Information Disclosed on the Internet upon Issuing Notice of the Convocation of the Ordinary General Meeting of Shareholders for the 100th Business Term

Consolidated Statement of Changes in Net Assets

Notes to Consolidated Financial Statements

Non-consolidated Statement of Changes in Net Assets

Notes to Non-consolidated Financial Statements

From January 1, 2018 to December 31, 2018

Nissha Co., Ltd.

Nissha Co., Ltd. provides "Consolidated Statement of Changes in Net Assets," "Notes to Consolidated Financial Statements," "Non-consolidated Statement of Changes in Net Assets," and "Notes to Non-consolidated Financial Statements" to Shareholders by posting them on its website (https://www.nissha.com/english/) pursuant to the provisions of laws, regulations and Article 16 of its Articles of Incorporation.

Consolidated Statement of Changes in Net Assets

(From January 1, 2018 to December 31, 2018)

(Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	12,069	15,460	50,653	(327)	77,856
Changes of items during the period					
Issuance of new shares	50	50			100
Dividends of surplus			(1,517)		(1,517)
Profit attributable to owners of parent			4,308		4,308
Purchase of treasury shares				(1,717)	(1,717)
Disposal of treasury shares		3		134	137
Net changes of items other than shareholders' equity					
Total changes of items during the period	50	53	2,791	(1,583)	1,311
Balance at the end of current period	12,119	15,514	53,445	(1,911)	79,168

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	11,875	3,687	395	15,958	239	94,054
Changes of items during the period						
Issuance of new shares						100
Dividends of surplus						(1,517)
Profit attributable to owners of parent						4,308
Purchase of treasury shares						(1,717)
Disposal of treasury shares						137
Net changes of items other than shareholders' equity	(3,658)	(1,896)	(56)	(5,611)	(121)	(5,732)
Total changes of items during the period	(3,658)	(1,896)	(56)	(5,611)	(121)	(4,421)
Balance at the end of current period	8,216	1,791	339	10,347	117	89,633

(Note: Amounts are rounded down to the nearest million yen.)

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

(1) Scope of consolidation

1) Number of consolidated subsidiaries: 69

Names of major consolidated subsidiaries

Nitec Industries, Inc., Nitec Precision and Technologies, Inc., Nissha Printing Communications, Inc., Eimo Technologies, Inc., Graphic Controls Acquisition Corp., AR Metallizing N.V.

The Company incorporated NCI Tokyo, Inc., Graphic Controls Acquisition Corp. (Connecticut), RSS Acquisition Corp., Blue Shutter Acquisition Corp., and Graphic Controls Acquisition Corp. (Michigan). These companies are therefore included in the scope of consolidation from the current consolidated fiscal year. The Company acquired equity of Sequel Special Products, LLC and RSS Design, LLC. Therefore, these companies are included in the scope of consolidation from the current consolidated fiscal year.

Bio Lead-Lok B, Sp. z o. o., which was one of the consolidated subsidiaries at the end of the previous fiscal year, completed its liquidation. This company is therefore excluded from the scope of consolidation from the current consolidated fiscal year.

ARM Embalagens Ltda., Málaga Produtos Metalizados Ltda. and Graphic Controls Ltd. changed their trade names to Nissha ARM Embalagens Trading Do Brasil Ltda., AR Metallizing Produtos Metalizados Ltda. and Nissha Medical Technologies Ltd., respectively, from the current consolidated fiscal year.

2) Names, etc. of major unconsolidated companies

Bridge Venture 2014 Investment Enterprise, L.P.

(Reason for excluding the unconsolidated company from the scope of consolidation)

This unconsolidated company is small and its total assets, net sales, profit (loss) (in the amount commensurate with equity), retained earnings (in the amount commensurate with equity), and other items do not largely influence the consolidated financial statements.

(2) Application of equity method

1) Number of unconsolidated companies accounted for by the equity method: 1

Names of major companies, etc.

Bridge Venture 2014 Investment Enterprise, L.P.

2) Number of associated companies accounted for by the equity method: 2

Names of major companies, etc.

Nissha and Lens Technologies (Changsha) Company Limited

The Company sold shares of TPK Film Solutions Limited which has been excluded from the scope of the companies accounted for by the equity method from the current consolidated fiscal year.

(3) Fiscal year, etc. of consolidated subsidiaries

The settlement date of consolidated subsidiaries is the same as the consolidated settlement date.

(4) Significant accounting policies

1) Standards and methods of valuation of significant assets

i. Securities

Available-for-sale securities

- Available-for-sale securities with market values: ···· Stated at fair value based on market prices as of the settlement date.

(Differences in valuation are included directly in net assets and the cost of securities sold is determined based on the moving-average method.)

- Available-for-sale securities without market values: ···· Stated at cost determined by the moving-average method.

ii. Derivatives ···· Stated at fair value.

iii. Inventories

- Finished products (excluding Decorative Film products, etc. of Industrial Materials) and work in process:	····	Stated at cost determined by the specific identification method, and by the first-in first-out method. (Book value on the balance sheet is stated at lower of cost.)
- Finished products (Decorative Film products, etc. of Industrial Materials):	····	Stated at cost determined by the moving-average method. (Book value on the balance sheet is stated at lower of cost.)
- Raw materials and supplies:	····	Stated at cost determined mainly by the periodic average method, and by the first-in first-out method. (Book value on the balance sheet is stated at lower of cost.)

