥77.0 billion, operating profit of ¥11.7 billion, and net profit for the period attributable to owners of the parent of ¥8.0 billion.

* The assumed exchange rate is 110 yen for 1 dollar, 130 yen for 1 euro, and 16.6 yen for 1 RMB.

(5) Basic Policy for Profit Distribution and Dividends for the Current and Next Fiscal Years

The Company considers profit distribution to shareholders and continuous business growth to be its top management priorities and will decide on the total shareholder return taking into account the optimum balance of returning profits to shareholders, maintaining an appropriate leverage ratio and securing growth capital.

For the current fiscal year, the Company plans to pay a year-end dividend of 40 yen per share, and therefore the annual dividend will be 79 yen per share, including an interim dividend of 39 yen per share. For the next fiscal year, the Company plans to pay an annual dividend of 81 yen per share.

2.Basic idea on selection of accounting standards

The Company adopts International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2014 for the purpose of improving international comparability of financial statements on the capital market and unifying accounting treatment within the group.

3. Consolidated Financial Statements and notes

(1) Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	12,001	13,304
Trade and other receivables, net	17,017	15,024
Inventories	23,372	25,072
Other current assets	727	1,069
Total current assets	53,117	54,469
Non-current assets		
Property, plant and equipment, net	34,092	32,759
Intangible assets, net and goodwill	47,940	47,087
Investment property	3,755	3,755
Other investments	398	311
Deferred tax assets	176	177
Other non-current assets	98	123
Total non-current assets	86,459	84,212
Total assets	139,576	138,681
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	6,487	6,492
Current portion of loans and borrowings	155	8,655
Income taxes payable	1,052	812
Other current liabilities	3,477	3,436
Total current liabilities	11,171	19,395
Non-current liabilities		
Loans and borrowings, excluding current portion	72,441	63,416
Net defined benefit liability	2,905	2,799
Deferred tax liabilities	4,233	3,946
Other non-current liabilities	4,220	4,045
Total non-current liabilities	83,799	74,206
Total liabilities	94,970	93,601
Equity		
Share capital	16,459	16,621
Capital surplus	10,630	10,823
Treasury stock	(971)	(1,439)
Accumulated other comprehensive loss	(2,085)	(5,414)
Retained earnings	20,549	24,462
Equity attributable to owners of the parent	44,582	45,053
Non-controlling interests	24	27
Total equity	44,606	45,080
Total liabilities and equity	139,576	138,681

(2) Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

(Millions of yen)

	For the year ended December 31, 2017	For the year ended December 31, 2018
Sales	53,244	74,832
Cost of sales	40,416	57,705
Gross profit	12,828	17,127
Selling, general and administrative expenses	6,635	7,168
Other income	120	173
Other expenses	54	190
Operating profit	6,259	9,942
Financial income	42	36
Financial expenses	1,035	1,154
Profit before taxes	5,266	8,824
Income tax expense	2,608	2,002
Net profit for the period	2,658	6,822
Net profit for the period attributable to.		
Owners of the parent	2,658	6,819
Non-controlling interests	0	3
Net profit for the period	2,658	6,822
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	—	(50)
Remeasurements of defined benefit plans	(75)	(45)
Total items that will not be reclassified to profit or loss	(75)	(95)
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	859	(3,304)
Cash flow hedges	(908)	(19)
Hedges costs	130	44
Changes in fair value of available-for-sale financial assets	140	—
Total items that may subsequently be reclassified to profit or loss	221	(3,279)
Other comprehensive income (loss), net of tax	146	(3,374)
Total comprehensive income (loss)	2,804	3,448
Total comprehensive income attributable to.		
Owners of the parent	2,803	3,445
Non-controlling interests	1	3
Total comprehensive income (loss)	2,804	3,448
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	67.09	171.45
Diluted earnings per share (yen)	65.47	167.46

