



I MOVE ME™

ANNUAL REPORT 2017



COVER STORY

**MOVING CHANGES YOU
FOR THE BETTER, WHICH
CHANGES EVERYONE
YOU PLAY, WORK, LIVE AND
LOVE WITH,
WHICH CHANGES THE CITY
YOU LIVE IN. SO IT CHANGES
THE WHOLE PLANET TOO,
BUT IT ALL STARTS WITH ME.**

I MOVE ME™



ASICS SPIRIT

ASICS is an acronym of the Latin phrase “Anima Sana In Corpore Sano,” which translates as ‘a sound mind in a sound body’. This reflects our founder’s belief that sport and health bring benefits for not just our bodies, but also our mental wellbeing, as well as our culture and society as a whole. This core belief remains at the heart of our Founding Philosophy to this day.

Our firm belief in the benefits of sport and health is also the foundation of the ASICS SPIRIT, which comprises our philosophy, vision and values. The ASICS SPIRIT drives everything we do, including our efforts to become a more sustainable business and contribute to the lives of people everywhere.

Philosophy

Founding Philosophy

**“ANIMA SANA IN
CORPORE SANO”**

Corporate Philosophy

- 1** Provide valuable products and services through sport to all our customers
- 2** Fulfill our social responsibility and help improve conditions for communities around the world
- 3** Share profits brought by our sound services with our shareholders, communities and employees
- 4** Maintain a spirit of freedom, fairness and discipline, respectful of all individuals

Vision

Create Quality Lifestyle
through Intelligent Sport
Technology

Values

Sportsmanship

- | | |
|------------------------|-----------------------------|
| 1 Respect Rules | 4 Work as One Team |
| 2 Be Courteous | 5 Be Prepared |
| 3 Be Persistent | 6 Learn from Failure |

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ASICS' STRENGTHS

Our strengths as a company lie in the enduring relationships we have built with all stakeholders — our shareholders, customers, business partners and employees — and the trust they have in our technology, products and brands, cultivated over many years in business fields centered on sports.

Founder Kihachiro Onitsuka engaged in product development with the belief that consumers would appreciate products with superior performance. He initially focused on basketball shoes — a product with the most sophisticated and challenging technologies at the time. He rose to the challenge, helping ASICS accumulate a wealth of technology and experience along the way. The ASICS Institute of Sport Science (ISS) was established in 1985, to develop products based on biomechanics and human-centric science, supplementing the instincts and experience of craftsmen. Our goal was to create unique, innovative products with high added value. That strong emphasis on technology lives on in the Company to this day.

We conduct various research and design activities covering materials design to structural design, aimed at enhancing product performance through human-centric design processes. We observe and analyze the movement of athletes and work with them to identify necessary improvements, resulting in products that outperform existing or competitor products. This is a recurring process that leads to incremental gains in product performance.



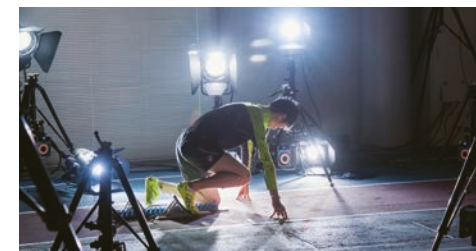
1950: FIRST SPORTS SHOES RELEASED

The first sports shoes made by Onitsuka Co., Ltd. were basketball shoes. At the time, basketball shoes were considered to be the most difficult sports shoes to manufacture, so it was our founder Kihachiro Onitsuka's vision that if we could overcome a high hurdle at the start, other challenges would be easier later on.



1986: GEL TECHNOLOGY LAUNCHED

GEL is now one of our most recognized footwear materials. Freaks α was the first jogging shoe to incorporate α GEL, a new shock-absorbing material designed to protect runners' feet.



Learn more

You can learn more about our ISS activities.

> http://corp.asics.com/en/about_asics/institute_of_sport_science

1985: ASICS INSTITUTE OF SPORT SCIENCE ESTABLISHED

ISS plays a key role in the development of ASICS technologies, products and services. With a focus on "human-centric science," the institute conducts research into materials and structures by analyzing human biomechanical characteristics. Research activities also cover the evaluation of production technology, products and materials, giving the institute insights into research from multiple perspectives.

OUR BRANDS

Our brands, ASICS, ASICSTIGER and Onitsuka Tiger, each have unique characteristics and history assets.



The ASICS brand, which is our corporate brand, has been providing innovative products and services based on human-centric science to help people move more and feel healthy in both body and mind.



The ASICSTIGER brand was shaped by sport and is defined by street culture. Our Japanese technology, bold collaborations and street style-influenced design take our lifestyle products beyond simple re-issues to re-inventions. At the core of the ASICSTIGER brand is the idea of heritage and innovation—we respect our history by continuing to change.



The Onitsuka Tiger brand was used to market sports shoes until the Group's three-way merger in 1977. The brand was revived in 2002 as a sports-inspired fashion brand.



ASICS REGENT STREET FLAGSHIP
(United Kingdom)



ASICSTIGER OSAKA SHINSAIBASHI
(Japan)



Onitsuka Tiger NAMBA
(Japan)

ASICS' HISTORY

We have contributed to a quality lifestyle for people around the world with "Intelligent Sport Technology."

From the earliest days of the Company, we have consistently released innovative technologies, products and services designed to create a quality lifestyle and help people realize their full potential. We have worked to improve the performance of our sporting goods, while also drawing on the designs and styles of those sports products to create two other brands, Onitsuka Tiger and ASICSTIGER.

1949-1977

We have always been dedicated to developing highly functional products. We focused on developing products that help athletes achieve their best performance. Those products also became popular with consumers overseas.

1977-2000

We used the latest biomechanics research and actively adopted new materials, driving significant improvements in the performance of our products for not only serious athletes, but also a wide range of runners with varying abilities.

2000-

We continue to improve the quality of our products. Now we aim to meet the diverse needs of all consumers with a variety of products and services using Intelligent Sport Technology and our brand assets.

Learn more

You can learn more about our history

> http://corp.asics.com/en/about_asics/history

1955



Wrestling Shoes

Until this point, wrestling shoes were made of leather. We started using lightweight nylon uppers, driving dramatic growth in wrestling shoe sales in the U.S.

1960

MAGIC RUNNER Marathon Shoes

Took inspiration from air-cooled motorbike engines, incorporating a vent system to circulate air within the shoe. This succeeded in keeping blisters to a minimum.



1966

RUNSPARK DS-SP Track & Field Shoes

RUNSPARK DS-SP were sold with three sets of pins with different lengths, allowing athletes to choose the best pins for their event and prevailing track conditions.



1980

X-CALIBER Jogging Shoes

X-CALIBER used E.V.A. midsole material for the first time, making it the lightest model during the jogging boom at that time. It was launched in Japan in 1981 as the SKYSENSOR.



1983

PEDALA Walking Shoes

We harnessed our expertise in biomechanics from the development of sports shoes and pursued comfort by using Goodyear welt and McKay process construction methods to differentiate PEDALA from competing brands.



1993

GEL-KAYANO Trainer Running Shoes

GEL-KAYANO Trainer was the first model in our flagship running shoe range and remains a key part of our lineup today. For over 25 years, GEL-KAYANO series has consistently redefined the standard for running shoes.



1977

ASICS formed through merger of three companies.

2007

ASICS STORE TOKYO Opened

We opened our own retail store ASICS STORE TOKYO in Ginza, Tokyo and launched a new service to help customers choose the best running shoes for their individual running style.



2002

Onitsuka Tiger Brand Revived

Used on our shoes until the merger in 1977, the Onitsuka Tiger brand was revived in 2002.

More details on page 04 >



2015

ASICSTIGER Brand Revived

The popular ASICSTIGER brand, used widely on our sports shoes from the 1980s to around 1990, has been reborn as a casual designer footwear brand for the global market.

More details on page 04 >



FINANCIAL HIGHLIGHTS

(Millions of yen)

	2013/3	2014/3	2014/12	2015/12	2016/12	2017/12
For the year:						
Net sales	¥ 260,199	¥ 329,465	¥ 354,052	¥ 428,496	¥ 399,107	¥400,158
Sports shoes	192,729	251,827	282,790	346,080	329,649	333,391
Sportswear	49,460	57,198	54,215	61,606	51,166	47,907
Sports equipment	18,010	20,438	17,046	20,808	18,291	18,859
Cost of sales	146,361	185,097	198,864	246,342	222,564	216,898
Gross profit	113,838	144,368	155,188	182,154	176,543	183,260
Selling, general and administrative expenses	95,175	117,852	124,721	154,705	151,070	163,689
Operating income	18,663	26,516	30,467	27,449	25,473	19,571
Profit before income taxes	20,803	27,694	34,183	17,269	22,134	21,835
Profit attributable to owners of parent	13,773	16,108	22,286	10,238	15,567	12,970
Net cash provided by operating activities	14,296	6,393	10,720	18,301	37,971	37,137
Net cash used in investing activities	(8,056)	(13,735)	(9,845)	(8,707)	(14,046)	(13,789)
Net cash provided by (used in) financing activities	(2,956)	27,647	(4,848)	(12,765)	(5,025)	(11,548)
At year-end:						
Total net assets	¥ 138,078	¥ 159,567	¥ 201,941	¥ 199,883	¥ 201,207	¥201,302
Total assets	244,725	317,528	355,837	343,468	342,812	348,232
Number of employees	5,937	6,585	7,484	7,263	7,864	8,586
Per share of common stock (Yen):						
Net income	¥ 72.65	¥ 84.96	¥ 117.40	¥ 53.93	¥ 82.01	¥ 68.33
Cash dividends	12.00	17.00	23.50	23.50	23.50	23.50
Total net assets	685.10	834.68	1,058.94	1,045.02	1,053.28	1,051.45
Ratios (%):						
Gross profit ratio	43.8	43.8	43.8	42.5	44.2	45.8
Operating income ratio	7.2	8.0	8.6	6.4	6.4	4.9
Net income ratio	5.3	4.9	6.3	2.4	3.9	3.2
Return on assets (ROA)	6.0	5.7	6.6	2.9	4.5	3.8
Return on equity (ROE)	11.6	11.2	12.4	5.1	7.8	6.5
Shareholders' equity ratio	53.1	49.9	56.5	57.8	58.3	57.3

Learn more

You can learn more about our financial results

> https://corp.asics.com/en/investor_relations

Notes: 1. All the figures have been rounded off to the nearest millions of yen.
2. The fiscal year ended December 31, 2014 was a transitional period due to a change in fiscal year-end. The period included nine months of results for the Company and domestic consolidated subsidiaries with March fiscal year-ends and 12 months of results for overseas consolidated subsidiaries, which have December fiscal year-ends.



MESSAGE FROM THE TOP MANAGEMENT

**WE ARE
HARNESSING THE
EXPERTISE AND
TECHNOLOGY
TO CONTINUE
CREATING
INNOVATIVE
PRODUCTS AND
SERVICES FOR
ALL AREAS OF LIFE
TO MAKE THE WORLD
A BETTER PLACE.**

MESSAGE FROM THE TOP MANAGEMENT

ASICS' Strengths

From the earliest days of the Company, we have consistently innovated across a wide range of fields, leading to the creation of numerous standout technologies. Starting with the launch of basketball shoes in 1950, ASICS has grown to become a sporting goods manufacturer favored by athletes around the world. That success has been built on our commitment to athlete performance. By scientifically analyzing human movement and the specific characteristics of each sport – from elite athletes to casual runners and in sports ranging from tennis and volleyball to baseball, football, rugby and leather walking shoes – we have developed products with innovative materials and structural designs that have won the support and trust of athletes worldwide. We are harnessing that expertise and technology to continue creating innovative technologies, products and services for all areas of life, not just sport, driven by an unwavering desire to make the world a better place.

Revising AGP2020 to target sustainable growth

Two years have passed since we created our Five-Year Strategic Plan, ASICS Growth Plan (AGP) 2020. However, progress towards the plan's 2020 targets has been extremely challenging.

The main causes have been a shift in consumer preferences that started in the U.S. and rapid changes in channels. In consumer preferences, we have seen a shift from people passionate about running, which was one of our strengths, to greater interest in sport as a fashion statement, with more people, especially younger consumers, selecting sports shoes and apparel as casual wear. In high-performance running shoes, our brand presence has weakened due to a slowdown in the market itself and a blurring of the boundaries between sports and fashion. In retail channels, there has been a dramatic change in consumer purchasing behavior from physical retail stores to eCommerce, leading to a growing number of bankruptcies in brick-and-mortar stores. In the

U.S., we implemented several measures to address those developments, such as restructuring our sales organization to strengthen links with major retailers and improving our distribution network for high-performance products, but these efforts are yet to yield results. As a result, net sales over the past three years have stalled at around ¥400 billion. Furthermore, we have not been able to hold down rising selling, general and administrative expenses while failing to reach our sales targets, leading to lower profitability.

To break this negative cycle, we have revised our sales targets as an initial step, and we aim to increase earnings by allocating marketing investment, personnel and other management resources in the growth fields. We will also reinforce the importance of profitability in each business division, reviewing products, sales methods and processes to build the foundations for further growth.

After revising the AGP2020 targets, we are now aiming for ¥500 billion or more in net sales, average annual sales growth of 7% from 2017 to 2020, an operating margin of 7% or more, and ROE of 10% or more. We are also targeting average annual sales growth in East Asia of 13% and 16% in China, a priority area.

Our Five-Year Strategic Plan lists seven core strategies. We will maintain the basic direction of those strategies while building a foundation for future growth by focusing resources on growth fields and improving profitability.

Priority allocation of resources to growth areas

Our top priorities are running shoes and the U.S. market. The second priority is China. Our most important initiative is to develop the digital field.

Running shoes in the U.S. market

We have positioned the U.S. as our most important region because it has a vast running market and it tends to lead consumer trends in other regions. Although changing consumer preferences have led to slightly sluggish sales in the performance running market, we need to expand market share and reinforce our brand in the U.S. Otherwise, we will not be able to

Motoi Oyama

Chairman and CEO,
Representative Director

Yasuhito Hirota

President and COO,
Representative Director



MESSAGE FROM THE TOP MANAGEMENT

build a competitive advantage in the casual running category. We will relentlessly develop new technologies and pursue innovation in our highest-performance products, while also emphasizing the advantages of our high-performance products and strengthening sales to specialty stores aimed at serious runners. In the athleisure category – casual clothing and shoes designed to be worn both for exercising and everyday use – we plan to convert technologies developed for high-performance products, an ASICS strength, into a form that is visible to consumers and incorporate them in other products.