2) Depreciation methods of significant non-current assets

i. Property, plant and equipment (excluding lease assets): ···············

Straight-line method

Useful lives are principally as follows:
Buildings and structures: 15 to 50 years
Machinery, equipment and vehicles: 5 to 10 years

ii. Intangible assets (excluding lease assets) ·······························

Straight-line method

Depreciation periods are principally as follows:
Trademark right: 20 years
Software: 5 years (Usable life of internal use)
Technical assets: 15 years
Customer related assets: 8 to 17 years

iii. Lease assets

- Lease assets concerning finance leases that deem to transfer ownership of the leased property to the lessee:	····	Depreciated by the same depreciation method as applied to the Company’s own non-current assets
- Lease assets concerning finance leases except those that deem to transfer ownership of the leased property to the lessee:	····	Depreciated by the straight-line method over the lease terms as useful lives with no residual value.

3) Standards for accounting for significant reserves

i. Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful accounts.

ii. Provision for bonuses

To provide for the payment of bonuses to employees, the amount deemed necessary for employees’ bonuses in the consolidated fiscal year under review is posted based on the estimated amount of payment.

iii. Provision for Directors' bonuses

To provide for the payment of bonuses to Directors of the Board, the amount deemed necessary for bonuses for Directors of the Board in the consolidated fiscal year under review is posted based on the estimated amount of payment.

iv. Provision for management board benefit trust

To provide for the award of the Company's shares to Directors of the Board, etc. pursuant to the Policy on Directors' Stock Compensation, provision for management board benefit trust is posted based on the estimated amount of share award obligations at the consolidated settlement date.

iv. Provision for product warranties

To provide for the payment related to product warranties, provision for product warranties is posted based on the estimated amount of losses.

4) Other significant items for presenting consolidated financial statements

i. Accounting standard for defined benefit plans

To provide for the payment of defined benefit to employees, the Company posts an amount equal to defined benefit liability less the value of plan assets as net defined benefit liability, based on their projected amounts at the end of the consolidated fiscal year under review. When calculating defined benefit liability, the method for allocating the projected amounts to periods up to the current consolidated fiscal year is a benefit formula basis.

Prior service cost is recognized as expenses and is amortized over a fixed number of years within the average remaining service period of current employees (10 years) using the straight-line method.

Actuarial gain/loss is recognized as expenses starting from the following consolidated fiscal year and is amortized in an amount calculated by the straight-line method over a fixed number of years within the average remaining service period of current employees (10 years).

ii. Standard for translating major assets or liabilities denominated in foreign currencies into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect at the consolidated settlement date, and exchange differences are scored as profits/losses. Assets and liabilities of overseas consolidated subsidiaries, etc., are translated into Japanese yen at the spot exchange rates in effect at the settlement date of the relevant consolidated subsidiaries, etc., and earnings and expenses are translated into Japanese yen at the average exchange rate during the period, and exchange differences are included in foreign currency translation adjustments and non-controlling interests under net assets.

iii. Accounting for consumption taxes

Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

iv. Method and period of amortization of goodwill

Goodwill is amortized equally within a period no more than 20 years that is decided on the basis of an estimate for the period during which its effect will be revealed.

v. Accounting treatment of convertible bonds (bonds with stock acquisition rights)

Consideration of bonds is not distinguished from consideration of stock acquisition rights, and is therefore accounted for according to the issuance of straight bonds.

(5) Change in accounting policies which are difficult to distinguish from changes in accounting estimates

Change in depreciation method of property, plant and equipment

Until the end of the previous fiscal year, to depreciate property, plant and equipment (excluding leased assets), the Company and its domestic consolidated subsidiaries mainly used the declining-balance method while the Company's overseas consolidated subsidiaries used the straight-line method. However, since the current consolidated fiscal year, the Company and its domestic consolidated subsidiaries have changed their depreciation method to the straight-line method. The Group formulated the Sixth Medium-term Business Plan starting from the current fiscal year, and reviewed the status of operation for property, plant and equipment of the Company and its domestic consolidated subsidiaries to realize its global-based growth strategy that fully utilizes the Group's existing business foundation established to date. As facilities are expected to operate stably, the Group concluded that it is appropriate to evenly allocate cost over the useful life for depreciation, and changed the depreciation method to the straight-line method.

Compared to the previous method, for the current consolidated financial year, operating profit, ordinary profit and profit before income taxes increased by ¥1,739 million.

(6) Change in presentation methods

Consolidated balance sheet

"Notes payable - facilities" (¥1,126 million in the previous consolidated fiscal year), which were included in "Notes and accounts payable-trade" under "Current liabilities" in the previous consolidated fiscal year, are included in "Other" from the current consolidated fiscal year, as a result of a review from the view point of more appropriate presentation.

"Provision for product warranties" (¥25 million in the previous consolidated fiscal year), which was included in "Other" under "Current liabilities" in the previous consolidated fiscal year, are separately presented from the current consolidated fiscal year, as its materiality increased.

2. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral and liabilities corresponding to pledged assets

Pledged assets

Cash and deposits	¥809 million
Notes and accounts receivable-trade	¥4,180 million
Merchandise and finished goods	¥2,233 million
Work in process	¥1,176 million
Raw materials and supplies	¥2,336 million
Consumption taxes receivable	¥38 million
Other (Current assets)	¥268 million
Buildings and structures	¥343 million
Machinery, equipment and vehicles	¥1,953 million
Tools, furniture and fixtures	¥117 million
Construction in progress	¥111 million
Trademark right	¥210 million
Software	¥177 million
Customer related assets	¥3,102 million
Other (Intangible assets)	¥104 million
Other (Investments and other assets)	¥80 million
Total	¥17,245 million

(Note) In addition, shares of subsidiaries and associates that are eliminated from the consolidated financial results (¥23,817 million) and notes and accounts receivable-trade, etc. (¥5,582 million) were pledged as collateral.