(3) Consolidated Statements of Changes in Equity

For the fiscal year ended December 31, 2017

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated Other Comprehensive Income (Loss)		
	Share capital	Capital surplus	Treasury stock	Remeasurements of defined benefit plans	Foreign currency translation differences	Cash flow hedges
Balance as of January 1, 2017	16,299	10,472	(971)	—	(1,968)	(332)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(75)	858	(908)
Total comprehensive Income (loss)	—	—	—	(75)	858	(908)
Issuance of new shares	160	158	—	—	—	—
Dividends	—	—	—	—	—	—
Expired of Stock acquisition right	—	—	—	—	—	—
Transfer to retained earnings	—	—	—	75	—	—
Business combination	—	—	—	—	—	—
Total transactions with owners and other	160	158	—	75	—	—
Balance as of December 31, 2017	16,459	10,630	(971)	—	(1,110)	(1,240)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Accumulated Other Comprehensive Income (Loss)			Retained earnings	Total		
	Hedge cost	Changes in fair value of available-for-sale financial assets	Total				
Balance as of January 1, 2017	—	(5)	(2,305)	20,497	43,992	19	44,011
Net profit for the period	—	—	—	2,658	2,658	—	2,658
Other comprehensive income (loss), net of tax	130	140	145	—	145	1	146
Total comprehensive income (loss)	130	140	145	2,658	2,803	1	2,804
Issuance of new shares	—	—	—	—	318	—	318
Dividends	—	—	—	(2,531)	(2,531)	—	(2,531)
Expired of Stock acquisition right	—	—	—	—	—	—	—
Transfer to retained earnings	—	—	75	(75)	—	—	—
Business combination	—	—	—	—	—	4	4
Total transactions with owners and other	—	—	75	(2,606)	(2,213)	4	(2,209)
Balance as of December 31, 2017	130	135	(2,085)	20,549	44,582	24	44,606

For the fiscal year ended December 31, 2018

(Millions of yen)

	Share capital	Capital surplus	Treasury stock	Accumulated Other Comprehensive Income (Loss)		
				Financial assets measured at FVOCI	Remeasurements of defined benefit plans	Foreign currency translation differences
Balance as of January 1, 2018	16,459	10,630	(971)	135	—	(1,110)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(50)	(45)	(3,304)
Total comprehensive Income (loss)	—	—	—	(50)	(45)	(3,304)
Issuance of new shares	162	161	—	—	—	—
Dividends	—	—	—	—	—	—
Purchase of treasury Stock	—	—	(468)	—	—	—
Stock-based rewards	—	32	—	—	—	—
Expired of Stock acquisition right	—	—	—	—	—	—
Transfer to retained earnings	—	—	—	—	45	—
Total transactions with owners and other	162	193	(468)	—	45	—
Balance as of December 31, 2018	16,621	10,823	(1,439)	85	—	(4,414)

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Accumulated Other Comprehensive Income (Loss)			Retained earnings	Total		
	Cash flow hedge	Hedge costs	Total				
Balance as of January 1, 2018	(1,240)	130	(2,085)	20,549	44,582	24	44,606
Net profit for the period	—	—	—	6,819	6,819	3	6,822
Other comprehensive income (loss), net of tax	(19)	44	(3,374)	—	(3,374)	—	(3,374)
Total comprehensive income (loss)	(19)	44	(3,374)	6,819	3,445	3	3,448
Issuance of new shares	—	—	—	—	323	—	323
Dividends	—	—	—	(2,861)	(2,861)	—	(2,861)
Purchase of treasury Stock	—	—	—	—	(468)	—	(468)
Stock-based rewards	—	—	—	—	32	—	32
Expired of Stock acquisition right	—	—	—	—	—	—	—
Transfer to retained earnings	—	—	45	(45)	—	—	—
Total transactions with owners and other	—	—	45	(2,906)	(2,974)	—	(2,974)
Balance as of December 31, 2018	(1,259)	174	(5,414)	24,462	45,053	27	45,080