In marketing, our goal is to not only create a performance image through our sports assets, but also to communicate a unified brand message and provide product information via celebrities with high profiles in athleisure and digital communication.

China

Our second priority is China. We see significant potential in the Chinese market, as the country's economy is expanding and our current market share is relatively low compared with other regions.

Sales in China are strong and we expect to see further growth going forward. Moreover, the Chinese government encourages participation in sport as a national policy. We will continue to focus on performance running shoes to tap into continued growth in the number of runners in China amid rising interest in healthy lifestyles. We will also promote our brands by actively supporting marathons and other events, while also using local celebrities to improve our brand image via digital media.

Onitsuka Tiger, which we are working to build up in China, has become very popular as a brand originating in Japan. We will continue to promote and enhance the value of the brand by opening flagship stores in major cities with a focus on high-end products.

In the Chinese market, eCommerce is more advanced than in the U.S., so we need to have a strong presence in China's online space. Specifically, we will enhance consumer touch points and expand sales through partnerships with competitive online portals. In our own eCommerce channels, we will provide information

about product features and product background stories and utilize data gleaned from purchases and browsing history in product planning.

Digital commerce and marketing

The last key field is Digital commerce and marketing. We aim to invest actively in digital content to expand and cultivate contacts with our consumers. As explained in our measures for the U.S. market, we will offer products tailored to individual user foot shapes and training frequency, while making use of data and insights from more than 43 million Runkeeper members, our proprietary online foot shape-measuring app Mobile Foot ID, and other services such as the ASICS Studio, training menu. We will continue research and development in services, with a focus on our core running category, to further improve the customer running experience. We will also track online browsing history, using it to provide information personalized to each individual when they visit brick-and-mortar stores, enhancing their shopping experience. Meanwhile, in fields other than running, we will maximize customer benefits and convenience through collaboration with external partners. We will also utilize venture capital to promote the use of digital technologies in our products and services. There are limits to the connections we can cultivate with customers through our own digital commerce and marketing strategies, so we will establish partnerships with competitive online retailers, aiming to expand sales based on win-win relationships.

Improvement of profitability

We aim to improve profitability in Apparel, Core Performance Sport shoes, Retail and Business operation.

Apparel

We have consolidated global functions to improve efficiency in global projects and strengthen brand and design direction. Our next step is to radically overhaul product planning, development and production systems. Over the last few years we have focused on new design proposals and we plan to transfer success in that area to sports fashion products to expand sales in the athleisure market.

Core Performance Sport shoes

This category will play a vital role in maintaining our position as a True Sport Performance brand. Keeping a close eye on return on investment, we will channel investment into strategic product categories to improve profitability, while enhancing the contribution to the ASICS brand as a whole.

Retail

We are tightening our focus on profit management in our own retail channels. Specifically, we will carefully monitor and control the performance of small and medium-sized stores and factory outlets on a store-by-store basis. We will also promptly scrap unprofitable stores, create highly profitable products and improve operations at each store and head office division. Brand presentation will also be strengthened using our flagship stores opened last year in New York, London and Harajuku, Tokyo.

Business operation

Our aim is to achieve speed, accuracy and productivity in internal business operations such as product development, sales and business analysis by taking maximum advantages of digital technologies and robotics. We also plan to reduce costs by reviewing procurement processes across our organizations in Japan, the U.S. and Europe, which are particularly large. We will also improve work practices and continue to maximize corporate value.

Progress in 2017 and outlook for 2018

In fiscal 2017, consolidated net sales increased 0.3% year on year to ¥400,158 million (using last year's exchange rates, sales decreased 2.0% year on year). The retail sector faces challenging times as more brick-and-mortar stores close down. To counter that trend, we decided to open flagship stores in major cities such as London, Tokyo and New York, coupled with efforts to expand our own eCommerce channels.

MESSAGE FROM THE TOP MANAGEMENT

These efforts are helping us rebuild touch points with customers.

To create deeper connections with customers, we also launched a new brand message in August 2017 – I MOVE ME™. We are promoting the message worldwide using popular brand influencers in the U.S., Japan, China and other markets.

In the U.S., where we face our greatest challenges, we reorganized our sales network, creating a system that allows us to ramp up sales to major retailers. To address changing customer tastes, we established a new running shoe development facility in Boston to rapidly gather the latest information about trends in the sports market. The new facility is part of a wider overhaul of our local product development framework, giving us the tools to analyze local demand and reflect trends in product planning. Product development using the new framework is already under way and we plan to launch a steady stream of new products that combine design and function so that they integrate effortlessly into various lifestyle situations. In another development in the U.S., we opened a flagship store on New York's Fifth Avenue in December 2017 – the first store in the U.S. to sell both our ASICS and ASICSSTIGER brands. The store employs a new retailing concept that demonstrates how our shoes and apparel can create high-quality lifestyle ideas spanning fashion and other everyday situations, not just sport. In 2017, we rebuilt customer touch points and reinforced our business base, including our sales network. We plan to continue channeling management resources into those areas in 2018 as a key part of AGP2020.

We are also restructuring our operations in Europe, where changes in customer trends mirror those in the U.S. Our aim is to rapidly and accurately address changes in the operating environment.

Sales are rising in emerging markets. In China, where sales continue to grow at a double-digit pace, there has been a sharp increase in the popularity of running as a pastime, reflected by growth in the number of marathon events. We will continue to step up marketing in China while also upgrading our own eCommerce channels and building closer ties with leading local online retailers. In other emerging markets with promising growth prospects, such as

Russia and countries in Asia, the Middle East and Africa, we will work to grow sales further and improve profitability.

Working to create healthier societies

Over the past few years, we have seen a number of developments that have fundamentally changed the way the sporting goods industry operates regarding sustainability. In particular, social media has played a role in increasing customer awareness about the risks around unsafe and unethical working conditions, and environmental damage in complex, global supply chains. Consumers expect more transparency about the origin of products, materials used and ethical supply chains. We take this responsibility very seriously and recognize that we have an influential role to play.

Financial strategy

Along with the revisions to our Five-Year Strategic Plan, we also reviewed our shareholder return policy, taking into account the balance between growth and profits. Our basic policy had been to pay out roughly 20% of consolidated net income as dividends. We have now decided to boost returns to our shareholders based on the total return ratio. We will flexibly repurchase and cancel shares in line with stock price levels and market conditions, in addition to paying stable dividends, aiming to achieve a total return ratio of about 50% in each year from 2017 through 2020. In 2017, the total return ratio was 49.8%. Moreover, to increase opportunities for returning profits to shareholders, we introduced an interim dividend system. In addition to working to improve profitability and efficiency, we aim to maintain the capital ratio and net cash at current levels as part of our commitment to financial discipline. We will also work to generate cash by continuously improving working capital.

Strengthening our management structure to support sustained growth

Yasuhiro Hirota was appointed President and COO on March 29, 2018. Motoi Oyama continues to supervise and guide the entire ASICS Group as Chairman and CEO.

ASICS has taken steps to make its business more global, including actively recruiting non-Japanese executives and employees and promoting workforce diversity. To achieve the targets in AGP2020 and take ASICS into a new stage of growth, we realized that we had to create a new management structure to bring the whole Group together more effectively to drive forward and expand the business. Drawing on his experience as a senior manager at Mitsubishi Corporation, Yasuhiro Hirota will strive to deliver sustained growth in corporate value. He will also lead efforts to create a new organization that allows our diverse personnel to maximize their specialist skills in dynamic, motivating workplaces and that strengthens and expands our business on a global level.

We appreciate and look forward to your continued understanding and support.

May 2018



Motoi Oyama

Chairman and CEO, Representative Director



Yasuhiro Hirota

President and COO, Representative Director

A low-angle, close-up photograph of a person's legs and feet in motion, running on a paved surface. The person is wearing black athletic pants and Asics running shoes with a yellow and grey mesh upper. The background shows a white building with a textured wall and a set of stairs. The lighting is bright, creating strong shadows on the ground.

OUR STRATEGY

**WE WILL BUILD A
FOUNDATION FOR
FUTURE GROWTH
BY FOCUSING
RESOURCES ON
GROWTH FIELDS
AND IMPROVING
PROFITABILITY.**

ASICS GROWTH PLAN 2020

Aiming for global growth, ASICS launched its Five-Year Strategic Plan, ASICS Growth Plan (AGP) 2020, in 2015. Under the plan, we have been targeting ¥750 billion in sales, an operating income ratio of 10% and ROE of 15% by fiscal 2020. However, sales have stalled at around ¥400 billion, mainly due to changes in consumer trends and sales channels. In that business environment, we have decided to revise the plan to put the Company back on track to growth by prioritizing resources in growth areas and improving profitability.

Quantitative Target

Net Sales



Operating Income Ratio



ROE



Direction

Sustainable growth through focus strategy

Priority allocation of resources to growth areas

- ▶ Running shoes in the U.S. market
- ▶ China
- ▶ Digital commerce and marketing

More details on page 13 >

Improvement of profitability

- ▶ Apparel
- ▶ Core Performance Sport shoes
- ▶ Retail
- ▶ Business operation

More details on page 14 >

Core strategy (No revisions)

- ▶ Shift to DTC mindset
- ▶ Expand our consumer base
- ▶ Communicate a consistent brand
- ▶ Create differentiated innovation
- ▶ Enrich sport life through digital
- ▶ Pursue operational excellence
- ▶ Develop people and the team

More details on page 15 >

PRIORITY ALLOCATION OF RESOURCES TO GROWTH AREAS

Running shoes in the U.S. market

- ▶ Launch strategic products for various running styles
- ▶ Communicate our brand and product story using celebrities and digital and DTC channels
- ▶ Bond with runners through digital services

BACKGROUND

Changing consumer preferences have led to slightly sluggish sales in the performance running market, but we need to grow market share and build a stronger brand position to build a competitive advantage in the casual running category. We will relentlessly pursue technology and innovation in our highest-performance products, while also emphasizing the advantages of our high-performance products and strengthening sales to specialty stores aimed at serious runners. In the athleisure category – casual clothing and shoes designed to be worn both for exercising and general use – we plan to convert technologies developed for high-performance products, an ASICS strength, into a form that is visible to consumers and incorporate them in other products.

China

- ▶ Focus on performance running shoes and communicate ASICS brand
- ▶ Promote Onitsuka Tiger as a premium Japanese brand and open exclusive flagship stores in selected cities
- ▶ Expand eCommerce sales

BACKGROUND

Sales in China are strong and we expect to see further growth.

We will continue to focus on performance running shoes to address growth in the number of runners amid rising interest in healthy lifestyles. Moreover, the Chinese government encourages participation in sports as a national policy. We will also promote our brands by actively supporting marathons and other events.

Digital commerce and marketing

- ▶ Understand consumers by analyzing data from Runkeeper and other apps
- ▶ Develop proprietary digital services in the running category and improve running experiences
- ▶ Deliver highly personalized product promotion and information

BACKGROUND

We aim to invest heavily in digital content to expand and cultivate contacts with our customers.

As explained in our measures for the U.S. market, we will offer products tailored to individual user foot shapes and training frequency, while making use of data and insights from more than 43 million Runkeeper members, our proprietary online foot shape-measuring app Mobile Foot ID, and other services such as the ASICS Studio, training menu.

IMPROVEMENT OF PROFITABILITY

Apparel

- ▶ Extend our new design direction into casual items
- ▶ Expand our product range to meet local demand in each market
- ▶ Increase speed and efficiency in planning, development and production processes

BACKGROUND

We have consolidated functions in our organization worldwide to improve efficiency in global projects and strengthen brand and design direction. Our next step is to radically overhaul product planning, development and production systems. Over the last few years we have focused on new design proposals and we plan to transfer success in that area to sports fashion products to expand sales in the athleisure market.

Core Performance Sport shoes

- ▶ Improve profitability and brand impact by focusing on strategic categories while monitoring return on investment

BACKGROUND

This category will play a vital role in maintaining our position as a sports performance brand. Keeping a close eye on return on investment, we will channel investment into strategic product categories to improve profitability, while enhancing the contribution to the ASICS brand as a whole.

Retail

- ▶ Review store profitability to support rapid scrap and build decisions and deliver appropriate products
- ▶ Focus on brand presentation at flagship stores in selected cities

BACKGROUND

We are tightening our focus on profit management in our own retail channels. Specifically, we will carefully monitor and control the performance of small and medium-sized stores and factory outlets on a store-by-store basis. We will also promptly scrap unprofitable stores, create highly profitable products and improve operations at each store and head office division. Brand presentation will also be strengthened using our flagship stores opened last year in New York, London and Harajuku in Tokyo.

Business operation

- ▶ Drive digital transformation in analysis, planning, development, production, logistics, sourcing, sales and all other business operation processes
- ▶ Reduce costs by reviewing procurement processes

BACKGROUND

Our aim is to achieve speed, accuracy and productivity in internal business operations such as product development, sales and business analysis by taking maximum advantage of digital technologies and robotics. We also plan to reduce costs by reviewing procurement processes across our organizations in Japan, the U.S. and Europe, which are particularly large. We will also improve work practices and continue to maximize corporate value. In all cases, we will adjust our mindset and rigorously review existing approaches.

CORE STRATEGY

Shift to DTC mindset

Change all processes from product planning to sales into a consumer-centric, DTC¹ business model, in which we can directly communicate with our consumers

BACKGROUND

Consumers now live in a world where they see and consume large amounts of information every day, giving them instant access to anything they need. But that information is often fragmented and sometimes misunderstood. That makes it difficult for us to communicate a clear message to consumers. Using indirect channels to gain insights into market trends can lead to delays, preventing us from receiving timely and accurate feedback about our products and consumer needs. Direct and interactive communication is therefore crucial to understanding what consumers want.

We are accelerating the development of our own retail and eCommerce channels. Those channels give us direct access to data that is then rapidly used to improve our products and services, from product development right through to sales.

Strengthening our own retail and eCommerce channels is a key element of that strategy. Sustained efforts to increase sales from those sources are paying off, with the share of sales from DTC channels reaching 21.5% of consolidated sales in 2017.