Liabilities corresponding to assets mentioned above

Short-term loans payable	¥742 million
Current portion of long-term loans payable	¥1,716 million
Long-term loans payable	¥13,348 million
Total	¥15,806 million

(2) Accumulated depreciation concerning assets

Accumulated depreciation on property, plant and equipment ¥79,916 million

3. Notes to the Consolidated Statement of Income

(1) Gain on sales of shares of subsidiaries and associates

This is related to sales of shares of TPK Film Solutions Limited, an affiliated company of the Company.

(2) Insurance income and loss on disaster

Loss on disaster is mainly related to disposal of inventories due to damage by typhoons.

Insurance income is related to the aforementioned typhoon damage.

(3) Loss on closing of plants

This is related to European production base integration of the Company's consolidated subsidiaries belonging to "Medical Technologies" segment.

(4) Business structure improvement expenses

These are related to a business restructuring of the Company's consolidated subsidiaries belonging to "Information and Communication" segment. The Group wrote down the book values of assets to be disposed of, which were not expected to be used in the future, to recoverable amounts. These expenses include impairment loss of ¥178 million incurred by the write-down, as well as special extra payments for early retirees and the outplacement program, etc. of ¥449 million.

(5) Business establishment transfer cost

This is related to business establishment transfer of Nissha FIS, Inc. and Nissha Si-Cal Technologies, Inc., consolidated subsidiaries of the Company. This cost includes impairment loss of ¥61 million, arisen because the Group wrote down the book values of assets to be disposed of, which were not expected to be used in the future, to recoverable amounts.

4. Notes to the Consolidated Statement of Changes in Net Assets

(1) Items concerning common shares issued

Type of stock	Beginning balance	Increase	Decrease	Ending balance
Common shares (Thousand Shares)	50,810	45	―	50,855

(Major causes for changes)

Breakdown of increases is as follows.

	(Thousand Shares)
Issuance of new shares resulting from the exercise of stock acquisition rights	45

(2) Items concerning dividends

1) Dividends paid

Resolution	Type of stock	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Base date	Effective date
Meeting of the Board of Directors held on February 14, 2018	Common shares	760	15.00	December 31, 2017	March 5, 2018
Meeting of the Board of Directors held on August 7, 2018	Common shares	756	15.00	June 30, 2018	September 3, 2018
Total		1,517			

(Notes) 1. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 14, 2018 includes ¥1 million paid to Trust & Custody Services Bank, Ltd. (Trust E Account) as dividends on Company shares it holds.

2. The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on August 7, 2018 includes ¥0 million paid to Trust & Custody Services Bank, Ltd. (Trust E Account) as dividends on Company shares it holds.

2) Of dividends whose record dates belong to the consolidated fiscal year under review, dividends that take effect in the following consolidated fiscal year

Resolution	Type of stock	Dividend resource	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Base date	Effective date
Meeting of the Board of Directors held on February 14, 2019	Common shares	Retained earnings	749	15.00	December 31, 2018	March 4, 2019

(Note) The total amount of dividends based on a resolution of the Meeting of the Board of Directors held on February 14, 2019 includes ¥1 million paid to Trust & Custody Services Bank, Ltd. (Trust E Account) as dividends on Company shares it holds.

(3) Stock acquisition rights

Name of company	Itemization	Type of stock	Number of shares (Thousand Shares)				Balance (Millions of Yen)
			Beginning balance	Increase	Decrease	Ending balance	
Submitting company	Zero Coupon Convertible Bonds due 2021 (bonds with stock acquisition rights) (issued on March 7, 2016)	Common shares	1,330	—	45	1,285	(Notes)

(Notes)

1. Convertible bonds (bonds with stock acquisition rights) are accounted for by the all-inclusive method.
2. The number of shares is stated as the number of shares on the assumption that stock acquisition rights have been exercised.
3. The decrease in Zero Coupon Convertible Bonds due 2021 (bonds with stock acquisition rights) (issued on March 7, 2016) is a result of the exercise of stock acquisition rights.

(4) Treasury shares

Type of stock	Beginning balance	Increase	Decrease	Ending balance
Common shares (Thousand Shares)	172	885	114	943

(Note) The ending balance of treasury shares of common shares includes 79 thousand Company shares held by Trust & Custody Services Bank, Ltd. (Trust E Account) as trust assets in the Board Benefit Trust (BBT).

(Major causes of the changes)

Breakdown of increases is as follows.

	(Thousand Shares)
Acquisition of treasury shares pursuant to the resolution of the Board of Directors meeting held on February 14, 2018	294
Acquisition of treasury shares pursuant to the resolution of the Board of Directors meeting held on November 7, 2018	526
Purchase of shares of less than one unit	0
Acquisition of Company shares by (Trust E Account)	63

Breakdown of decreases is as follows.

	(Thousand Shares)
Demand for sales of shares of less than one unit	0
Payment of Company shares from (Trust E Account)	34
Payment of cash upon disposal of Company shares by (Trust E Account)	17
Disposal of Company shares to (Trust E Account)	63

5. Notes to Financial Instruments

(1) Items concerning the status of financial instruments

1) Financial instrument guidelines

The Company Group focuses on highly safe financial assets in its fund management, and procures funds mainly through loans from banks and issuance of bonds. It carries out optimum fund procurements at each time while giving full consideration to the management environment. The Company Group uses derivative transactions to hedge foreign exchange risk, and does not enter into derivative transactions for speculative purposes.

2) Details and risks of financial instruments

Notes and accounts receivable are exposed to credit risk of customers. As operating receivables denominated in foreign currencies, which arise from global business development, are exposed to the risk of fluctuating foreign exchange risk, for some of them, the Company Group uses forward exchange contracts to hedge against such risk.