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the year ended December 31, 2017	For the year ended December 31, 2018
Cash flows from operating activities		
Profit before taxes	5,266	8,824
Depreciation and amortization	2,354	3,279
Increase (decrease) in net defined benefit liability	105	(65)
Interest and dividend income	(32)	(27)
Interest expense	536	809
Foreign exchange losses	99	113
(Gain) loss on sale of fixed assets	(13)	10
Decrease (increase) in trade and other receivables	(421)	1,124
Increase in inventories	(421)	(2,510)
Increase in trade and other payables	736	385
Other, net	(381)	(37)
	7,828	11,905
Interest and dividends received	33	20
Interest paid	(509)	(827)
Income taxes paid	(2,221)	(2,988)
Net cash provided by operating activities	5,131	8,110
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(1,568)	(3,083)
Proceeds from sales of property, plant and equipment	—	5
Payments for acquisition of investment securities	(12)	(202)
Payments for acquisition of subsidiary stock	(42,272)	(90)
Other, net	18	19
Net cash used in investing activities	(43,834)	(3,351)
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	34,000	1,000
Repayments of short-term loans and borrowings	(34,00)	(1,000)
Proceeds from long-term loans and borrowings	68,000	—
Repayments of long-term loans and borrowings	(34,155)	(155)
Proceeds from exercise of subscription rights	319	326
Cash dividends paid	(2,531)	(2,861)
Payments for purchase of treasury stock	—	(468)
Net cash provided by (used in) financing activities	31,633	(3,158)
Effect of exchange rate changes on cash and cash equivalents	(61)	(298)
Net (decrease) increase in cash and cash equivalents	(7,131)	1,303
Cash and cash equivalents at the beginning of the period	19,132	12,001
Cash and cash equivalents at the end of the period	12,001	13,304

(5) Notes concerning going concern assumption

Not applicable

(6) Notes to Consolidated Financial Statements

(Reporting Entity)

Tsubaki Nakashima Co., Ltd. is a company incorporated and domiciled in Japan. The Company's registered office is located at 19, Shakudo, Katsuragi, Nara, Japan. The Company's consolidated financial statements, the closing date of which is December 31, 2018, comprise the Company and its subsidiaries (together referred to as the "Group" and each referred to as a "Group company"). The Group primarily engages in manufacturing and sale of precision balls, precision rollers, stamped steel cages and sheet metal parts ("Precision component business"), and ball screws and air blowers ("Linear business").

(Basis of Preparation)

(1) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976), as the Company meets the requirements for a "specified company complying with designated international accounting standards" set forth in Article 1-2 of the Ordinance.

The Company has not early applied any standards and interpretations of IFRS for the fiscal year ended December 31, 2018.

(2) Basis of Measurement

The consolidated financial statements have been prepared on the basis of historical cost, except for assets and liabilities measured at fair value.

(3) Functional and Presentation Currency

The consolidated financial statements are presented in yen, which is the Company's functional currency. All financial information presented in yen has been rounded to the nearest million.

(4) Use of Estimates and Judgments

In preparing the consolidated financial statements in accordance with IFRS, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods that are affected by the revision.

Judgments and estimates made by management that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

- Valuation of inventories
- Estimate of useful life and residual value of fixed assets
- Planning and valuation premises upon which impairment tests are based
- Measurement of defined benefit obligations
- Recoverability of deferred tax assets
- Estimated fair value of unit price of stock options
- Recoverability of trade and other receivables
- Fair value of financial instruments

(5) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both

financial and non-financial assets and liabilities.
When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into three levels in a fair value hierarchy, based on the inputs used in the valuation techniques, as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Leve 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
If the inputs used to measure the fair value of an asset or a liability might fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.
The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(Newly Adopted Accounting Policies)
(1) Financial Instruments, Revenue from Contracts with Customers
The Group has adopted the following standards from the first quarter ended March 31, 2018:

Standard	Title of standard	Description of new standards and amendments
IFRS 9	Financial Instruments	New standard on the recognition, classification, measurement and hedge accounting of financial instruments
IFRS 15	Revenue from Contracts with Customers	New standard on accounting and disclosure for revenue recognition