PROGRESS IN 2017

The main development in 2017 was the opening of our largest flagship store, ASICS REGENT STREET FLAGSHIP in London, our first own retail store handling the products of all four brands in the Group: ASICS, ASICS TIGER, Onitsuka Tiger and HAGLÖFS. We also opened flagship stores in Harajuku, Tokyo, an area that attracts people from Japan and overseas with a keen interest in fashion, and on Fifth Avenue in New York, one of the world's most famous shopping streets. These stores also handle multiple ASICS Group brands.

Our new own retail concept features well-lit, spacious stores offering an expanded lineup of products in both the running and training categories. Based on this new concept, we have renovated our own retail stores in Amsterdam, London and Tokyo and opened our own new retail store in Brisbane, aiming to expand our brand presence in each region

The number of own retail stores in the ASICS Group reached 876 worldwide.

¹ DTC is the collective term for own retail and own eCommerce. The DTC mindset means having a consumer-centric way of thinking that creates the best touchpoints and enables direct communication between consumers and our brands and products, and this information becomes the basis of our entire business process.

Expand our consumer base

- ▶ Develop a deeper understanding of and expand our business in new consumer segments, such as women, youth and emerging markets
- ▶ Become the brand of choice, not only in sports, but also in our consumers' daily lives

BACKGROUND

Sports shoes and apparel are now used by many people for various different reasons: athletes aiming for their best performance, middle-aged and elderly people exercising to improve their health, and women and young consumers taking part in sports events to feel healthy and look stylish. Sportswear is also gaining ground as a fashion statement among young and female consumers, who wear sports apparel as everyday clothes for comfort and lifestyle reasons.

Demand for sports gear is growing rapidly in emerging markets. In China, many people in wealthy urban areas wear sports shoes and apparel as everyday clothes. China is also promoting sport as a national policy, leading to growth in the number of people taking part in sporting activities and driving rapid expansion in the running market. Tapping into those opportunities, we will work to offer products that exceed customer expectations and accelerate merchandising strategies in emerging markets.

PROGRESS IN 2017

We launched new products and opened facilities to target new customer segments with an interest in running and training.

In the running category, we launched GEL-KENUN running shoes for fun runners that offer both stability and cushioning.

In the training category, we worked to improve the value of the ASICS brand by developing a premium collection of training gear for active young people. We also launched the JYUNI Collection worldwide. JYUNI, which is based on a simple and minimalist design concept referencing traditional Japanese aesthetics, is a range of sports apparel combining sophisticated design and high performance. In addition, we rolled out a new line of highly adaptable training apparel that is functional yet suitable for sports and everyday lifestyles.

To promote lifestyles with a deep connection to sports, we opened ASICS CONNECTION TOKYO, a new facility in Tokyo with cafes and fitness studios.

CORE STRATEGY

Communicate a consistent brand

Narrate a consistent brand to our consumers worldwide, and deepen an emotional connection

BACKGROUND

We have a portfolio of four powerful brands: ASICS, ASICSTIGER, Onitsuka Tiger and HAGLÖFS. Over the years, we have increased their value as pioneering brands in their respective eras and categories by harnessing innovative technology to develop a steady stream of high-performance products. We are also developing a consistent message to show how our products and services, underpinned by our wealth of technologies, can benefit all consumers in numerous ways, not just through performance. Our goal is to deepen the emotional connection with customers so that our brands have an indispensable place in their everyday lives.

PROGRESS IN 2017

In 2017, we worked to raise the visibility of our ASICS, ASICSTIGER and Onitsuka Tiger brands.

In the ASICS brand, 2017 saw a major milestone with the launch of I MOVE ME™, a global marketing campaign based on the idea of movement that reimagines our vision for a new generation. I MOVE ME™ aims to show there are no winners or losers in the world of ASICS – just people who move and people we want to motivate to move. In the summer we launched Run the Tube, a series of multi-sensory events in underground tunnels in London celebrating movement as part of the I MOVE ME™ campaign. As many as 5,000 Londoners and visitors joined the event. We also ran I MOVE ME™ campaigns utilizing well-known brand influencers in Japan, the U.S., China and other countries.

Moreover, we provided support for sports events as part of our brand communication strategy. As an official partner of the World Para Athletics, we supported the World Para Athletics Championships London 2017. As an official partner of the International Association of Athletics Federations (IAAF), we also supported the 16th IAAF World Championships 2017, which was also held in London. In addition, we sponsored marathon events in Tokyo, Paris, Stockholm, the Gold Coast and other cities worldwide.

In the ASICSTIGER brand, we launched GEL-KAYANO TRAINER KNIT, a new product made from knitted upper material. We also opened our own retail stores in New York, Shanghai, and Seoul to increase brand awareness.

In the Onitsuka Tiger brand, we opened Onitsuka Tiger Omotesando NIPPON MADE in Tokyo, the world's first specialty store offering the NIPPON MADE series, which features Japanese craftsmanship down to the smallest detail. In addition, the Onitsuka Tiger own retail store also opened its doors in Shinjuku, Tokyo.

Create differentiated innovation

Create innovative products, services and processes that can provide exceptional changes in our consumers' lifestyles and experiences

BACKGROUND

Faced with a steady stream of new products, consumers find it increasingly hard to select products with real value from the vast array of merchandise on offer in retail markets today. To encourage more people to support ASICS, we have to differentiate our products and explain why they are special.

We are building a unique position in the market through relentless innovation that leads to exciting experiences for customers. Our workplaces and corporate culture are already geared to creating innovative products, but our goal is to accelerate innovation across all areas of our business, including services and business processes. We are also communicating the advantages of our products to promote deeper understanding to customers. We plan to draw on a wide range of internal and external resources to develop ideas that benefit customers.

PROGRESS IN 2017

To heighten brand awareness and trust in our products around the world, we launched products in various categories incorporating a new mid-sole material called FlyteFoam.

In the running category, we launched high-performance running shoes such as GEL-NIMBUS 20 and GEL-KAYANO 24.

In the Core Performance Sport category, we rolled out high-performance tennis shoes COURT FF and high-performance volleyball shoes VOLLEY ELITE FF incorporating the same FlyteFoam material.

We played a part in a new record by sprinter Yoshihide Kiryu of Toyo University, who became the first Japanese athlete to break the 10-second barrier in the 100 meters. Kiryu wore specially designed ASICS shoes, which were tailored to his unique foot shape and running style and fine tuned using feedback from the athlete.

Also, we constructed a new factory and rebuilt existing buildings at SANIN ASICS Industry Corporation, which manufactures ASICS shoes. We also relocated and built a new factory operated by ASICS Apparel Industry Corporation, which manufactures apparel. These steps were taken to strengthen the product development and manufacturing framework for high-value-added made in Japan products in both the shoes and apparel categories.

CORE STRATEGY

Enrich sport life through digital

Harness power of digital to help consumers get more fulfillment out of sport everyday

BACKGROUND

Advances in digital technology continue to drive far-reaching changes in our everyday lives and across society as a whole. Using social media and digital tools, consumers can now communicate interactively and more widely with other consumers and companies.

Digital applications and wearable devices are also creating new value in sport. We are utilizing advanced digital technology to develop sport-related content and cutting-edge services that create fun and healthy experiences and enhance the sports lifestyles of consumers.

PROGRESS IN 2017

In the digital field, we launched the MOBILE FOOT ID smartphone app for Android devices in Japan and the U.S. The app enables users to measure their foot size with their own smartphones. In the U.S., we also launched a new on-demand workout app called ASICS Studio. These new services are the result of collaboration between in-house experts and external partners, such as the unique running motion analysis expertise gained from our acquisition of FitnessKeeper, Inc. in 2016. This kind of collaboration has allowed us to bring together digital communication and commerce by integrating consumer databases across the ASICS Group.

In our own eCommerce business, we are upgrading our platform to improve the omni-channel experience for consumers and drive eCommerce sales. We rolled out the new eCommerce platform in Europe in 2017, followed by the U.S., Australia and Southeast Asia in 2018.

We are therefore also teaming up with major eCommerce retail partners in the U.S., Europe, China and Japan to increase business opportunities.

Pursue operational excellence

Transform outdated business practices to data-driven decision-making processes to drive improved profitability and sustainable growth

Reform our development and production systems, and support the development of a sustainable society and environment

BACKGROUND

Every day we face numerous decisions about how to make our continuously expanding global business network more efficient, while also taking into account social and environmental impacts. To increase the quality of decision-making, we need access to accurate information about our business. By visualizing operational processes, we are gleaning useful data that speeds up and improves decision-making, helping us to raise profitability. We are also using that data to support the development of a sustainable society and environment.

PROGRESS IN 2017

As a key strategy in business management, we are currently upgrading our ERP system, aiming to complete the process in all regions by 2020. In 2017, we installed the system at some affiliates in Europe, Hong Kong and Australia after introducing it at European subsidiaries in 2016. We will continue rolling out the system across other regions, while also reinforcing other global business platforms. In production processes, we are shifting to automation and digitization. We completed testing of robotics in the upper and sole assembly process in 2017, with volume production set to begin in 2018.

We are continually reviewing logistics processes to optimize our supply chain and manage inventories efficiently.

Develop people and the team

Develop both individual and team capabilities to deliver values that exceed consumer expectations

BACKGROUND

ASICS' growth will be driven by enhancing the professional skills of every employee and combining their individual strengths in teams to tackle and solve problems.

We are helping our people gain those new skills, emphasizing diversity and encouraging them to take on new challenges without fear of change or failure.

PROGRESS IN 2017

In 2017, we worked to create motivating workplace environments that encourage employees to be more independent.

We ran career design programs for female employees to promote diversity internally and enhance awareness of their career prospects. The scope of the programs was also expanded to include younger employees. We also held an internal event with a diversity and inclusion theme.

To create workplaces where diverse people can bring their capabilities into full play, we introduced flextime and other systems and tackled work-style reforms.



WITH OUR STAKEHOLDERS

**WE AIM TO CREATE
VALUE NOT ONLY
FOR OUR CUSTOMERS
AND SHAREHOLDERS,
BUT ALSO FOR
THE WORLD AROUND US
IN EVERY ASPECTS
OF OUR BUSINESS.**

OUR APPROACH TO SUSTAINABILITY

Sustainability has always been fundamental to the way we do business at ASICS. We aim to include sustainability considerations in every aspect of our business. That includes the wellbeing of our customers, reducing the environmental footprint of our value chain, promoting fair and safe working conditions at our supplier partners, and supporting our employees and the community.

Our new sustainability framework

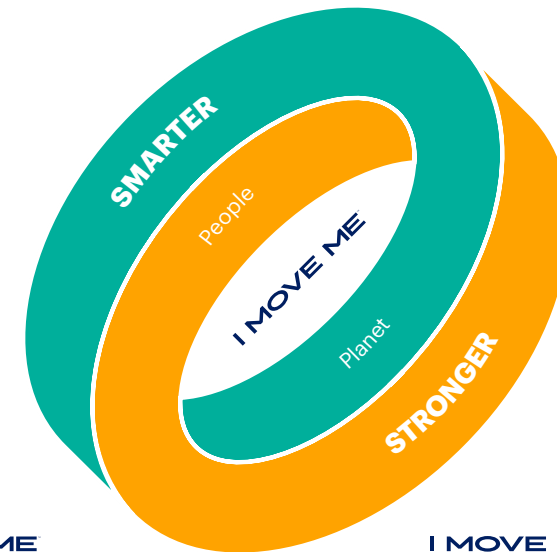
"A sound mind in a sound body" has been ASICS' founding philosophy for nearly 70 years. In 2017 we refined that message with the launch of I MOVE ME™, a new brand message inspiring people of all ages and abilities to be healthy and happy through movement. As the world becomes ever more aware of the impact of physical inactivity and mental illness, I MOVE ME™ reaffirms ASICS' decades long commitment to supporting physical and emotional wellbeing.

Following the launch of the I MOVE ME™ brand message, we have evolved our sustainability framework to align it with the brand messaging.

Supporting the UN's sustainability agenda

We are committed to supporting the UN's Sustainable Development Goals for 2030.

We support the UN's Sustainable Development Goals (SDGs), and our sustainability activities are aligned with them. In particular, our activities support goals 3, 6, 8, 12 and 13 (see below). For an overview of the priority sustainability topics that our activities cover, see our materiality program on the following page.



I MOVE ME SMARTER

I respect the ground I play sport on and enable future generations to move too.



I MOVE ME STRONGER

When I move, I feel stronger, happier and sharper.



MATERIAL ISSUES

We run a continuous materiality program aligned with international standards. Through this program, we identify and evaluate the sustainability issues that are most relevant to our stakeholders and to our own business.

This program has two main elements: our materiality matrix, which helps us prioritize sustainability issues, and our value chain analysis, which shows us where material issues occur in our value chain. Together, these elements help us focus our attention on the issues and areas where it's needed most.

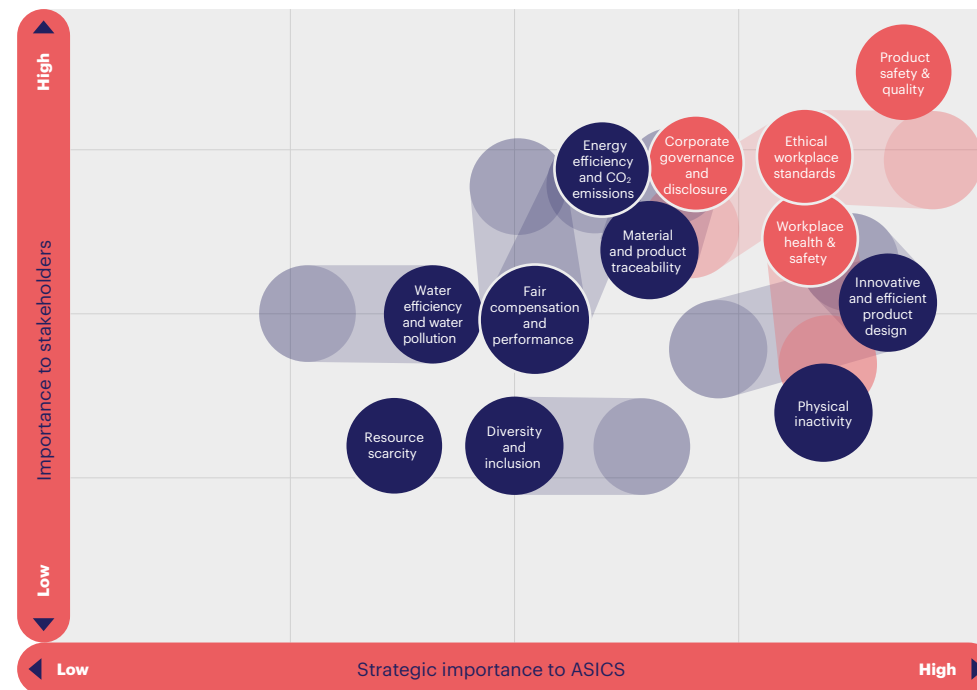
Materiality matrix

Our materiality matrix maps out the sustainability issues identified by internal and external stakeholders according to their level of priority. We update the matrix regularly to incorporate changes both in the priorities of our stakeholders, as well as in the strategic priorities of our company. As we make progress in addressing certain issues over the years, their strategic importance to our business may decrease, giving greater priority to other topics.