Investment securities mostly consist of stock of companies with which the Company has business relationships. Stock trading in markets is exposed to the risk of fluctuating market prices.

Notes and accounts payable, electronically recorded obligations and accrued expenses are all due within one year. Although some of these are denominated in foreign currencies and are exposed to foreign exchange risk, they are kept constantly within the scope of the outstanding balance of accounts receivable respectively denominated in the same foreign currencies.

Loans and bonds are used to procure funds for operational transactions, capital expenditures, and loans and investments. Loans are exposed to the risk of fluctuating interest rates because most of them are borrowed at variable interest rates.

3) Financial instrument risk control structure

The credit status of major customers is assessed periodically through the management of due dates and outstanding balance by customer in accordance with Credit Management Regulations.

The Company Group uses forward exchange contracts to hedge foreign exchange risk associated with operating receivables/payables denominated in foreign currencies.

The operation and management of derivative transactions are conducted by the finance division in accordance with Exchange Contract Management Regulations. The status of transactions is reported quarterly to Chief Financial Officer.

The finance division periodically assesses the fair value of investment securities and the financial status, etc., of their issuers.

The finance division manages liquidity risk concerning fund procurement by preparing and/or updating fund management plans in a timely manner.

(2) Items concerning fair value, etc., of financial instruments

Book value, fair value, and valuation difference as of December 31, 2018 (consolidated settlement date of the current period) are as follows. Those whose fair value is difficult to assess are not included in the following table. (Refer to Note 2.)

(Millions of Yen)

	Book value	Fair value	Valuation difference
(1) Cash and deposits	16,762	16,762	—
(2) Notes and accounts receivable-trade	40,867	40,867	—
(3) Consumption taxes receivable	3,739	3,739	—
(4) Investment securities	13,544	13,544	—
Total assets	74,913	74,913	—
(1) Notes and accounts payable-trade	44,484	44,484	—
(2) Electronically recorded obligations-operating	6,772	6,772	—
(3) Short-term loans payable	10,858	10,858	—
(4) Accrued expenses	7,101	7,101	—
(5) Income taxes payable	840	840	—
(6) Bonds payable	2,840	2,884	44
(7) Long-term loans payable (*)	15,241	14,356	(884)
(8) Lease liabilities	1,603	1,432	(171)
Total liabilities	89,741	88,729	(1,011)

(*) Includes the current portion of long-term loans payable.

(Note 1) Items concerning method of calculating fair values of financial instruments and securities

Assets

(1) Cash and deposits

(2) Notes and accounts receivable-trade

(3) Consumption taxes receivable

Because these are settled within a short period, fair value is almost the same as book value. Therefore, fair value is based on the relevant book value.

(4) Investment securities

Fair values of investment securities are based on the market prices.

Notes concerning securities by purpose of holding are as follows:

Available-for-sale securities (December 31, 2018)

(Millions of Yen)

Classification	Amount on consolidated balance sheet	Acquisition cost	Valuation difference
Securities with amount on consolidated balance sheet exceeding acquisition cost			
Stock	13,539	2,001	11,537
Subtotal	13,539	2,001	11,537
Securities with amount on consolidated balance sheet not exceeding acquisition cost			
Stock	5	5	(0)
Subtotal	5	5	(0)
Total	13,544	2,006	11,537

Liabilities

(1) Notes and accounts payable-trade

(2) Electronically recorded obligations-operating

(3) Short-term loans payable

(4) Accrued expenses

(5) Income taxes payable

Because these are settled within a short period, fair value is almost the same as book value. Therefore, fair value is based on the relevant book value.

(6) Bonds payable

Fair value is estimated at present value, which is calculated by discounting principal at a rate considering the remaining terms and a rate adjusted for credit risk.

(7) Long-term loans payable

Fair value is calculated by discounting principal and interest at a rate assumed to be applied to a new similar borrowing.

(8) Lease liabilities

Fair value is estimated at present value, which is calculated by discounting principal and interest at a rate assumed to be applied to a new similar lease transaction.

(Note 2) Financial instruments whose fair value is deemed to be very difficult to assess

(Millions of Yen)

Classification	Book value
Unlisted stock	601
Other	651
Total	1,253

The aforementioned financial instruments are not included among “(4) Investment securities” because they have no market prices and it is deemed to be very difficult to assess their fair values.

(Note 3) Maturity analysis for financial assets with contractual maturities after the consolidated settlement date

(Millions of Yen)

	Within one year
Cash and deposits	16,762
Notes and accounts receivable	40,867
Consumption taxes receivable	3,739
Total	61,369

(*) Investment securities are not presented because there are no investment securities with maturities.

(Note 4) Projected repayment amounts of bonds payable, long-term loans payable, lease liabilities and other interest-bearing liabilities after the consolidated settlement date

(Millions of Yen)

	Within one year	Over one year and within two years	Over two years and within three years	Over three years and within four years	Over four years and within five years	Over five years
Short-term loans payable	10,858	—	—	—	—	—
Bonds payable	—	—	2,840	—	—	—
Long-term loans payable	1,716	1,711	3,484	8,002	15	311
Lease liabilities	206	171	156	100	84	883
Total	12,780	1,883	6,481	8,103	100	1,194

6. Notes to Per Share Information

Net assets per share	¥1,793.45
Net income per share	¥85.52
Diluted net income per share	¥83.39

7. Other Notes (Notes to impairment loss)

The Company Group has recognized impairment losses on the following classes of assets for the consolidated fiscal year under review.