IFRS 9 “Financial Instruments”
The Group has adopted IFRS 9 “Financial Instruments” effective January 1, 2018.
The application of IFRS 9 has made consequential amendments to IAS 1 “Presentation of Financial Statements,” which has also been applied. The amendments require that the impairment of financial assets should be presented separately in the statement of profit or loss and other comprehensive income.
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.
- The following assessments have been made based on the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation of investments in equity instruments not held for trading as measured at FVOCI (measured at fair value through other comprehensive income).
- Except for the approach to account for currency basis spread as hedge cost, changes to hedge accounting policies resulting from the adoption of IFRS 9 have been applied prospectively.
- All hedging relationships designated under IAS 39 on December 31, 2017 met the criteria for hedge accounting under IFRS 9 on January 1, 2018 and have therefore been regarded as continuing hedging relationships.
As a result of applying IFRS 9, the foreign currency basis spreads of financial instruments are separately accounted for as a cost of hedging; they are recognized in other comprehensive income and accumulated in a cost of hedging reserve within equity. The Group has restated comparative periods for retrospective application of the cost of hedging approach to accounting for currency basis spreads. As a result of this retrospective adjustment, as of December 31, 2017, a cost of hedging is recorded in the amount of ¥130 million, and cash flow hedges decreases by the same amount.

IFRS 15 “Revenue from Contracts with Customers”
The Group has adopted IFRS 15 “Revenue from Contracts with Customers” effective January 1, 2018.
In applying IFRS 15, the Group uses a method of recognizing the cumulative effect of applying this standard at the

date of initial application, which is accepted as a transitional measure, and accordingly financial information for the comparative year is not restated.
As a result of identifying performance obligations under contracts with customers in accordance with this standard, certain cost of sales that has been previously accounted for as such is accounted for as a reduction of revenue from the first quarter ended March 31, 2018.
The impact on revenue and other profit or loss is immaterial.

(2) Share-based payment
The Group has adopted an officer remuneration BIP (Board Incentive Plan) trust (hereinafter referred to as the "BIP Trust") as a performance-linked share-based payment to ensure steady execution and progress of the Midterm Business Plan from the second quarter ended June 30, 2018. The BIP Trust is a system of granting the Company's shares to officers (in certain cases, the Company's shares are converted into money within the trust and money equivalent to the value of the Company's shares is paid) in accordance with the officers' rank and level of achievement of the Midterm Business Plan, etc. The value of the services received is measured by the fair value of the Company's shares at the grant date. This value is expensed over the vesting period from the grant date, and the corresponding amount is recognized as an increase in equity.

(Significant Accounting Policies)
The following accounting policies have been consistently applied to all periods presented in preparing these consolidated financial statements.
(1) Basis of consolidation
(a) Business combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.
If the consideration transferred in the acquisition exceeds the fair value of the net of the identifiable assets and liabilities, the excess amount is recorded as goodwill in the consolidated statements of financial position. Conversely, if the consideration transferred in the acquisition is below the fair value of the net of the identifiable assets and liabilities, the gain is immediately recorded as income in the consolidated statements of profit or loss and other comprehensive income (loss). Acquisition-related costs are expensed as incurred. Additional non-controlling interests acquired after obtaining control are accounted for as equity transactions, and no goodwill is recognized for the transaction.

(b) Non-controlling interests
Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

(c) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(d) Loss of control
When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(e) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(2) Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates or rates that approximate the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency translation differences are generally recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency translation differences arising from the translation of the following items are recognized in other comprehensive income:

- available-for-sale equity investments (except on impairment, in which case foreign currency translation differences that have been recognized in other comprehensive income are reclassified to profit or loss); and
- qualifying cash flow hedges to the extent that the hedges are effective.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into yen at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into yen at the exchange rates or rates that approximate the exchange rates at the dates of the transactions.

Foreign currency translation differences arising from such translation are recognized in other comprehensive income and, except to the extent that the translation difference is allocated to non-controlling interests, accumulated in foreign currency translation differences of foreign operations.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in foreign currency translation differences of foreign operations related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. For a monetary item that is receivable from or payable to a foreign operation, when its settlement is neither planned nor likely to occur in the foreseeable future, foreign currency translation gains and losses arising from the monetary item form part of the net investment in that foreign operation. Accordingly, those foreign currency translation gains and losses are recognized in other comprehensive income and accumulated in foreign currency translation differences of foreign operations.