The materiality matrix shown on this page is our latest version, updated from last year. It shows the 12 sustainability issues identified as most material following recent consultations with internal stakeholders across the entire global ASICS organization, as well as with external stakeholders.

As ASICS is a product-driven organization, product safety and quality remains our top priority. Since ASICS depends on a global supply chain and works with a wide range of suppliers, ethical workplace standards is another responsibility we take very seriously. Increasing interest from various stakeholders in transparency from our organization about information related to sustainability, corporate governance and disclosure has also increased compared to previous years.

Our materiality matrix



2020 SUSTAINABILITY TARGETS

The plan sets out a series of five-year sustainability targets, prioritizing six key areas:

- 1 Sustainability of products and services
- 2 Management of product chemical safety and traceability
- 3 Operational eco-efficiency and management systems
- 4 Safe and ethical workplace standards and sustainable practices at Tier 1 and Tier 2 suppliers
- 5 Sound governance and disclosure, organizational efficiency and development of an engaged workforce
- 6 Contributing to healthier communities in which we operate through philanthropic activities

I MOVE ME SMARTER

Products

- > Continue to assess footwear and apparel products with sustainability indicators and criteria aligning with the Science-Based Targets and other product and material targets.¹

Products & Operations

- > 10% reduction of CO₂ emissions per item related to footwear manufacturing and material (Scope 3, 2015 baseline).

Operations

- > 5% absolute CO₂ emissions reduction from direct operations (Scope 1 & 2, 2015 baseline).
- > 98% waste recovered or recycled at our direct operations.²
- > Establish a global ASICS Environmental Management System (including ISO 14001 at all key locations).
- > 90% Tier 1 strategic partner factories improve their SAC Higg Facility Environmental Module (Higg FEM) Score compared to baseline.
- > 90% of all nominated Tier 2 suppliers improve their SAC Higg FEM Score compared to baseline.
- > 10% reduction of water and waste impact per item produced by Tier 1 footwear factories.

I MOVE ME STRONGER

Supply Chain

- > All Tier 1 supplier factories to meet ASICS C-Level or above.
- > All Tier 1 strategic partner factories to meet ASICS B-Level or above, and self-report via Higg Facility Social Labor Module (Higg FSLM).
- > Tier 1 ASICS A- and B-Level factories trained in self-governance on CSR in combination with ASICS and/or third-party verification.
- > All nominated Tier 2 suppliers meet ASICS C-Level or above.

Communities

- > Establish global ASICS HR systems and work environment.
- > Female managers appointed in all business divisions of ASICS Headquarters and ASICS Japan Corporation. Ratio of females in manager and higher positions >15%.
- > Alignment on all global community engagement activities by end 2016.

Notes:

¹ Aligned indicators with the SAC Higg Product Tools. Target was updated as the original 2016 target to define criteria was achieved.

² Sites that are able to measure and report their waste.

Learn more

You can learn more about our 2020 sustainability targets and progress in our SUSTAINABILITY REPORT

> http://corp.asics.com/en/csr/csr_reporting

2020 SUSTAINABILITY TARGETS

Planet

I MOVE ME
SMARTER

Products

We innovate and educate to develop the best products and services using less.

Waterless dyeing technology

Developed in 2017, part of our new training apparel collection is produced using around 50% less water in the dyeing process compared with traditional methods. Instead of introducing dyes through dipping and washing of fabrics, the new process avoids using water altogether by adding color to the synthetic fiber components in their liquid state before the fiber is actually produced.

bluesign® system partnership

At ASICS, we know that many of the key sustainability challenges our industry faces require a collective, industry-wide response. In 2017 ASICS became the first Japanese brand to become a System Partner of bluesign®. The bluesign® system brings together brands, manufacturers, converters and chemical suppliers to collaborate on chemical management. Chemical suppliers provide bluesign®-approved chemicals, manufacturers use only these chemicals to make their fabrics and trims, and these are then provided to brands as bluesign®-approved materials to make their products.

Operations

We are committed to continuously improving the efficiency of our own buildings, resource use, materials and distribution network.

Solar panels in Mississippi

In 2017, we continued to procure renewable energy to reduce the amount of CO₂ emissions. ASICS America Corporation partnered with EnterSolar to install a wholly owned 1 MW (megawatt) rooftop solar panels at our distribution center in Byhalia, Mississippi. The largest private solar system in Mississippi, it will cover 25% of the site's annual energy needs over the next 25-30 years, while reducing carbon emissions by nearly 800 tons of CO₂ equivalent units per year.

50%

less water used to dye



1 Apparel: Apparel collection with waterless dyeing technology

2020 SUSTAINABILITY TARGETS

People

I MOVE ME
STRONGER

Supply Chain

We build transparent, fair and ethical partnerships and empower the people in our value chain.

Factory disclosure

Transparency regarding our supply chain impacts is vital, both for ASICS and for our external stakeholders. In October 2017, in a major step forward in supply chain transparency, we published our full list of direct Tier 1 suppliers for the first time. The list covers key Tier 1 suppliers in 19 countries responsible for the manufacturing of ASICS, ASICSTIGER and Onitsuka Tiger products: footwear, apparel, accessories and equipment. Together, they account for more than 90% of our global volume of products manufactured annually.

Download the full list:

https://corp.asics.com/en/csr/partnering_with_our_supply_chain/transparency

Communities

We support our employees and communities so they can fulfill their potential.

Embracing a healthy balance

Working culture in Japan has a reputation for long hours and highly dedicated employees. While we value the dedication of our employees, we also want to support them to achieve a healthy work-life balance – essential for creating an appealing, productive and innovative workplace.

Our Work Style Reform program promotes physical, mental and social well-being among our employees and their families by providing, sports leave, flexible working, teleworking, summer time and Premium Friday.

PHIT America

Physical inactivity has become one of the major causes of ill health in the developed world, and the scale of the challenge is increasing. To address the issue, ASICS America Corporation has joined forces with PHIT America, an organization promoting active, healthy lifestyles among young Americans.

Heading to Global Running Day in June 2017, we launched a campaign in partnership with PHIT America to challenge people across the country to run for a total of 60 minutes using the popular Runkeeper app. For each completed challenge, ASICS donated \$1 to PHIT America, resulting in a total contribution of \$50,000. Around 58 thousand runners took part in the challenge, running a total of 670 thousand miles.



ASICS Athlete, Lolo Jones, during a PHIT America event at an elementary school in Boston.

FUNDAMENTAL APPROACH TO CORPORATE GOVERNANCE

We aim to use corporate governance to continually raise corporate value and create a responsive and highly transparent management structure that retains the trust of all stakeholders, particularly shareholders.

In line with that approach, the Group upgrades its business management systems while also strengthening corporate oversight and audit functions and internal control systems, rigorously enforcing compliance and increasing management transparency based on a firm commitment to reflect the views of shareholders in management.

We have established the Basic Policy on Corporate Governance in accordance with the ASICS SPIRIT and the ASICS CSR Policy to drive continuous improvement in corporate value at a global level. The policy systemizes the Company's corporate governance structure such as the appointment of multiple Independent Outside Directors and the establishment of the Nomination and Compensation Committee, and the Company's corporate governance structure.

The right table shows all of the corporate governance initiatives implemented by the Company since 2008.

History of Measures on Corporate Governance

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Five-year strategic plan		ASICS Challenge Plan			ASICS Growth Plan (AGP) 2015				ASICS Growth Plan (AGP) 2020				
Composition of Board of Directors (Persons)	Inside	10	8	6	8	7	7	5	4	5	6		
	Outside			2	2	3	4	4	4	4	4		
Improving corporate governance	Introduced performance-linked compensation												
	Revised compensation amounts for Directors												
	Introduced stock compensation-type stock options												
	Introduced Executive Officer System												
	Introduced Outside Directors												
	Established standards regarding Independent Outside Directors and Independent Outside Audit & Supervisory Board Members												
	Established Basic Policy on Corporate Governance												
Established Nomination and Compensation Committee													
Evaluating effectiveness of the Board of Directors													

Learn more

You can learn more about our Corporate Governance

> https://corp.asics.com/en/investor_relations/management_policy/corporate_governance

CORPORATE GOVERNANCE STRUCTURE

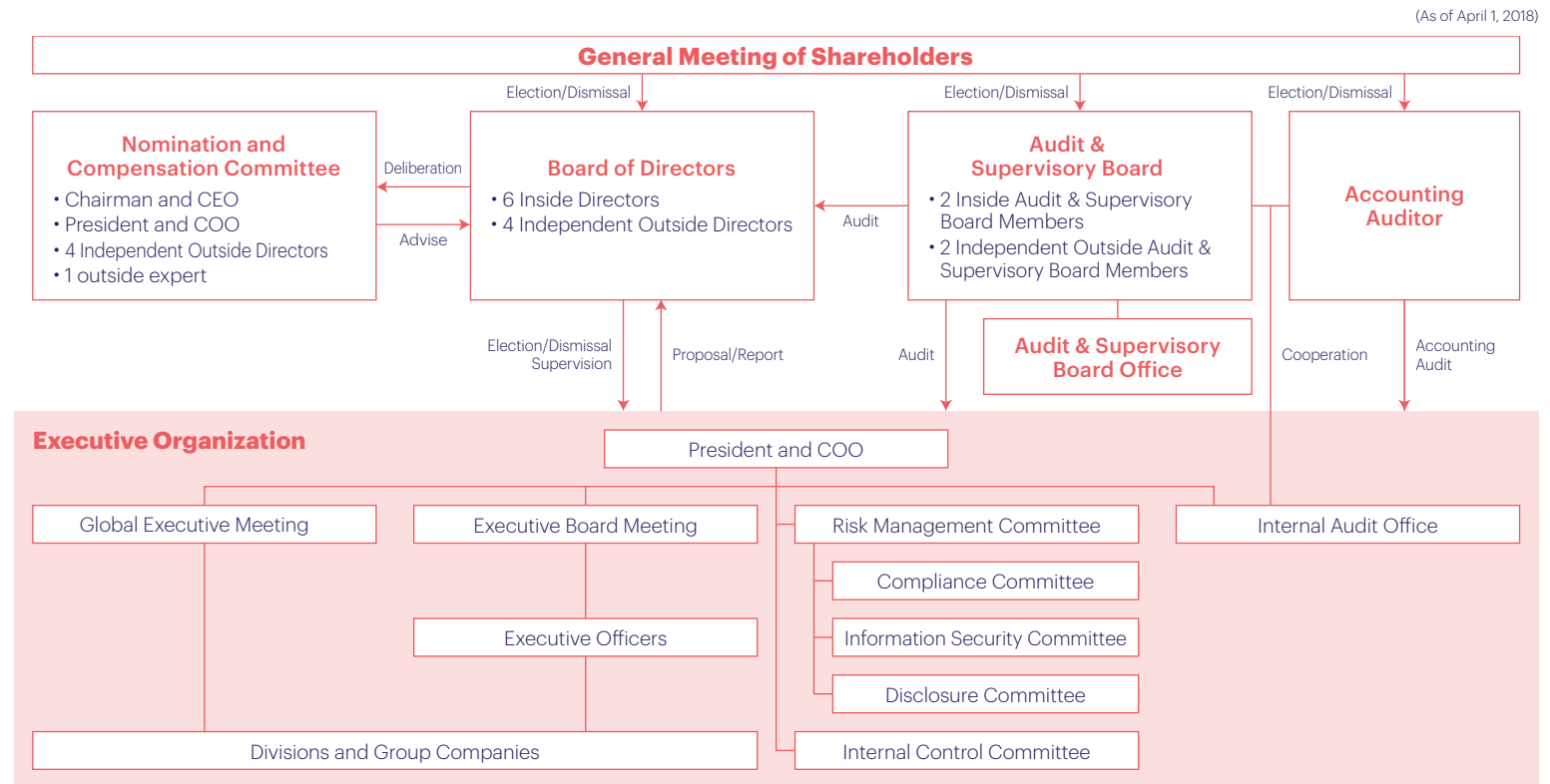
The Board of Directors decides on key business matters and conducts oversight of business execution, primarily through its four Independent Outside Directors, in order to realize sustainable growth and medium- to long-term improvement in corporate value, in accordance with its responsibility and accountability to shareholders.

To ensure appropriate corporate governance, the Company has established its own qualification standards and independence requirements for Independent Outside Directors in "Selection Criteria for Independent Outside Directors and Independent Outside Audit & Supervisory Board Members." Candidates are nominated in accordance with those criteria.

The term of office for Directors is set at one year in order to increase the commitment and accountability of each Director and establish a management system that can respond rapidly to changes in the business environment.

The Board of Directors shall respect the recommendation of the Nomination and Compensation Committee in deciding matters regarding nomination and compensation for Directors and Executive Officers. The Committee is primarily composed of four Independent Outside Directors to ensure fairness and transparency.

Furthermore, the Company has introduced an Executive Officer layer of management in order to strengthen its focus on business execution and so address the growing scale of business operations and changes in the global operating environment.