(1) Overview of assets or asset group recorded impairment losses

(Millions of Yen)

Use	Location	Type	Impairment loss
Idle asset	Mobara, Chiba Pref.	Construction in progress	246
Long-lived assets for business use	Itami, Hygo Pref.	Buildings and structures	29
Long-lived assets for business use	Yachiyo, Chiba Pref.	Buildings and structures	176
		Machinery, equipment and vehicles	0
		Tools, furniture and fixtures	1
Long-lived assets for business use	Massachusetts, USA	Buildings and structures	22
		Machinery, equipment and vehicles	9
		Tools, furniture and fixtures	0
Total			487

(2) Factors leading to the recognition of impairment losses

With regard to assets to be disposed of and idle assets not expected to be used in the future, the Company Group wrote down their book values to recoverable amounts and recorded the reduced amounts as impairment losses in extraordinary losses for the current consolidated fiscal year. Of the aforementioned amounts, ¥178 million and ¥61 million are included in business structure improvement expenses and business establishment transfer cost, respectively.

(3) Assets grouping method

The long-lived assets for business use of the Company Group are grouped based on the business segments used for monitoring operations for management accounting purposes. However, assets to be disposed of (assets to be disposed of by disposal or sale, etc.) and idle assets are grouped on an individual basis.

(4) Method of evaluating recoverable amounts

The recoverable amounts of assets to be disposed of and idle assets were measured based on the net selling price and evaluated based on memorandum value.

8. Other Notes (Notes to business combinations)

Business combination by acquisition

Business combination with Heart Sync, Inc.

(1) Overview of the business combination

1) Name of acquired company and the acquired business outline

Name of the acquired company	Heart Sync, Inc. (hereinafter, “Heart Sync”)
Details of the acquired business	Design and sales of defibrillation electrodes(*) (*) Defibrillation electrodes are conductors that deliver controlled electrical shock from the defibrillator to the patient to restore a regular heartbeat. The electrodes also function as ECG to determine whether to deliver an electrical shock.

2) Major reason for the business combination

In the Sixth Medium-term Business Plan (from fiscal year ending December 2018 to fiscal year ending December 2020), Nissha identifies consumer electronics (IT), automotive, medical devices, and high-function packaging materials as its four focus markets, and is executing a growth strategy that maximizes its business foundation acquired and established thus far. Nissha seeks to accelerate expansion of its business domain particularly in the promising global growth market of medical devices.

Nissha introduced the Medical Technologies Business Unit, and achieved full-scale entry into the medical devices market in September 2016, with the acquisition as a subsidiary of U.S.-based medical devices manufacturer, Graphic Controls Group. Offerings at present focus on medical electrodes, medical surgical devices, and other products for cardiology, which are highly related to Nissha’s core technologies of “Patterning,” “Coating” and “Molding.” These are provided in global contract manufacturing services for major medical devices manufacturers, and produced and distributed as a proprietary brand for medical institutions. Through these business models, the Medical Technologies Business Unit aims to extend our capabilities such as product development and design, and enrich its lineup of distinctive products toward sustainable growth.

Heart Sync, also a manufacturer of medical electrodes, specializes in the potential high growth market of defibrillation electrodes. It boasts product development and design capabilities that accurately grasp the needs of health care providers.

With a line of defibrillation electrodes, sales channels, and highly competitive design and development capabilities resulting from the acquisition of Heart Sync’s tangible and intangible assets, Nissha hopes to create synergies between Graphic Controls Group and our Medical Technologies segment.

3) Date of business combination

May 18, 2018

4) Legal form of business combination

Transfer of business with cash as consideration

5) Name of the company after the combination

The company name will not change.

6) Grounds for determining an acquiring company

The Company’s consolidated subsidiary took over the business with cash as consideration.

(2) The period for which the results of the acquired company are included in the consolidated financial statements

From May 19, 2018 to December 31, 2018

(3) Acquisition costs of the acquired business and related details for each consideration for acquisition

Consideration for acquisition	Cash (including payables)	¥1,287 million
Acquisition costs		¥1,287 million

(Note) Consideration for acquisition includes contingent consideration, but it is not finalized at the present time.

(4) Details of contingent consideration provided by a business combination agreement and subsequent accounting policy

Based on the agreement, additional payments shall be made in accordance with the degree of its performance achievement for the three years following the business combination of the acquired business. Changes in contingent consideration shall be recognized under U.S. accounting standards.

(5) Details and amount of major acquisition-related expenses

Legal fees, etc. ¥40 million

(6) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

1) Amount of goodwill incurred

¥460 million

2) Reasons for the goodwill incurred

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

3) Method and period of amortization

As of December 31, 2018, the specification of identifiable assets and liabilities at the date of the business combination are being carefully examined, and allocation of the acquisition cost has not been completed. Therefore, tentative accounting treatment was applied to the amount of goodwill incurred, and the method and period of amortization are also under close examination.

(7) Assets received and liabilities undertaken on the date of the business combination, and the breakdown thereof

Current assets	¥38 million
Non-current assets	¥0 million
Total assets	¥38 million
Current liabilities	¥— million
Long-term liabilities	¥— million
Total liabilities	¥— million

(8) Amounts and weighted-average amortization periods of acquisition costs allocated to intangible assets other than goodwill (by category)

Category	Amount	Weighted-average amortization period
Trademark right	¥88 million	7 years
Customer-related assets	¥654 million	10 years
Other (intangible assets)	¥44 million	5 years
Total	¥787 million	9 years

(9) Estimated amounts of the impact on consolidated statement of income when the business combination is assumed to have been completed at the beginning of the current consolidated fiscal year, and the method for calculation thereof

Net sales	¥339 million
Operating profit	¥250 million

(Method of calculating the estimated amounts)

The estimated amounts of the impact are the difference between net sales and operating results assuming that the business combination has been completed at the beginning of the current consolidated fiscal year, and net sales and operating results on the acquired company's consolidated statement of income.