(3) Financial instruments

The Group has adopted IFRS 9 “Financial Instruments” from January 1, 2018. Accounting policies after the adoption of IFRS 9 are as follows:

1) Non-derivative financial assets

(i) Classification

The Group classifies non-derivative financial assets as financial assets measured at: amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are

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

Financial assets measured at fair value through other comprehensive income
(a) Debt financial assets measured at fair value through other comprehensive income
Financial assets are classified as debt financial assets measured at fair value through other comprehensive income if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Equity financial assets measured at fair value through other comprehensive income
Of financial assets other than financial assets measured at amortized cost or debt financial assets measured at fair value through other comprehensive income, equity financial assets for which the Group irrevocably elected at initial recognition to present subsequent changes in fair value in other comprehensive income are classified as financial assets measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss
All financial assets other than those measured at amortized cost or those measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss; provided, however, that the Group may, at initial recognition, irrevocably designate a financial asset that would not be measured at fair value through profit or loss as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(ii) Initial recognition and measurement
The Group initially recognizes trade and other receivables at the date when they occur. All other financial assets are initially recognized at the transaction date when the Group becomes a party to the contractual provisions of the financial asset. All financial assets, except for those measured at fair value through profit or loss, are initially measured at their fair value plus transaction costs. Trade receivables without a significant financing component are initially measured at their transaction price.

(iii) Subsequent measurement
Financial assets are subsequently measured based on classification as follows:

Financial assets measured at amortized cost
Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

Financial assets measured at fair value through other comprehensive income
(a) Debt financial assets measured at fair value through other comprehensive income
Changes in fair value of debt financial assets measured at fair value through other comprehensive income, except for impairment gains or losses and foreign exchange gains or losses, are recognized in other comprehensive income until they are derecognized. When the debt financial assets are derecognized, other comprehensive income previously recognized is reclassified to profit or loss.

(b) Equity financial assets measured at fair value through other comprehensive income
Changes in fair value of equity financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income. When the equity financial assets are derecognized or the fair value decreases significantly, other comprehensive income previously recognized is directly reclassified to retained earnings. Dividends from the equity financial assets are recognized in profit or loss.

Financial assets measured at fair value through profit or loss
Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and changes in the fair value are recognized in profit or loss.

(iv) Derecognition
A financial asset is derecognized when the contractual rights to cash flows from the financial asset expire or are transferred, or when all the risks and rewards of ownership of the financial asset are substantially transferred. The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

(v) Impairment
The Group recognizes an allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.
Determining significant increases in credit risk
At each closing date, the Group assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring on the financial asset as at the closing date with the risk of a default occurring on the financial asset as at the date of initial recognition.
The Group determines whether there have been significant increases in credit risk based on changes in the risk of a default occurring since initial recognition. In assessing whether there is any change in the risk of a default occurring, the Group takes into account past due information and the following matters as supplemental information.
- Significant change in an external credit rating of the financial asset
- Downgrading of an internal credit rating
- Deterioration of the borrower’s business results

Expected credit loss approach
Expected credit losses are the present value of the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive. If the credit risk on a financial asset has increased significantly since initial recognition, the Group measures the allowance for doubtful accounts for that financial asset at an amount equal to lifetime expected credit losses. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the allowance for doubtful accounts for that financial asset at an amount equal to 12-month expected credit losses.
Notwithstanding the above, for trade receivables that do not contain a significant finance component, the Group measures the allowance for doubtful accounts at an amount equal to lifetime expected credit losses.
The provision for doubtful accounts for financial assets is recognized in profit or loss.

2) Non-derivative financial liabilities
(i) Classification
The Group classifies non-derivative financial liabilities as financial liabilities measured at amortized cost; provided, however, that a non-derivative financial liability is classified as a financial liability measured at fair value through profit or loss when the Group, at initial recognition, irrevocably designates the non-derivative financial liability as measured at fair value through profit or loss.

(ii) Initial recognition and measurement
The Group initially recognizes debt securities issued by the Group at the issue date. All other financial liabilities are initially recognized at the transaction date when the Group becomes a party to the contractual provisions of the financial liability. All financial liabilities, except for those measured at fair value through profit or loss, are initially measured at their fair value plus transaction costs.

(iii) Subsequent measurement
Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value, and changes in the fair value are recognized in profit or loss.