EVALUATING THE EFFECTIVENESS OF THE BOARD OF DIRECTORS

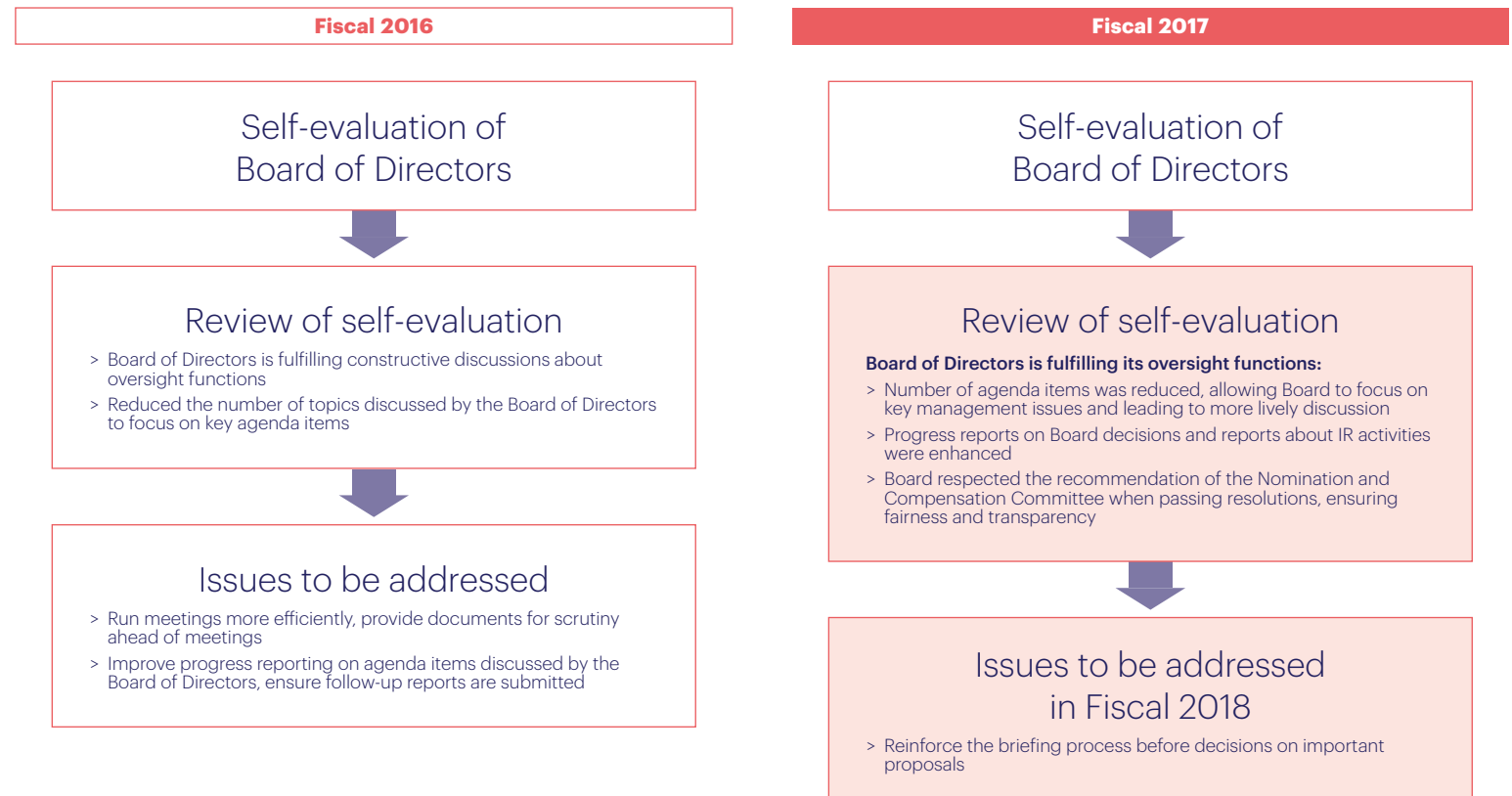
To increase the effectiveness and improve the capabilities of the Board of Directors, we analyzed and evaluated the effectiveness of the Board of Directors in the fiscal year ended December 31, 2017 by conducting a survey of each Director and Audit & Supervisory Board Member. The results from the self-evaluation were reported to the Board of Directors and discussed in detail.

We have overhauled the criteria for submitting agenda items to the Board of Directors and improved the efficiency of board meetings. Those efforts have enabled the Board of Directors to focus on key management issues, resulting in more lively discussions. We have also enhanced our reporting to the Board of Directors with respect to our IR activities and provided updates on matters that may impact the Board past resolution. Respondents to the evaluation say that the Board of Directors is fulfilling its oversight functions.

The Nomination and Compensation Committee holds regular meetings to discuss and decide on important matters such as the appointment of Directors and Executive Officers, performance evaluation and remuneration. The Board of Directors respects the recommendations of the Committee, ensuring fairness and transparency.

The evaluation also highlighted several areas for potential improvement, such as even reinforcing the briefing process to board members before decisions on important proposals.

We plan to address those issues to further improve the effectiveness and functions of the Board of Directors.



RISK MANAGEMENT

We define risks as internal or external factors that could prevent the ASICS Group from achieving targets in the ASICS Growth Plan (AGP) 2020. We have systems in place to effectively mitigate those risks.

Risk Management Governance Model

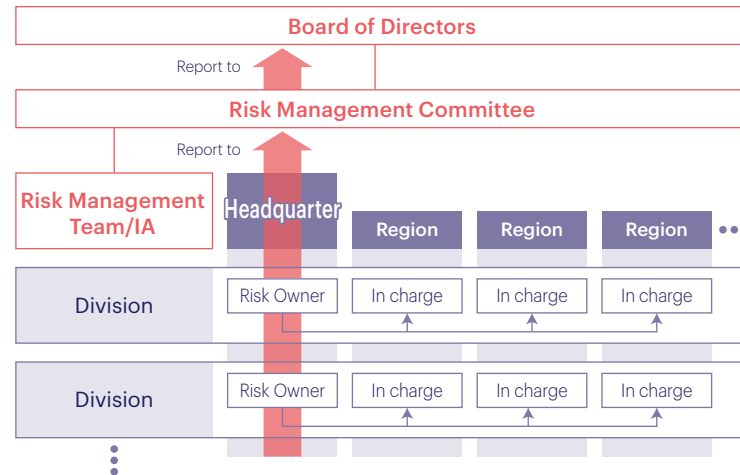
The President and COO has ultimate responsibility for the ASICS Group's risk management system. The Risk Management Committee is tasked with conducting the Group's risk management by identifying risks and allocating business resources to mitigate those risks. The Risk Management Committee reports to the Board of Directors. Division Risk Owners are appointed, in principle, from each Division's Senior General Managers or General Managers. They are responsible for leading risk mitigation activities and reporting progress to the committee. The Risk Management Team carries out activities to maintain risk management operations and monitors the effectiveness and relevance of those activities. The Risk Management Team also works closely with the Internal Audit Department (IA).

Risk Management System

The objective of the ASICS Group's risk management system is to support sustainable business growth and protect the Company from increasingly diverse risks as the scope of its operations expand. The Group's risk management system identifies, analyzes, evaluates, mitigates, monitors and reports risks. In line with our business strategy, the Risk Management Team gathers risk information from the divisions. The Risk Management Committee selects priority risks based on their potential business impact and assigns Division Risk Owners to each risk. Mitigation plans for those risks are led by the Division Risk Owners. The Risk Management Team provides advice to them and monitors progress.

Management Policy

The ASICS Risk Management Policy, which includes information on our governance model and management systems, is available on our intranet.



MANAGEMENT'S DISCUSSION & ANALYSIS

Performance Analysis

In the fiscal year ended December 31, 2017, consolidated net sales increased 0.3% (a decrease of 2.0% using the previous fiscal year's foreign exchange rate) to ¥400,158 million. Domestic net sales decreased 0.5% to ¥101,073 million mainly due to weak sales of sportswear, despite steady sales of running shoes. Overseas sales increased 0.5% (a decrease of 2.6% using the previous fiscal year's foreign exchange rate) to ¥299,085 million mainly due to weak sales in the American and European regions, despite strong sales of running shoes and Onitsuka Tiger shoes in the Oceania/Southeast and South Asian regions as well as the East Asian region.

Gross profit increased 3.8% to ¥183,260 million mainly due to an improved cost of sales ratio. Selling, general and administrative expenses increased 8.4% to ¥163,689 million due to increased costs in line with the expansion of own retail stores and increased costs related to the rollout of various digital strategies. As a result, operating income decreased 23.2% to ¥19,571 million. Profit attributable to owners of parent decreased 16.7% to ¥12,970 million, mainly due to foreign exchange gains recorded in the fiscal year ended December 31, 2017, compared with foreign exchange losses posted in the previous fiscal year, and losses related to business restructuring in the European region.

Segment Information

Business results by reportable segments were as follows.

(1) Japanese region

Sales decreased 0.4% to ¥119,463 million, due to weak sales of sportswear, despite steady sales of running shoes. Segment income decreased 6.3% to ¥5,886 million, due to the effect of the decline in sales, despite an improved cost of sales ratio.

(2) American region

Sales decreased 6.0% (a decrease of 7.7% using the previous fiscal year's foreign exchange rate) to ¥106,177 million, due to weak sales in the U.S. Segment income increased 173.6% (an increase of 168.6% using the previous fiscal year's foreign exchange rate) to ¥2,361 million mainly due to an improved cost of sales ratio as well as a decrease in provision of allowance for doubtful receivables.

(3) European region

Sales decreased 1.2% (a decrease of 5.4% using the previous fiscal year's foreign exchange rate) to ¥106,291 million, due to the effect of changes in the retail market and intensifying competition. Segment income decreased 26.6% (a decrease of 29.8% using the previous fiscal year's foreign exchange rate) to ¥8,297 million mainly due to the effect of the declined sales.

(4) Oceania/SouthEast and South Asian regions

Sales increased 15.1% (an increase of 9.5% using the previous fiscal year's foreign exchange rate) to ¥27,659 million, due to the strong sales of running shoes and Onitsuka Tiger shoes. Segment income increased 11.7% (an increase of 6.4% using the previous fiscal year's foreign exchange rate) to ¥4,057 million.

(5) East Asian region

Sales increased 13.0% (an increase of 10.4% using the

previous fiscal year's foreign exchange rate) to ¥49,131 million, due to the continuing strong sales of running shoes and Onitsuka Tiger shoes in China, despite lower sales in South Korea due to restructuring current retail stores. Segment income increased 2.0% (an increase of 1.2% using the previous fiscal year's foreign exchange rate) to ¥5,097 million.

(6) Other business

Sales increased 0.8% (a decrease of 1.3% using the previous fiscal year's foreign exchange rate) to ¥9,239 million, due to weak sales of outdoor wear and other items under the HAGLÖFS brand. Segment loss was ¥253 million.

Financial Condition

As for consolidated financial position as of December 31, 2017, total assets increased 1.6% from the end of the previous fiscal year to ¥348,232 million, total liabilities increased 3.8% from the end of the previous fiscal year to ¥146,930 million and net assets increased 0.0% from the end of the previous fiscal year to ¥201,302 million.

Cash Flows

As for cash flows as of December 31, 2017, cash and cash equivalents (hereinafter, "cash") increased ¥14,464 million from the end of the previous fiscal year to ¥78,103 million.

The respective cash flow positions and main factors behind the changes are as follows.

Net cash provided by operating activities was ¥37,137 million, a decrease of ¥834 million compared with the previous fiscal year. Major sources of cash were ¥21,835 million from profit before income taxes, ¥9,363 million from depreciation and amortization, and ¥7,066 million from an increase in notes and accounts payable-trade, while major uses of cash were ¥6,903 million for income taxes paid and ¥1,399 million for a decrease in allowance for doubtful receivables.

Net cash used in investing activities was ¥13,789 million, a decrease of ¥257 million compared with the previous fiscal year. Major uses of cash were ¥10,994 million for purchases of property, plant and equipment, and ¥3,181 million for purchases of intangible assets.

Net cash used in financing activities was ¥11,548 million, an increase of ¥6,523 million compared with the previous fiscal year. Major uses of cash were ¥5,000 million for redemption of bonds, ¥4,459 million for cash dividends paid and ¥1,550 million for repayment of long-term loans.

CONSOLIDATED BALANCE SHEET

ASICS Corporation and Consolidated Subsidiaries
December 31, 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and deposits (Notes 4 and 16).....	¥ 79,121	¥ 64,485	\$ 700,186
Short-term investments (Notes 4, 5 and 16).....	2,140	3,947	18,938
Notes and accounts receivable (Note 16):			
Trade.....	71,753	71,519	634,982
Less allowance for doubtful receivables	(2,058)	(3,354)	(18,212)
Inventories (Note 6).....	86,403	88,177	764,628
Deferred income taxes (Note 14).....	3,951	5,967	34,965
Other current assets	14,357	20,445	127,053
Total current assets.....	255,667	251,186	2,262,540
Property, plant and equipment:			
Land (Note 7).....	5,915	7,327	52,345
Buildings and structures (Note 7).....	36,646	35,002	324,301
Machinery, equipment and vehicles	3,766	4,156	33,327
Tools, furniture and fixtures (Note 7).....	28,565	24,042	252,788
Leased assets (Note 7)	8,483	8,376	75,071
Construction in progress	566	397	5,009
Less accumulated depreciation.....	(43,228)	(41,357)	(382,549)
Property, plant and equipment, net (Note 21).....	40,713	37,943	360,292
Intangible assets:			
Goodwill (Notes 21).....	10,949	12,384	96,894
Other intangible assets (Notes 7 and 21).....	15,384	15,167	136,141
Total intangible assets.....	26,333	27,551	233,035
Investments and other assets:			
Investments in securities:			
Investments in unconsolidated subsidiaries and affiliates.....	174	174	1,540
Other (Notes 5 and 16)	13,940	11,391	123,363
Long-term loans receivable	64	70	566
Assets for retirement benefits (Note 10)	—	0	—
Deferred income taxes (Note 14).....	4,575	3,294	40,487
Other assets (Note 7).....	7,089	11,555	62,734
Less allowance for doubtful receivables.....	(323)	(352)	(2,858)
Total investments and other assets	25,519	26,132	225,832
Total assets (Note 21).....	¥348,232	¥342,812	\$3,081,699