This note has not been received an audit certification.

Business combination by acquisition

Business combination with Sequel Special Products, LLC and RSS Design, LLC

(1) Overview of the business combination

1) Name of acquired company and its business outline

Name of the acquired company	Sequel Special Products, LLC RSS Design, LLC
Business outline	Contract manufacturing of surgical instruments for minimally invasive surgery (*) and orthopedics (*)Medical examination and treatment procedures that minimize the physical risk for the patient

2) Major reason for the business combination

Nissha introduced the Medical Technologies Business Unit, and achieved full-scale entry into the medical devices market in September 2016, with the acquisition as a subsidiary of U.S.-based medical devices manufacturer, Graphic Controls Group. Offerings at present focus on medical electrodes, medical surgical devices, and other products for cardiology, which are expected to grow in the global markets, and highly related to Nissha's core technologies of "Printing," "Coating," "Lamination," "Molding," and "Patterning." These are provided in global contract manufacturing services for major medical devices manufacturers, and produced and distributed as a proprietary brand for medical institutions. Going forward, the Medical Technologies Business Unit aims to extend our capabilities such as product development and design, and enrich its lineup of distinctive products toward sustainable growth.

With major medical device manufacturers increasingly focusing on R&D and marketing activities and preferring to outsource the manufacturing process, the Medical Technologies Business Unit promotes the expansion of contract design and manufacturing services as a main growth strategy. The Medical Technologies business produces electro-surgical devices, diagnostic sensing devices, etc. in addition to medical devices and surgical instruments for minimally invasive surgery such as catheters and catheter guide wires. This acquisition will provide the Medical Technologies Business Unit with new sales channels in contract manufacturing, increased production capacity, and expanded product development and design functions to improve its value chain from development to production to sales.

3) Date of business combination

June 25, 2018

4) Legal form of business combination

Equity acquisition with cash as consideration

5) Name of the company after the combination
Sequel Special Products, LLC
RSS Design, LLC

6) Ratio of voting rights acquired
100%

7) Grounds for determining the acquiring company
The Company's consolidated subsidiary acquired 100% of the voting rights resulting from an equity acquisition with cash as consideration.

(2) The period for which the results of the acquired company are included in the consolidated financial statements
From June 30, 2018 to December 31, 2018

(3) Acquisition costs of the acquired company and related details for each consideration for acquisition

Consideration for acquisition	Cash (including payables)	¥2,185 million
Acquisition costs		¥2,185 million

(Note) Consideration for acquisition includes contingent consideration, but it is not finalized at the present time.

(4) Details of contingent consideration provided by a business combination agreement and subsequent accounting policy
Based on the agreement, additional payments shall be made in accordance with the degree of its performance achievement for three years following the business combination of the acquired company. Changes in contingent consideration shall be recognized under U.S. accounting standards.

(5) Details and amount of major acquisition-related expenses
Legal fees, etc. ¥45 million

(6) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

1) Amount of goodwill incurred
¥606 million

2) Reasons for the goodwill incurred
Goodwill was incurred from expected excess earnings power in the future arising from further business development.

3) Method and period of amortization
As of December 31, 2018, the specification of identifiable assets and liabilities at the date of the business combination are being carefully examined, and allocation of the acquisition cost has not been completed. Therefore, tentative accounting treatment was applied to the amount of goodwill incurred, and the method and period of amortization are also under close examination.

(7) Assets received and liabilities undertaken on the date of the business combination, and the breakdown thereof

Current assets	¥736 million
Non-current assets	¥492 million
Total assets	¥1,228 million
Current liabilities	¥195 million
Long-term liabilities	¥— million
Total liabilities	¥195 million

(8) Amounts and weighted-average amortization periods of acquisition costs allocated to intangible assets other than goodwill (by category)

Category	Amount	Weighted-average amortization period
Customer-related assets	¥508 million	10 years
Other (intangible assets)	¥37 million	5 years
Total	¥546 million	10 years

(9) Estimated amounts of the impact on consolidated statements of income when the business combination is assumed to have been completed at the beginning of the current consolidated fiscal year, and the method for calculation thereof

Net sales	¥1,446 million
Operating profit	¥199 million

(Method of calculating the estimated amounts)

The estimated amounts of the impact are the difference between net sales and operating results assuming that the business combination has been completed at the beginning of the current consolidated fiscal year, and net sales and operating results on the acquired company’s consolidated statement of income.

This note has not been received an audit certification.

Non-consolidated Statement of Changes in Net Assets

(From January 1, 2018 to December 31, 2018)

(Millions of Yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of current period	12,069	13,500	1,933	15,433	1,230	28,766	9,247	39,243
Changes of items during the period								
Issuance of new shares	50	50		50				
Dividends of surplus							(1,517)	(1,517)
Net income							6,263	6,263
Purchase of treasury shares								
Disposal of treasury shares			3	3				
Net changes of items other than shareholders' equity								
Total changes of items during the period	50	50	3	53	—	—	4,746	4,746
Balance at the end of current period	12,119	13,550	1,937	15,487	1,230	28,766	13,993	43,989

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of current period	(327)	66,419	11,736	11,736	78,155
Changes of items during the period					
Issuance of new shares		100			100
Dividends of surplus		(1,517)			(1,517)
Net income		6,263			6,263
Purchase of treasury shares	(1,717)	(1,717)			(1,717)
Disposal of treasury shares	134	137			137
Net changes of items other than shareholders' equity			(3,660)	(3,660)	(3,660)
Total changes of items during the period	(1,583)	3,266	(3,660)	(3,660)	(394)
Balance at the end of current period	(1,911)	69,685	8,075	8,075	77,761

(Note: Amounts are rounded down to the nearest million yen.)