(iv) Derecognition
A financial liability is derecognized when it is extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expires.

3) Derivatives and hedge accounting
The Group uses derivatives such as forward currencies and interest rate swaps to hedge foreign exchange risk and interest rate risk. The derivatives are initially measured at fair value at the date when the derivative contract is entered into and are subsequently measured at fair value.
Changes in fair value of derivatives are recognized in profit or loss. However, the effective portion of cash flow hedges is recognized in other comprehensive income.

(i) Qualifying criteria for hedge accounting
To assess whether a hedging relationship meets the qualifying criteria for hedge accounting, the Group documents at the inception of the hedging relationship the relationship between a hedging instrument and hedged item and the risk management objectives and strategies for undertaking various hedges. When a derivative used for hedging offsets the fair value of the hedged item or changes in the cash flows, the Group assesses and documents at the inception of the hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. The Group performs the ongoing assessment of hedge effectiveness at each closing date or upon a significant change in the circumstance affecting the hedge effectiveness requirements, whichever comes first.

(ii) Accounting for qualifying hedging relationships
Hedging relationships that meet the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges
The portion of the change in the fair value of the hedging instrument that is determined to be an effective hedge (i.e., the portion that is offset by the change in the cash flow hedge reserve) is recognized in other comprehensive income, and any remaining change in the fair value of the hedging instrument is hedge ineffectiveness that is recognized in profit or loss.
If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or if a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group directly reclassifies the cash flow hedge reserve to the initial cost or other carrying amount of the asset or liability.
Cash flow hedge reserve on cash flow hedges other than those stated above is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in

one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss.
When the qualifying criteria are no longer met, hedge accounting is discontinued. In such cases, the amount that has been accumulated in the cash flow hedge reserve is accounted for as follows:
- if the hedged future cash flows are still expected to occur, that amount remains in the cash flow hedge reserve until the future cash flows occur.
- if the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified from the cash flow hedge reserve to profit or loss.

4) Offsetting financial assets and financial liabilities
A financial asset and a financial liability are offset, and the net amount is presented in the consolidated statements of financial position only when the Group:
- currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5) Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by quoted market prices or dealer quotations. If there is no active market, the fair value of financial instruments is determined using appropriate valuation techniques

(4) Property, plant and equipment
(a) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.
Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(b) Subsequent expenditure
Subsequent expenditure is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

(c) Depreciation
Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.
The estimated useful lives of property, plant and equipment are as follows:
- Buildings and structures: 3 to 59 years
- Machinery and vehicles: 2 to 25 years
Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(5) Intangible assets and goodwill
(a) Goodwill
Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(b) Research and development expenses
Expenditure on research activities is recognized in profit or loss as incurred.
Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is

technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(c) Other intangible assets
Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(d) Amortization
Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Goodwill is not amortized.
The estimated useful lives are as follows:
- Right to use property: 50 years
- Customer-related assets: 10-20 years
- Software: 5 years
Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(6) Investment property
Investment property is property held to earn rentals or for capital appreciation or both.
Investment property is measured by using the cost model consistent with the measurement of property, plant and equipment, and is presented at cost less accumulated depreciation and any accumulated impairment losses.

(7) Inventories
Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined principally based on the gross average method and the specific identification method, and includes all costs of purchase, costs of production and conversion, and other costs incurred in bringing the inventories to their present location and condition. In the case of inventories produced and work in process, cost includes an appropriate amount of production overheads allocated based on normal operating capacity.
Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(8) Non-financial assets
Non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Goodwill arising from a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects the risks specific to the asset or cash-generating unit.
An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.
An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(9) Employee benefits
(a) Post-employment benefits
Defined contribution plans
Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans
The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior fiscal years, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.
Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are immediately recognized in other comprehensive income and reclassified to retained earnings. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the fiscal year by applying the discount rate used to measure the defined benefit obligation at the beginning of the fiscal year to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the fiscal year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.
When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(b) Short-term employee benefits
Short-term employee benefits are expensed as the related service is provided. Bonuses are recognized as a liability in the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(c) Share-based payment transactions
The grant-date fair value of equity-settled share-based payment transactions granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(10) Revenue

(a) Sale of goods

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” from January 1, 2018.