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Short-term bank loans (Notes 8 and 16).....	¥ 1,578	¥ 1,360	\$ 13,965
Current portion of long-term debt (Notes 8 and 16).....	4,740	7,229	41,947
Notes and accounts payable (Note 16):			
Trade.....	30,725	22,667	271,903
Construction.....	66	4	584
Accrued income taxes (Note 14).....	1,980	1,404	17,522
Accrued expenses	20,270	17,576	179,381
Provision for sales returns	327	340	2,894
Provision for employees' bonuses.....	357	665	3,159
Asset retirement obligations (Note 9).....	42	—	372
Deferred income taxes (Note 14).....	2	2,270	18
Other current liabilities	14,814	14,532	131,096
Total current liabilities.....	74,901	68,047	662,841
Long-term liabilities:			
Long-term debt (Notes 8 and 16).....	55,372	59,319	490,018
Liabilities for retirement benefits (Note 10)	5,803	4,892	51,354
Asset retirement obligations (Note 9).....	1,122	1,035	9,929
Deferred income taxes (Note 14)	3,845	5,559	34,027
Other long-term liabilities.....	5,887	2,753	52,097
Total long-term liabilities	72,029	73,558	637,425
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized shares —790,000,000 shares at December 31, 2017 and 2016			
Issued shares —199,962,991 shares at December 31, 2017 and 2016.....	23,972	23,972	212,142
Capital surplus.....	17,419	17,415	154,150
Retained earnings (Note 22).....	160,142	151,596	1,417,186
Less treasury stock, at cost (10,137,292 shares at December 31, 2017 and 10,139,476 shares at December 31, 2016).....	(7,667)	(7,667)	(67,850)
Total shareholders' equity	193,866	185,316	1,715,628
Accumulated other comprehensive income:			
Unrealized holding gain on securities (Note 5).....	4,803	3,874	42,505
Unrealized deferred (loss) gain on hedges (Note 17).....	(2,631)	12,806	(23,284)
Revaluation reserve for assets of overseas subsidiaries.....	18	55	160
Translation adjustments	3,964	(2,033)	35,080
Retirement benefits liability adjustments (Note 10).....	(428)	(82)	(3,788)
Total accumulated other comprehensive income.....	5,726	14,620	50,673
Stock acquisition rights (Note 11).....	297	181	2,628
Non-controlling interests.....	1,413	1,090	12,504
Total net assets.....	201,302	201,207	1,781,433
Total liabilities and net assets	¥348,232	¥342,812	\$3,081,699

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

ASICS Corporation and Consolidated Subsidiaries
Year ended December 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 21)	¥400,158	¥399,107	\$3,541,221
Cost of sales	216,898	222,564	1,919,451
Gross profit	183,260	176,543	1,621,770
Selling, general and administrative expenses (Notes 11 and 12).....	163,689	151,070	1,448,575
Operating income (Note 21).....	19,571	25,473	173,195
Other income (expenses):			
Interest and dividend income.....	833	636	7,372
Interest expense.....	(577)	(750)	(5,106)
Exchange gain (loss), net	1,246	(1,753)	11,027
Gain on sales of investments in securities, net (Note 5)	65	9	575
Gain on redemption of investments in securities.....	93	—	823
Loss on sales or disposal of property, plant and equipment and other, net.....	(109)	(164)	(965)
Loss on impairment of investments in securities (Note 5)	(18)	—	(159)
Loss on impairment of property, plant and equipment (Notes 7 and 21).....	(74)	(1,119)	(655)
Business restructuring expenses (Notes 10 and 13)	(794)	—	(7,027)
Subsidy income	283	229	2,504
Subsidy income on facilities	933	—	8,257
Other, net	383	(427)	3,389
	2,264	(3,339)	20,035
Profit before income taxes	21,835	22,134	193,230
Income taxes (Note 14):			
Current	6,816	6,723	60,319
Deferred	1,783	(410)	15,778
	8,599	6,313	76,097
Profit	13,236	15,821	117,133
Profit attributable to:			
Non-controlling interests	266	254	2,354
Owners of parent (Note 20)	¥ 12,970	¥ 15,567	\$ 114,779

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ASICS Corporation and Consolidated Subsidiaries
Year ended December 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥ 13,236	¥15,821	\$ 117,133
Other comprehensive loss (Note 18):			
Unrealized holding gain (loss) on securities	929	(513)	8,221
Unrealized deferred loss on hedges	(15,437)	(1,693)	(136,611)
Revaluation reserve for assets of overseas subsidiaries	(37)	(37)	(327)
Translation adjustments.....	6,055	(7,332)	53,584
Retirement benefits liability adjustments	(346)	11	(3,062)
Total other comprehensive loss, net	(8,836)	(9,564)	(78,195)
Comprehensive income	¥ 4,400	¥ 6,257	\$ 38,938
Comprehensive income attributable to:			
Owners of parent	¥ 4,075	¥ 6,073	\$ 36,062
Non-controlling interests.....	325	184	2,876

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

ASICS Corporation and Consolidated Subsidiaries
Year ended December 31, 2017

	Millions of yen												
	Number of issued shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized deferred (loss) gain on hedges	Revaluation reserve for assets of overseas subsidiaries	Translation adjustments	Retirement benefits liability adjustments	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at January 1, 2016.....	199,962,991	¥23,972	¥17,490	¥140,455	¥(7,667)	¥4,387	¥14,499	¥92	¥5,229	¥(93)	¥95	¥1,424	¥199,883
Dividends.....	—	—	—	(4,461)	—	—	—	—	—	—	—	—	(4,461)
Reversal of revaluation reserve for assets of overseas subsidiaries.....	—	—	—	37	—	—	—	(37)	—	—	—	—	—
Profit attributable to owners of parent.....	—	—	—	15,567	—	—	—	—	—	—	—	—	15,567
Purchases of treasury stock.....	—	—	—	—	(4)	—	—	—	—	—	—	—	(4)
Sales of treasury stock.....	—	—	6	—	4	—	—	—	—	—	—	—	10
Change due to increase in subsidiaries.....	—	—	—	(2)	—	—	—	—	—	—	—	—	(2)
Changes in the Company's interest resulting from transaction with non-controlling interests.....	—	—	(81)	—	—	—	—	—	—	—	—	—	(81)
Other changes.....	—	—	—	—	—	(513)	(1,693)	—	(7,262)	11	86	(334)	(9,705)
Balance at January 1, 2017.....	199,962,991	23,972	17,415	151,596	(7,667)	3,874	12,806	55	(2,033)	(82)	181	1,090	201,207
Dividends.....	—	—	—	(4,461)	—	—	—	—	—	—	—	—	(4,461)
Reversal of revaluation reserve for assets of overseas subsidiaries.....	—	—	—	37	—	—	—	(37)	—	—	—	—	—
Profit attributable to owners of parent.....	—	—	—	12,970	—	—	—	—	—	—	—	—	12,970
Purchases of treasury stock.....	—	—	—	—	(3)	—	—	—	—	—	—	—	(3)
Sales of treasury stock.....	—	—	4	—	3	—	—	—	—	—	—	—	7
Other changes.....	—	—	—	—	—	929	(15,437)	—	5,997	(346)	116	323	(8,418)
Balance at December 31, 2017.....	199,962,991	¥23,972	¥17,419	¥160,142	¥(7,667)	¥4,803	¥(2,631)	¥18	¥3,964	¥(428)	¥297	¥1,413	¥201,302

	Thousands of U.S. dollars (Note 1)												
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Unrealized deferred (loss) gain on hedges	Revaluation reserve for assets of overseas subsidiaries	Translation adjustments	Retirement benefits liability adjustments	Stock acquisition rights	Non-controlling interests	Total net assets	
Balance at January 1, 2017.....	\$212,142	\$154,115	\$1,341,558	\$(67,850)	\$34,284	\$113,327	\$487	\$(17,991)	\$ (726)	\$1,602	\$9,646	\$1,780,594	
Dividends.....	—	—	(39,478)	—	—	—	—	—	—	—	—	(39,478)	
Reversal of revaluation reserve for assets of overseas subsidiaries.....	—	—	327	—	—	—	(327)	—	—	—	—	—	
Profit attributable to owners of parent.....	—	—	114,779	—	—	—	—	—	—	—	—	114,779	
Purchases of treasury stock.....	—	—	—	(27)	—	—	—	—	—	—	—	(27)	
Sales of treasury stock.....	—	35	—	27	—	—	—	—	—	—	—	62	
Other changes.....	—	—	—	—	8,221	(136,611)	—	53,071	(3,062)	1,026	2,858	(74,497)	
Balance at December 31, 2017.....	\$212,142	\$154,150	\$1,417,186	\$(67,850)	\$42,505	\$(23,284)	\$160	\$35,080	\$(3,788)	\$2,628	\$12,504	\$1,781,433	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

ASICS Corporation and Consolidated Subsidiaries
Year ended December 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating activities:			
Profit before income taxes.....	¥21,835	¥22,134	\$193,230
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	9,363	8,354	82,858
Amortization of goodwill.....	1,360	1,153	12,035
(Decrease) increase in allowance for doubtful receivables	(1,399)	250	(12,381)
Increase in liabilities for retirement benefits, net.....	499	368	4,416
(Decrease) increase in provision for employees' bonuses.....	(297)	364	(2,628)
Loss on impairment of investments in securities.....	18	—	159
Gain on sales of investments in securities, net.....	(65)	(9)	(575)
Gain on redemption of investments in securities, net.....	(93)	—	(823)
Interest and dividend income.....	(833)	(636)	(7,372)
Interest expense.....	577	750	5,106
Exchange (gain) loss, net	(24)	888	(212)
Loss on sales or disposal of property, plant and equipment and other, net	109	164	965
Business restructuring expenses	794	—	7,027
Other, net	(981)	2,504	(8,682)
(Increase) decrease in operating assets:			
Notes and accounts receivable-trade.....	1,783	986	15,779
Inventories	4,474	6,236	39,593
Other operating assets	(1,954)	(570)	(17,292)
Increase (decrease) in operating liabilities:			
Notes and accounts payable-trade	7,066	(3,715)	62,531
Accrued consumption taxes.....	(433)	1,311	(3,832)
Other operating liabilities.....	2,097	3,762	18,558
Subtotal	43,896	44,294	388,460
Interest and dividends received.....	833	683	7,372
Interest paid	(538)	(783)	(4,761)
Business restructuring expenses paid.....	(151)	(43)	(1,336)
Income taxes paid.....	(6,903)	(6,180)	(61,089)
Net cash provided by operating activities.....	¥37,137	¥37,971	\$328,646

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Investing activities:			
Increase in time deposits.....	¥ (190)	¥ (1,040)	\$ (1,681)
Proceeds from withdrawal of time deposits	65	6,132	575
Purchases of property, plant and equipment	(10,994)	(5,315)	(97,292)
Payments for disposal of property, plant and equipment	(20)	(45)	(177)
Proceeds from sales of property, plant and equipment	1,474	148	13,044
Purchases of intangible assets	(3,181)	(3,855)	(28,150)
Net decrease in short-term investments.....	1,689	298	14,947
Purchases of investments in securities.....	(1,192)	(520)	(10,549)
Proceeds from sales and redemption of investments in securities.....	222	127	1,965
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(9,700)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation ..	—	24	—
Proceeds from transfer of business.....	—	8	—
Net decrease in short-term loans receivable included in other current assets	41	98	363
Long-term loans receivable made	(9)	(5)	(80)
Collection of long-term loans receivable	10	4	88
Other, net	(1,704)	(405)	(15,080)
Net cash used in investing activities	(13,789)	(14,046)	(122,027)
Financing activities:			
Net increase (decrease) in short-term bank loans	89	(5,318)	788
Proceeds from long-term loans	100	—	885
Repayment of long-term loans	(1,550)	(2,820)	(13,717)
Proceeds from issuance of bonds	—	19,909	—
Redemption of bonds	(5,000)	(11,000)	(44,247)
Purchases of treasury stock	(3)	(3)	(27)
Proceeds from sales of treasury stock	7	0	62
Proceeds from share issuance to non-controlling interest.....	—	110	—
Repayment of lease obligations.....	(731)	(738)	(6,469)
Cash dividends paid to shareholders of the Company.....	(4,459)	(4,456)	(39,460)
Dividends paid to non-controlling interests	(1)	(10)	(9)
Payments for purchases of shares of subsidiaries not resulting in change in scope of consolidation.....	—	(699)	—
Net cash used in financing activities.....	(11,548)	(5,025)	(102,194)
Effect of exchange rate changes on cash and cash equivalents	2,664	(1,276)	23,575
Net increase in cash and cash equivalents	14,464	17,624	128,000
Cash and cash equivalents at beginning of year.....	63,639	46,015	563,177
Cash and cash equivalents at end of year (Note 4)	¥ 78,103	¥ 63,639	\$ 691,177

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ASICS Corporation and Consolidated Subsidiaries
December 31, 2017

1 Basis of Preparation

The accompanying consolidated financial statements of ASICS Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for convenience, as a matter of arithmetic computation only, at ¥113 = U.S.\$1.00, the approximate rate of exchange prevailing on December 31, 2017. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2 Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies which it controls directly or indirectly. All assets and liabilities of the consolidated subsidiaries are revalued on acquisition, if applicable. All significant intercompany transactions and accounts have been eliminated in consolidation.

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income. Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which the gain or loss is recognized for financial reporting purposes.

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates.

(c) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible into cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(d) Securities

Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Cost of securities sold is determined by the moving-average method. Non-marketable equity securities classified as other securities are stated at cost determined by the moving-average method. Non-marketable debt securities classified as other securities are stated at net amortized cost.

Investments in limited liability partnerships and other similar partnerships, which are deemed to be securities under Article 2, Clause 2 of the Financial Instruments and Exchange Act of Japan, are valued at the amount of the underlying equity in their net assets based on the latest financial statements available as of the closing date stipulated in the partnership agreement.

(e) Inventories

Inventories are principally stated at the lower of cost or net realizable value, cost being determined by the moving-average method.

(f) Property, plant and equipment (except for leased assets under finance leases)

The Company and its domestic consolidated subsidiaries compute depreciation of property, plant and equipment by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired on or subsequent to April 1, 1998 and structures attached to the buildings and other structures acquired on or subsequent to April 1, 2016.

Overseas consolidated subsidiaries compute depreciation of property, plant and equipment by the straight-line method over the estimated useful lives of the respective assets.