Notes to Non-consolidated Financial Statements

1. Notes to Items Concerning Significant Accounting Policies

(1) Standards and methods of valuation of assets

1) Securities

i. Stocks of subsidiaries and affiliates — Stated at cost determined by the moving-average method.

ii. Available-for-sale securities

Available-for-sale securities with market values: Stated at fair value based on market prices as of the settlement date.
(Differences in valuation are included directly in net assets and the cost of securities sold is determined based on the moving-average method.)

Available-for-sale securities without market values: Stated at cost determined by the moving-average method.

2) Derivatives — Stated at fair value.

3) Inventories

- Finished products (excluding Decorative Film products, etc. of Industrial Materials) and work in process: ···· Stated at cost determined by the specific identification method.
(Book value on the balance sheet is stated at lower of cost.)

- Finished products (Decorative Film products, etc. of Industrial Materials) ···· Stated at cost determined by the moving-average method.
(Book value on the balance sheet is stated at lower of cost.

- Raw materials and supplies: ···· Stated at cost determined mainly by the periodic average method.
(Book value on the balance sheet is stated at lower of cost.)

(2) Depreciation methods of non-current assets

1) Property, plant and equipment (excluding lease assets): ·········
Straight-line method
Useful lives are principally as follows:
Buildings and structures: 15 to 50 years
Machinery, equipment and vehicles: 8 to 10 years

2) Intangible assets (excluding lease assets) ·························
Straight-line method
Depreciation periods are principally as follows:
Software: 5 years (Usable life of internal use)

3) Lease assets

- Lease assets concerning finance leases except those that deem to transfer ownership of the leased property to the lessee: ···· Depreciated by the straight-line method over the lease terms as useful lives with no residual value.

(3) Standards of accounting for significant reserves

1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

2) Provision for bonuses

To provide for the payment of bonuses to employees, the amount deemed necessary for employees' bonuses in the fiscal year under review is posted based on the estimated amount of payment.

3) Provision for Directors' bonuses

To provide for the payment of bonuses to Directors of the Board, the amount deemed necessary for bonuses for Directors of the Board in the fiscal year under review is posted based on the estimated amount of payment.

4) Provision for management board benefit trust

To provide for the award of the Company's shares to Directors of the Board, etc. pursuant to the Policy on Directors' Stock Compensation, provision for management board benefit trust is posted based on the estimated amount of share award obligations at the settlement date.

5) Liability for retirement benefits

To provide for the payment of retirement benefit to employees, the Company posts an amount that is deemed to have accrued at the end of the fiscal year under review, based on projected benefit liability and plan assets at the end of the fiscal year under review. When calculating retirement benefit liability, the method for allocating the projected amounts to periods up to the current fiscal year is a benefit formula basis.

Prior service cost is recognized as expenses starting from the fiscal year in which such cost was incurred and is amortized over a fixed number of years within the average remaining service period of current employees (10 years) using the straight-line method.

Actuarial gain/loss is recognized as expenses starting from the following fiscal year and is amortized over a fixed number of years within the average remaining service period of current employees (10 years) using the straight-line method.

(4) Other items of basis of presenting non-consolidated financial statements

1) Accounting for retirement benefits

The accounting method adopted for unrecognized actuarial gain/loss and the unamortized amount of unrecognized prior service cost in the non-consolidated financial statements differs from the accounting method for the same items in the consolidated financial statements.

2) Accounting for consumption tax

Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

3) Accounting treatment of convertible bonds (bonds with stock acquisition rights)

Consideration of bonds is not distinguished from consideration of stock acquisition rights, and is therefore accounted for according to the issuance of straight bonds.

(5) Change in accounting policies which are difficult to distinguish from changes in accounting estimates

Change in depreciation method of property, plant and equipment

Until the end of the previous fiscal year, to depreciate property, plant and equipment (excluding leased assets), the Company used the declining-balance method. However, since the current consolidated fiscal year, the Company has changed its depreciation method to the straight-line method. The Company formulated the

Sixth Medium-term Business Plan starting from the current fiscal year, and reviewed the status of operation for property, plant and equipment of the Company to realize its global-based growth strategy that fully utilizes the Company's existing business foundation established to date. As facilities are expected to operate stably, the Company concluded that it is appropriate to evenly allocate cost over the useful life for depreciation, and changed the depreciation method to the straight-line method.

Compared to the previous method, for the current consolidated financial year, operating profit, ordinary profit and profit before income taxes increased by ¥783 million, respectively.

(6) Change in presentation methods

Non-consolidated Balance Sheet

"Notes payable - facilities" (¥1,069 million in the previous fiscal year), which were included in "Notes payable-trade" under "Current liabilities" in the previous fiscal year, are included in "Other" from the current fiscal year, as a result of a review from the view point of more appropriate presentation.

2. Notes to the Non-consolidated Balance Sheet

(1) Assets pledged as collateral

Pledged assets

Shares of subsidiaries and associates	¥16,303 million

(Note) Shares of subsidiaries and associates were pledged as collateral for loans payable of the Company's subsidiaries.

(2) Accumulated depreciation concerning assets

Accumulated depreciation on property, plant and equipment	¥22,954 million

(3) Contingent liabilities

Contingent liabilities

The Company guarantees electronically recorded obligations of subsidiaries and associates.

Nitec Industries, Inc.	¥420 million
Nitec Precision and Technologies, Inc.	¥2,687 million
Nitec Printing Co., Ltd.	¥162 million
Total	¥3,270 million

The Company guarantees lease liabilities of subsidiaries and associates.