In accordance with IFRS 15, the Group has recognized revenue based on the following five-step approach from the first quarter ended March 31, 2018, except for interest and dividend income under IFRS 9 and rental income under IAS 17.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group engages in manufacturing and sale of precision balls, precision rollers, stamped steel cages, sheet metal parts, ball screws, air blowers and other products. For the sale of such products, revenue is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group determines that the performance obligation is satisfied. The amount of revenue is measured at the net amount of consideration promised in a contract less returns, discounts and rebates.

(b) Rental income

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognized as other income.

(11) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(12) Government grants

Government grants are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognized in profit or loss in the periods in which the expenses are recognized.

(13) Financial income and financial expenses

Financial income comprises interest income, dividend income, gains on disposal of available-for-sale financial assets, fair value gains on financial instruments measured at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree, and gains on hedging instruments recognized in profit or loss, and the reclassification of gains previously recognized in other comprehensive income. Interest income is recognized as accrued using the effective interest method. Dividend income is recognized generally on the date on which the Group’s right to receive payment is established.

Financial expenses mainly comprise interest expenses on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, fair value losses on financial instruments measured at fair value through profit or loss, impairment losses on financial assets (excluding trade receivables), losses on hedging financial instruments recognized in profit or loss, and the reclassification of the amount previously recognized in other comprehensive income.

Foreign exchange gains and losses are recognized on a net basis as financial income or financial expenses, depending on the net profit or loss position as a result of foreign exchange rate fluctuations.

(14) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except for those related to business combinations or items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the fiscal year and any adjustment to the tax payable or receivable in respect of previous fiscal years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(b) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. The carrying amount of deferred tax assets is reviewed each fiscal year and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to realize all or part of the benefit of the deferred tax assets. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax laws enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption. Deferred tax assets and liabilities are offset only if certain criteria are met.

Operating Segments

1. General information

(1) Basis of segmentation

The Group is composed of segments by product and service and there are "Precision component Business, "Linear Business" and "Others" as reporting segments.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and is subject to regular review by the Chief Executive Officer of the Group for assessing performance and making resource allocation decisions. The Company’s operating segments consist of “Precision component business”, “Linear business” and “Others business”. These businesses offer different products and are managed separately because they require different technologies and marketing strategies.

The “Precision component business” segment engages in manufacturing and sales of various types of steel balls, rollers, cages and sheet metal parts. The “Linear business” segment engages in manufacturing and sales of ball screws and air blowers. The “Others business” segment engages primarily in the leasing of real estate.

Segment information is determined in conformity with the accounting policies used in preparing the condensed interim consolidated financial statements. Operating profit (loss) of each reportable segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before finance income and finance costs. Pricing for the inter-segment transactions are determined on an arm’s length basis.

During the third quarter of the previous consolidated fiscal year, we acquired TN TENNESSEE, LLC. and eight

other companies in the scope of consolidation. The name of the segment has been changed from "Ball business" to "Precision component Business".

(2) Segment Information

Segment information for the fiscal year ended December 31, 2017 and 2018 is as follows.

For the fiscal year ended December 31, 2017

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Consolidated financial statements
Sales						
External sales	47,678	5,193	373	53,244	—	53,244
Inter-segment sales	4	1	43	48	(48)	—
Total consolidated sales	47,682	5,194	416	53,292	(48)	53,244
Segment profit	5,596	323	340	6,259	0	6,259
				Financial income		42
				Financial expense		(1,035)
				Profit before taxes		5,266

Reconciling items to segment profit include elimination of inter-segment transactions.

	Precision component business	Linear business	Others business	Total	Reconciling items	Consolidated financial statements
Depreciation and amortization	(2,051)	(303)	—	(2,534)	—	(2,354)
Segment assets	117,153	13,038	3,755	133,946	5,630	139,576
Capital expenditure	1,530	103	—	1,633	—	1,633

For the fiscal year ended December 31, 2018

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Consolidated financial statements
Sales						
External sales	68,864	5,595	373	74,832	—	74,832
Inter-segment sales	9	—	43	52	(52)	—
Total consolidated sales	68,873	5,595	416	74,884	(52)	74,832
Segment profit	8,899	713	330	9,942	0	9,942
				Financial income		36
				Financial expense		(1,154)
				Profit before taxes		8,824

Reconciling items to segment profit include elimination of inter-segment transactions.