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

The principal estimated useful lives used for calculating depreciation are as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 17 years
Tools, furniture and fixtures	2 to 20 years

(g) Intangible assets (except for leased assets under finance leases)

Expenditures relating to computer software developed for internal use are charged to income as incurred, unless the software is expected to contribute to the generation of future income or to cost savings, in which case such expenditures are capitalized as intangible assets and amortized by the straight-line method over their respective estimated useful lives, a period of five years.

The Company and its consolidated subsidiaries have recorded intangible assets such as brand, customer base and trademark rights based on revaluation of assets acquired and liabilities assumed as a result of business combinations at fair value. Such intangible assets are amortized by the straight-line method over periods of 9 to 24 years.

(h) Leased assets

Finance leases, other than those that are deemed to transfer the ownership of the leased assets to the lessees, are depreciated using the straight-line method over the lease term with no residual value.

(i) Goodwill

Goodwill is amortized by the straight-line method over the estimated period of benefit of no more than 20 years from the year of acquisition.

(j) Allowance for doubtful receivables

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

The overseas consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on probable specific bad debts from their customers.

(k) Provision for sales returns

Provision for sales returns is provided at an amount calculated based on the historical experience of sales returns.

(l) Provision for employees' bonuses

Provision for employees' bonuses are provided at an expected payment amount of the bonuses to employees attributable to the fiscal year.

(m) Retirement benefits for employees

Liabilities for retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the plan assets as of the balance sheet date.

The retirement benefit obligation is attributed to each period by the benefit formula method.

Actuarial gain or loss is amortized principally in the year following the year in which the gain or loss is incurred by the straight-line method over a period which falls within the estimated average remaining years of service of the eligible employees. Certain consolidated subsidiaries amortize actuarial gain or loss in the year in which the gain or loss is incurred by the straight-line method over a period which falls within the estimated average remaining years of service of the eligible employees.

Certain consolidated subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "simplified method").

(n) Research and development costs

Research and development costs are charged to income as incurred.

(o) Income taxes

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities reported for financial reporting purposes and the corresponding balances for tax reporting purposes.

Certain US consolidated subsidiaries adopted the consolidated taxation system in the United States of America, which allows companies to file tax returns based on the combined profit or loss of a parent company and its subsidiaries.

(p) Derivatives and hedging activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is deferred as a component of net assets. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates ("allocation method"). Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt ("special treatment").

The hedge effectiveness of forward foreign exchange transactions is assessed by considering whether the transactions qualify based on past experience and the probability of the transaction occurring in the future. The hedge effectiveness of interest-rate swaps and currency options is assessed based on a comparison of the cumulative changes in cash flows of the hedged items and those of the hedging instruments in the period from the start of the hedging relationship to the assessment date. However, the assessment of hedge effectiveness is omitted if a high level of hedge effectiveness is identified based on the terms of the contracts.

(q) Distribution of retained earnings

Under the Corporation Law of Japan (the "Law"), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions. Refer to Note 22.

3 Additional Information**Implementation guidance on recoverability of deferred tax assets**

Effective January 1, 2017, the Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Guidance No.26 of March 28, 2016).

4 Cash and Deposits

The balances of cash and deposits reflected in the accompanying consolidated balance sheets at December 31, 2017 and 2016 were reconciled to the balances of cash and cash equivalents in the accompanying consolidated statements of cash flows for the years ended December 31, 2017 and 2016 as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥79,121	¥64,485	\$700,186
Money management funds, included in short-term investments.....	128	131	1,133
Time deposits with original maturities in excess of three months, included in cash and deposits.....	(1,146)	(977)	(10,142)
Cash and cash equivalents	¥78,103	¥63,639	\$691,177

5 Short-Term Investments and Investments in Securities

Information regarding other securities with determinable market value at December 31, 2017 and 2016 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2017			2016			2017		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:									
Equity securities.....	¥12,409	¥6,119	¥6,290	¥ 9,891	¥5,200	¥4,691	\$109,814	\$54,150	\$55,664
Other.....	2,842	2,441	401	3,574	2,921	653	25,151	21,603	3,548
Subtotal	15,251	8,560	6,691	13,465	8,121	5,344	134,965	75,753	59,212
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities.....	60	64	(4)	11	11	(0)	531	566	(35)
Other.....	—	—	—	1,209	1,209	—	—	—	—
Subtotal	60	64	(4)	1,220	1,220	(0)	531	566	(35)
Total	¥15,311	¥8,624	¥6,687	¥14,685	¥9,341	¥5,344	\$135,496	\$76,319	\$59,177

Unlisted equity securities (carrying value for the years ended December 31, 2017 and 2016 amounted to ¥423 million (\$3,743 thousand) and ¥384 million, respectively), unlisted debt securities (carrying value for the years ended December 31, 2017 and 2016 amounted to ¥120 million (\$1,062 thousand) and ¥120 million, respectively) and investments in limited liability partnerships (carrying value for the years ended December 31, 2017 and 2016 amounted to ¥226 million (\$2,000 thousand) and ¥150 million, respectively) for which it is extremely difficult to determine the fair value are not included in the above table.

Information regarding sales of other securities for the years ended December 31, 2017 and 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Proceeds from sales.....	¥128	¥37	\$1,133
Gross realized gain.....	65	9	575

The Company has recognized loss on impairment of marketable securities classified as other securities in the amount of ¥18 million (\$159 thousand) for the year ended December 31, 2017. Impairment loss is recorded for the securities whose market value declines by 30% or more as compared with their acquisition costs.

6 Inventories

The following is a summary of inventories at December 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and finished products.....	¥85,174	¥87,071	\$753,752
Work in process	408	353	3,611
Raw materials and supplies	821	753	7,265
	¥86,403	¥88,177	\$764,628

7 Loss on Impairment of Property, Plant and Equipment

The Company and its consolidated subsidiaries group their assets by store and individually group assets that are planned to be sold and idle assets. The assets are grouped by cash-generating units defined as the smallest identifiable groups of assets generating cash inflows.

The Company and its consolidated subsidiaries have written down asset groups whose operating income has been continuously negative to their respective recoverable amounts and recorded related losses on impairment of property, plant and equipment. The recoverable amounts of asset groups are measured at the higher of their net selling value or value in use. The net selling value is based on estimated sales price.

Value in use is measured as the sum of anticipated future cash flows discounted at rates of 4.1% and 5.6% for the years ended December 31, 2017 and 2016, respectively.

The book value of leased assets is computed based on future lease payments for the years ended December 31, 2017 and 2016, respectively.

For the year ended December 31, 2017, the Company and its subsidiaries have written down idle asset which is not expected to be utilized in the future and the recoverable amount of the idle asset is measured based on their respective estimated net selling value determined by the Company and its consolidated subsidiaries.

For the year ended December 31, 2016, the Company and its consolidated subsidiaries also have written down a distribution center, which is to be transferred and whose estimated transfer price is lower than its carrying value, to its respective net selling value, and recorded related losses on impairment of property, plant and equipment. The Company and its consolidated subsidiaries have written down other intangible assets (software), which belongs to E-commerce business and has not been scheduled for any future use, to its respective net selling value, and recorded losses on impairment of property, plant and equipment.

The details of loss on impairment of property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows:

Use	Location	Classification	Millions of yen	Thousands of U.S. dollars
			2017	2017
Stores	5 Stores (Japan)	Leased assets	¥35	\$310
		Building and structures	7	62
		Other assets	4	35
Idle asset	Japan	Land	28	248
Total			¥74	\$655

Use	Location	Classification	Millions of yen
			2016
Retail stores	16 Retail stores (Japan 8 stores, Europe 8 stores)	Tools, furniture and fixtures	¥ 475
		Leased assets	51
		Other assets	15
Distribution center	Japan	Building and structures	354
		Land	149
E-commerce business	Sweden	Other (Software)	75
Total			¥1,119

8 Short-Term Bank Loans and Long-Term Debt

The average annual interest rates on short-term bank loans are 1.9% and 1.7% at December 31, 2017 and 2016, respectively. Long-term debt at December 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
0.85% yen unsecured bonds issued through private offering, due 2017	¥ —	¥ 2,000	\$ —
0.94% yen unsecured bonds issued through private offering, due 2017	—	1,500	—
0.91% yen unsecured bonds issued through private offering, due 2017	—	1,500	—
0.14% yen unsecured bonds issued through public offering, due 2021	20,000	20,000	176,991
Zero-coupon unsecured bonds with stock acquisition rights, due 2019	30,035	30,065	265,796
Loans primarily from banks, due through 2020 at interest rates ranging from 0.15% to 0.59%	4,100	5,550	36,284
Lease obligations	5,977	5,933	52,894
	60,112	66,548	531,965
Current portion of long-term debt	(4,740)	(7,229)	(41,947)
	¥55,372	¥59,319	\$490,018

Zero-coupon unsecured bonds with stock acquisition rights with a gross issuance amount of ¥30,150 million (\$266,814 thousand) were convertible into shares of common stock of the Company at ¥2,715.4 (\$24) per share and are exercisable from March 17, 2014 to February 15, 2019.

Information on the aggregate annual maturities of long-term debt subsequent to December 31, 2017 is presented in Note 16.

The assets pledged as collateral for a third-party's borrowings at December 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investments and other assets:			
Investments in securities	¥320	¥320	\$2,832

9 Asset Retirement Obligations

(a) Outline of asset retirement obligations

The Company and its domestic consolidated subsidiaries estimated the cost of restoration liabilities based on property lease agreements of certain domestic offices and retail stores and recognized them as asset retirement obligations. The Company and its domestic consolidated subsidiaries also estimated the disposal costs determined under the "Ordinance on Prevention of Asbestos Hazards." Certain overseas consolidated subsidiaries estimated restoration costs for certain overseas offices at the time of vacating the leased property and recognized them as asset retirement obligations.

(b) Calculation method for asset retirement obligations

Asset retirement obligations for the restoration liabilities based on the property lease agreements of certain domestic offices and retail stores were calculated using an estimated useful life of 1 to 41 years from the acquisitions of leasehold improvements and discount rates from 0% to 1.397%. Asset retirement obligations for the disposal costs determined under the "Ordinance on Prevention of Asbestos Hazards" were calculated using an estimated useful life of 5 to 35 years from the acquisitions of leasehold improvements and discount rates from 0.375% to 2.301%. Asset retirement obligations for the restoration costs of certain overseas offices at the time of vacating the leased property were calculated using an estimated useful life of 2 to 20 years from the acquisitions of leasehold improvements and discount rates from 1.733% to 5.5%.

(c) Changes in the balance of asset retirement obligations during the years ended December 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the year	¥1,035	¥1,023	\$ 9,159
Increase due to acquisition of property, plant and equipment	135	50	1,195
Accretion expense	16	15	142
Decrease due to settlement of asset retirement liabilities	(19)	(48)	(168)
Other decrease, net	(3)	(5)	(27)
Balance at end of the year	¥1,164	¥1,035	\$10,301

10 Retirement Benefits

The Company and certain domestic consolidated subsidiaries have lump-sum payment plans, defined benefit plans, defined contribution pension plans or a smaller enterprise retirement allowance mutual aid plan.

Certain overseas consolidated subsidiaries adopted lump-sum payment plans, defined contribution pension plans or defined benefit plans.

Defined Benefit Plans

The changes in the retirement benefit obligations, except for plans accounted for by the simplified method, during the years ended December 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations at the beginning of the year	¥4,288	¥12,597	\$37,947
Service cost	687	754	6,080
Interest cost	44	131	389
Actuarial loss	440	105	3,894
Retirement benefits paid	(253)	(632)	(2,239)
Decrease in retirement benefit obligations for retirement benefits due to transfer to defined contribution pension plans	—	(8,650)	—
Increase due to change from the simplified method to the principle method	119	—	1,053
Other	(15)	(17)	(133)
Retirement benefit obligations at the end of the year	¥5,310	¥ 4,288	\$46,991

The changes in plan assets, except for plans accounted for by the simplified method, during the years ended December 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at the beginning of the year	¥268	¥8,879	\$2,372
Expected return on plan assets	9	180	80
Actuarial loss	—	(2)	—
Contributions paid by the Company and a consolidated subsidiary	67	269	593
Retirement benefits paid	(75)	(436)	(664)
Decrease in plan assets for retirement benefits due to transfer to defined contribution pension plans	—	(8,603)	—
Other	18	(19)	159
Plan assets at the end of the year	¥287	¥268	\$2,540

The changes in liabilities for retirement benefits calculated by the simplified method during the years ended December 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liabilities for retirement benefits at the beginning of the year	¥872	¥973	\$7,717
Retirement benefit expenses.....	71	87	628
Retirement benefits paid.....	(66)	(47)	(584)
Decrease in liability for retirement benefits due to transferring business	—	(121)	—
Decrease due to change from the simplified method to the principle method.....	(82)	—	(726)
Other.....	(15)	(20)	(132)
Liabilities for retirement benefits at the end of the year	¥780	¥872	\$6,903

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of December 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plan:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥5,860	¥4,968	\$51,858
Plan assets at fair value.....	(642)	(620)	(5,681)
	5,218	4,348	46,177
Unfunded retirement benefit obligations.....	585	544	5,177
Net liability for retirement benefits in the consolidated balance sheet	5,803	4,892	51,354
Liabilities for retirement benefits	5,803	4,892	51,354
Assets for retirement benefits	—	(0)	—
Net liability for retirement benefits in the consolidated balance sheet	¥5,803	¥4,892	\$51,354

The components of retirement benefit expenses for the years ended December 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost.....	¥687	¥754	\$6,080
Interest cost.....	44	131	389
Expected return on plan assets.....	(9)	(180)	(80)
Amortization of unrecognized actuarial loss	29	101	257
Net retirement benefit expenses calculated by the simplified method	71	87	628
Retirement benefit expenses.....	¥822	¥893	\$7,274

In addition to the above, additional payments of ¥530 million (\$4,690 thousand) resulting from business restructuring were recorded as business restructuring expenses and loss on revision of retirement benefit plan of ¥2 million was recorded as other, net in the consolidated statement of income for the years ended December 31, 2017 and 2016, respectively.