Nissha Medical Technologies Ltd. and Graphic Controls Acquisition Corp.	¥443 million

(4) Monetary claims receivable from and monetary debts payable to subsidiaries and associates

Short-term monetary receivables	¥9,169 million
Long-term monetary receivables	¥15,154 million
Short-term monetary payables	¥7,688 million

(5) Monetary payables to Directors of the Board and Audit and Supervisory Board Members ¥21 million

Long-term monetary payables to Directors of the Board and Audit and Supervisory Board Members are liabilities concerning amounts equivalent to payments of retirement allowances to each of them, corresponding to the period up until the day the Company terminated its unfunded retirement allowance plan for Directors of the Board and Audit and Supervisory Board Members. They are included in "Other" under Long-term liabilities.

3. Notes to the Non-consolidated Statement of Income

(1) Transactions with subsidiaries and associates

Operating transactions	
Net sales	¥6,557 million
Purchases	¥113,301 million
Non-operating transactions	¥2,406 million

(2) Gain on sales of shares of subsidiaries and associates

This is related to sales of shares of TPK Film Solutions Limited, an affiliated company of the Company.

(3) Insurance income and loss on disaster

Loss on disaster is mainly related to disposal of inventories due to damage by typhoons.

Insurance income is related to the aforementioned typhoon damage.

(4) Loss on valuation of shares of subsidiaries and associates

This is related to shares of Nissha Printing Communications, Inc. and mui Lab Inc., subsidiaries of the Company, and Nissha and Lens Technologies (Changsha) Company Limited, an affiliated company of the Company.

4. Notes to the Non-consolidated Statement of Changes in Net Assets

(1) Treasury shares

Type of stock	Beginning balance	Increase	Decrease	Ending balance
Common shares (Thousand Shares)	172	885	114	943

(Note) The ending balance of treasury shares of common shares includes 79 thousand Company shares held by Trust & Custody Services Bank, Ltd. (Trust E Account) as trust assets in the Board Benefit Trust (BBT).

(Major causes of the changes)

Breakdown of increases is as follows.

	(Thousand Shares)
Acquisition of treasury shares pursuant to the resolution of the Board of Directors meeting held on February 14, 2018	294
Acquisition of treasury shares pursuant to the resolution of the Board of Directors meeting held on November 7, 2018	526
Purchase of shares of less than one unit	0
Acquisition of Company shares by (Trust E Account)	63

Breakdown of decreases is as follows.

	(Thousand Shares)
Demand for sales of shares of less than one unit	0
Payment of Company shares from (Trust E Account)	34
Payment of cash upon disposal of Company shares by (Trust E Account)	17
Disposal of Company shares to (Trust E Account)	63

5. Notes to Tax Effect Accounting

Significant cause-specific components of deferred tax assets and deferred tax liabilities

1) Current

Deferred tax assets	Inventories	¥179 million
	Allowance for doubtful accounts	¥35 million
	Provision for bonuses	¥216 million
	Other	¥219 million
	Subtotal deferred tax assets	¥651 million
	Less valuation allowance	¥— million
Total deferred tax assets		¥651 million

2) Non-current

Deferred tax assets	Depreciation	¥613 million
	Impairment loss	¥555 million
	Investment securities	¥489 million
	Shares of subsidiaries and associates	¥939 million
	Allowance for doubtful accounts	¥857 million
	Liability for retirement benefits	¥743 million
	Tax loss carried forward	¥2,526 million
	Other	¥143 million
	Subtotal deferred tax assets	¥6,868 million
	Less valuation allowance	(¥6,779 million)
	Total deferred tax assets	¥88 million
Deferred tax liabilities	Valuation difference on available-for-sale securities	(¥3,460 million)
	Shares of subsidiaries and associates	(¥683 million)
	Total deferred tax liabilities	(¥4,144 million)
Net deferred tax assets (liabilities)		(¥4,055 million)

6. Notes to Related Party Transactions

Type	Company name	Ownership (owned) percentage	Relationship	Description of transaction	Transaction amount (Millions of Yen)	Items	Balance at the end of the fiscal year (Millions of Yen)
Subsidiaries	Nitec Industries, Inc.	(Owning) 100%	Manufacturing of products of the Company	Collection of funds	359	Short-term loans receivable	115
						Long-term loans receivable	4,029
	Nitec Precision and Technologies, Inc.	(Owning) 100%	Manufacturing of products of the Company	Purchase of products	100,099	Accounts payable	4,856
				Lease of real estate assets	956	—	—
				Loan guarantees	2,687	—	—
				Lending of funds	2,373	Short-term loans receivable	2,373
						Long-term loans receivable	9,196
	AR Metallizing N.V.	(Owning) 100%	Provision of collateral Interlocking directors	Provision of collateral	4,482	—	—

Transaction condition and policy for deciding transaction condition

(Notes):
1. Offset elimination processing is conducted for onerous transactions of materials in the Non-consolidated Statement of Income.
2. The purchase of products and others are decided in consideration of market prices.
3. The lending of funds is decided in consideration of market prices. The provision of collateral is not allowed.
4. An allowance for doubtful accounts of ¥2,031 million is posted with regard to the funding of Nitec Industries, Inc.
   A reversal of allowance for doubtful accounts for subsidiaries and associates of ¥184 million was posted for the fiscal year under review.
5. A loan guarantee was offered to electronically recorded obligations.
6. The Company provides collateral for bank loans payable of AR Metallizing N.V.
7. Consumption taxes are not included in the transaction amount. They are included in the balance at the end of the fiscal year.

7. Notes to Per Share Information

Net assets per share	¥1,557.95
Net income per share	¥124.32
Diluted net income per share	¥121.22