	Precision component business	Linear business	Others business	Total	Reconciling items	Consolidated financial statements
Depreciation and amortization	(3,018)	(261)	―	(3,279)	―	(3,279)
Segment assets	116,491	13,826	3,755	134,072	4,609	138,681
Capital expenditure	3,124	238	―	3,362	―	3,362

(Earnings per share)

	For the fiscal year ended December 31, 2017	For the fiscal year ended December 31, 2018
Net profit for the period attributable to Owners of the parent (Millions of yen)	2,658	6,819
Adjustment for earnings	―	―
Adjusted Net profit for the period attributable to Owners of the parent (Millions of yen)	2,658	6,819
Weighted average numbers of issued common shares	39,614,656	39,774,300
Impact of dilution		
Stock options	977,175	940,208
BIP Trust	―	5,525
Weighted average numbers of issued common shares after dilution	40,591,831	40,720,033
Basic earnings per share (Yen)	67.09	171.45
Diluted earnings per share (Yen)	65.47	167.46

(Business combination)
As of August 17, 2017 (Japan time), the Group acquired all shares of TN TENNESSEE, LLC. and NN International V in cash to transfer Precision Bearing Components business (hereinafter referred to as the "PBC Division") operated by NN, INC. group based in Tennessee, USA. In connection with the business combination, the allocation was carried out because the allocation was not completed in the previous consolidated fiscal year, but the allocation was completed in the current consolidated fiscal year.

(1) Fair value of acquired assets and liabilities, and payment as of acquisition date

(Millions of yen)

Cash and cash equivalents	1,781
Trade and other receivables, net	5,481
Inventories	6,443
Property, plant and equipment, net	14,255
Intangible assets, net	7,491
Other assets	565
Trade and other payables	(3,370)
Deferred tax liabilities	(2,908)
Other liabilities	(2,574)
Fair value of acquired assets and liabilities, net	27,164
Goodwill	17,137
Total	44,301
Cash and cash equivalents	44,297
Non-controlling interests	4

*The content of goodwill mainly resulted from a reasonable estimate of the expected future profitability in the future. Of the goodwill, 2,485 million yen can be recorded as deductible for tax purposes.

*Non-controlling interests are for subsidiaries of NN International B.V. (Now TN EUROPE B.V.).

In connection with the completion of allocation, we retroactively revised our original provisional amount. As a result, mainly at the acquisition date, there were 3,799 million yen for tangible fixed assets, 7,306 million yen for intangible assets, deferred tax liabilities 2,477 million yen increased, goodwill decreased by 9,218 million yen in FY2018.

The consolidated statement of financial position for the FY2017 has also been retroactively adjusted based on the completion of allocation, mainly for tangible fixed assets of 3,834 million yen, intangible assets of 7,375 million yen, deferred tax liabilities Increased by 2,393 million yen, and goodwill decreased by 9,469 million yen.

In addition, in the consolidated statement of comprehensive income for the FY2017, cost of sales increased by 602 million yen, selling, general and administrative expenses increased by 124 million yen, and corporate income tax expenses decreased by 207 million yen, resulting in Net profit decreased by 519 million yen.

Former PBC Division brought sales revenue of 11,893 million yen and net income of 374 million yen to the Group's business results during the 137 days from acquisition date to 31 December 2017. (Not audited)

(2) Net cash flow generated on acquisition

(Millions of yen)

Payment for acquisition of subsidiary, net	
Acquisition by cash	(44,143)
Cash and cash equivalents owned by acquired companies	1,781
Total	(42,362)

*Of the above total amount, expenditure in the previous consolidated fiscal year is 42,272 million yen

(3) Acquisition cost

In connection with the acquisition, the Group incurred legal fees and due diligence related expenses of 1,381 million yen million. These expenses were included in Selling, general and administrative expenses of FY2017.

(Events after the reporting period)

None