Actuarial (loss) gain included in other comprehensive income (before tax effects) for the years ended December 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial (loss) gain	¥(412)	¥101	\$(3,646)

Unrecognized actuarial loss included in accumulated other comprehensive income (before tax effects) as of December 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial loss	¥504	¥92	\$4,460

The fair value of plan assets, by major category, as a percentage of total plan assets as of December 31, 2017 and 2016 is as follows:

	2017	2016
Cash and deposits	45%	43%
General accounts controlled by insurance companies	55	57
Total.....	100%	100%

The expected return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above retirement benefit plans for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rates	0.1% – 3.3%	0.1% – 3.0%
Expected rates of return on plan assets	3.1%	2.9%

Defined Contribution Pension Plans

Total contributions paid by the Company and its consolidated subsidiaries to the defined contribution pension plans for the years ended December 31, 2017 and 2016 amounted to ¥1,129 million (\$9,991 thousand) and ¥824 million, respectively.

11 Shareholders' Equity

The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings is nil at December 31, 2017 and 2016.

Movements in common stock and treasury stock for the years ended December 31, 2017 and 2016 are summarized as follows:

	Number of Shares			
	2017			
	January 1, 2017	Increase	Decrease	December 31, 2017
Shares issued:				
Common Stock.....	199,962,991	—	—	199,962,991
Treasury stock:				
Treasury Stock.....	10,139,476	1,422	3,606	10,137,292

The increase in treasury stock of 1,422 shares is due to purchases of shares of less than one voting unit and the decrease in treasury stock of 3,606 shares is due to sales of 6 shares at the requests of shareholders who own less than one voting unit and of 3,600 shares corresponding to exercising stock options for the year ended December 31, 2017.

	Number of Shares			
	2016			
	January 1, 2016	Increase	Decrease	December 31, 2016
Shares issued:				
Common Stock.....	199,962,991	—	—	199,962,991
Treasury stock:				
Treasury Stock.....	10,143,572	1,641	5,737	10,139,476

The increase in treasury stock of 1,641 shares is due to purchases of shares of less than one voting unit and the decrease in treasury stock of 5,737 shares is due to sales of 37 shares at the requests of shareholders who own less than one voting unit and of 5,700 shares corresponding to exercising stock options for the year ended December 31, 2016.

Stock option plans

Stock option costs included in selling, general and administrative expenses for the years ended December 31, 2017 and 2016 amounted to ¥126 million (\$1,115 thousand) and ¥96 million, respectively.

A description of the stock option plan (the "2017 plan") is as follows:

Stock option plans		2017 plan
Date of approval at a meeting of the Board of Directors		April 26, 2017
Individuals covered by the plan	Directors other than outside directors	5
	Employees of the Company	6
	Directors of the Company's subsidiaries	4
	Employee of the Company's subsidiary	2

Type and number of shares to be issued upon the exercise of the stock options	2017 plan
Common stock.....	101,400
Grant date	May 29, 2017
Service period	Not defined
Exercise period.....	From May 30, 2020 to May 29, 2047

A description of the stock option plan (the "2016 plan") is as follows:

Stock option plans		2016 plan
Date of approval at a meeting of the Board of Directors		April 22, 2016
Individuals covered by the plan	Directors other than outside directors	4
	Employees of the Company	7
	Directors of the Company's subsidiaries	2
	Employees of the Company's subsidiaries	3

Type and number of shares to be issued upon the exercise of the stock options	2016 plan
Common stock.....	85,900
Grant date	May 17, 2016
Service period	Not defined
Exercise period.....	From May 18, 2019 to May 17, 2046

A description of the stock option plan (the "2015 plan") is as follows:

Stock option plans		2015 plan
Date of approval at a meeting of the Board of Directors		April 7, 2015
Individuals covered by the plan	Directors other than outside directors	5
	Employees of the Company	6
	Directors of the Company's subsidiaries	3
	Employees of the Company's subsidiaries	2

Type and number of shares to be issued upon the exercise of the stock options	2015 plan
Common stock.....	23,700
Grant date	May 12, 2015
Service period	Not defined
Exercise period.....	From May 13, 2018 to May 12, 2045

A description of the stock option plan (the "2014 plan") is as follows:

Stock option plans		2014 plan
Date of approval at a meeting of the Board of Directors		July 18, 2014
Individuals covered by the plan	Directors other than outside directors	7
	Executive officers who are residents of Japan under the Income Tax Law of Japan	6

Type and number of shares to be issued upon the exercise of the stock options	2014 plan
Common stock.....	26,500
Grant date	August 8, 2014
Service period	Not defined
Exercise period.....	From August 9, 2017 to August 8, 2044

A description of the stock option plan (the "2013 plan") is as follows:

Stock option plans		2013 plan
Date of approval at a meeting of the Board of Directors		July 19, 2013
Individuals covered by the plan	Directors other than outside directors	7
	Executive officers who are residents of Japan under the Income Tax Law of Japan	5

Type and number of shares to be issued upon the exercise of the stock options	2013 plan
Common stock.....	37,200
Grant date	August 6, 2013
Service period	Not defined
Exercise period.....	From August 7, 2016 to August 6, 2043

Vesting conditions for the exercise of stock acquisition rights are as follows:

For the "2017 plan" and "2016 plan"

- 1) If the individuals to whom the stock acquisition rights are granted (the "Holders") forfeit stock acquisition rights, the stock options cannot be exercised.
- 2) Other conditions are included in the contract entered into between the Company and the Holders.

For the "2015 plan"

If the individuals to whom the stock acquisition rights are granted (the "Holders") forfeit stock acquisition rights, the stock options cannot be exercised.

For the "2014 plan" and "2013 plan"

- 1) When the Holders cease to be a director or/and executive officer, the Holders can exercise the rights within five years following the date on which the Holders leave their positions with valid reasons as approved by the Company, such as the fulfillment of the service period.
- 2) If the Holders forfeit stock acquisition rights, the stock options cannot be exercised.
- 3) Other conditions are included in the contract entered into between the Company and the Holders.

The following table summarizes stock option activity under the stock option plans referred to above during the year ended December 31, 2017:

	2017 plan	2016 plan	2015 plan
Number of stock options			
Unvested:			
Outstanding at the end of prior fiscal period	—	85,900	22,000
Granted.....	101,400	—	—
Forfeited.....	4,000	1,600	—
Vested.....	—	—	—
Outstanding at the end of the fiscal period	97,400	84,300	22,000
Vested:			
Outstanding at the end of prior fiscal period	—	—	—
Vested.....	—	—	—
Exercised	—	—	—
Forfeited.....	—	—	—
Outstanding at the end of prior fiscal period	—	—	—
	Yen		
Exercise price.....	¥ 1	¥ 1	¥ 1
Weighted average exercise price	¥ —	¥ —	¥ —
Weighted average fair value per stock at the grant date	¥1,670	¥2,178	¥3,008
	U.S. dollars		
Exercise price.....	\$0.01	\$0.01	\$0.01
Weighted average exercise price	\$ —	\$ —	\$ —
Weighted average fair value per stock at the grant date	\$ 15	\$ 19	\$ 27

	2014 plan	2013 plan
Number of stock options		
Unvested:		
Outstanding at the end of prior fiscal period	25,100	—
Granted	—	—
Forfeited	—	—
Vested	25,100	—
Outstanding at the end of the fiscal period	—	—
Vested:		
Outstanding at the end of prior fiscal period	—	29,000
Vested	25,100	—
Exercised	1,000	2,600
Forfeited	—	—
Outstanding at the end of prior fiscal period	24,100	26,400

	Yen	
Exercise price	¥ 1	¥ 1
Weighted average exercise price	¥1,796	¥1,928
Weighted average fair value per stock at the grant date	¥2,135	¥1,707

	U.S. dollars	
Exercise price	\$0.01	\$0.01
Weighted average exercise price	\$ 16	\$ 17
Weighted average fair value per stock at the grant date	\$ 19	\$ 15

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used for the 2017 stock option plan are as follows:

Major assumptions	Note	2017 plan
Estimated volatility	(a)	40.201%
Estimated remaining period	(b)	8.8 years
Estimated dividend	(c)	¥23.5 (\$0.21) per share
Risk-free rate	(d)	0.005%

- (a) Estimated volatility was computed by the closing stock prices of common stock in each trading day from July 29, 2008 to May 29, 2017.
- (b) Because adequate data was unavailable and it is difficult to reasonably estimate the exercise date, the remaining period was estimated as if stock options were exercised in the middle of the exercisable period.
- (c) The estimated dividend was calculated based on the dividend amount applicable to the year ended December 31, 2016.
- (d) The risk-free rate was determined based on the rate of Japanese government bonds, for which redemption dates corresponded to the estimated remaining period.

Because it is difficult to reasonably estimate the number of stock options that will be forfeited in the future, the estimation reflects only the actual number of forfeited stock options.

12 Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended December 31, 2017 and 2016 amounted to ¥4,430 million (\$39,204 thousand) and ¥3,677 million, respectively.

13 Business Restructuring Expenses

Business restructuring expenses mainly represent additional payments of retirement benefits incurred in relation to the formation of a strategic sales network as a means of business restructuring in the European region.

14 Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended December 31, 2017 and 2016 are, in the aggregate, approximately 30.8% and 33.0%, respectively. The effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2017 and 2016 differed from the above statutory tax rates for the following reasons:

	2017	2016
Statutory tax rates:	30.8%	33.0%
Permanently non-deductible expenses	0.2	0.4
Permanently non-taxable income	(0.1)	(0.1)
Change in valuation allowance	7.9	(3.9)
Tax rate differences at overseas consolidated subsidiaries	(3.7)	(5.7)
Decrease in deferred tax assets resulting from change in statutory tax rate	1.6	0.2
Other	2.7	4.6
Effective tax rates	39.4%	28.5%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and consolidated subsidiaries at December 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Inventories	¥ 2,375	¥ 2,891	\$ 21,018
Allowance for doubtful receivables	496	1,511	4,389
Provision for employees' bonuses	418	574	3,699
Liability for retirement benefits	1,956	1,781	17,310
Tax loss carry forwards	4,741	4,496	41,956
Other	3,913	2,182	34,628
Gross deferred tax assets	13,899	13,435	123,000
Less valuation allowance	(3,864)	(3,053)	(34,195)
Total deferred tax assets	10,035	10,382	88,805
Deferred tax liabilities:			
Unrealized holding gain on securities	1,689	1,234	14,947
Valuation difference of consolidated subsidiaries	1,629	1,799	14,416
Unrealized deferred gain on hedges	462	4,218	4,088
Other	1,576	1,699	13,947
Total deferred tax liabilities	5,356	8,950	47,398
Net deferred tax assets	¥ 4,679	¥ 1,432	\$ 41,407

The Tax Cuts and Jobs Act, which reduces the federal corporate income tax rate in the U.S. from January 1, 2018, was enacted in the U.S. on December 22, 2017.

In line with this, the deferred tax assets and liabilities of U.S. subsidiaries were calculated in accordance with the revised statutory tax rate.

As a result of the change in tax rate, deferred income tax assets (after offsetting deferred income tax liabilities) decreased by ¥345 million (\$3,053 thousand), and income taxes – deferred increased by the same amount as of December 31, 2017 and for the year then ended.

15 Leases

The Company and its consolidated subsidiaries have entered into finance lease contracts which do not transfer the ownership of the leased assets to them. Main components of such finance leases are a distribution center classified as land and buildings and computer software classified as intangible assets.

The Company and its consolidated subsidiaries also have entered into non-cancellable operating lease contracts. Future minimum lease payments subsequent to December 31, 2017 under non-cancellable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending December 31,		
2018	¥ 8,540	\$ 75,576
2019 and thereafter	46,407	410,681
	¥54,947	\$486,257

16 Financial Instruments
(a) Status of financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries (collectively the "Group") raise funds mainly by bank borrowings and bonds issuance. The Group manages temporary fund surpluses principally through liquid financial assets. Furthermore, the Group raises short-term working capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative purposes.

Trade receivables, notes and accounts receivables, are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from trade receivables denominated in foreign currencies, and forward foreign currency exchange contracts and others are arranged to reduce the risk.

Marketable securities and investments in securities are exposed to market risk. Those securities are mainly composed of equity securities of companies with which the Group has business relationships.

Substantially all trade payables, trade notes and accounts payable, have payment due dates within four months. Although a portion of payables are exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign currency exchange contracts and others are arranged to reduce the risk.

Loans, bonds and bonds with stock acquisition rights are taken out principally for the purpose of conducting business activities and making capital investments. The repayment dates of the long-term debt extend up to four years from the balance sheet date. Although a portion of the debt is exposed to interest rate fluctuation risk, the Group undertakes interest rate swap transactions as hedging instruments.

Regarding derivatives, the Group enters into forward foreign currency exchange contracts and others to reduce the foreign currency exchange risk mainly on the payables denominated in foreign currencies resulting from importing products within the actual demand for foreign currency exchange. The Group also enters into interest rate swap transactions to reduce future fluctuation risk deriving from interest rates of long-term loans and bonds. Refer to "(p) Derivatives and hedging activities" in Note 2 "Summary of Significant Accounting Policies" for hedge accounting policy.

Regarding trade receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Group is making efforts to identify at an early stage and mitigate risks of bad debt from customers who have financial difficulties.

In accordance with internal policies, "Policies of Administrative Authority," the Group only acquires debt securities held for investment purposes with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is immaterial.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with international financial institutions with sound credit profiles.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, "Policies on Derivative Transactions," "Policies of Global Financial Governance" and "Policies of Administrative Authority" which set forth delegation of authority and segregation of duties related to derivative transactions. The Accounting and Financing Department conducts and manages derivative transactions and segregates duties of execution and management of transactions to separate personnel and management who are each responsible for transactions, positions and operations. Transaction data and other information are regularly reported to the executive board meeting by the responsible executive officer.

For short-term investments and investments in securities, the Group periodically reviews the fair value of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether or not security investments should be maintained, taking into account their fair value and relationships with the issuers.

Certain consolidated subsidiaries that enter into derivative transactions or buy/sell marketable securities and investments in securities also follow internal policies and base transactions are overseen and reviewed by management departments of these subsidiaries.

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis and maintains solvency to manage liquidity risk.

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value. In addition, the notional principal amounts of derivative transactions in Note 17 "Derivatives and Hedging Activities" are not necessarily indicative of the actual market risk.

(b) Estimated Fair Value of Financial Instruments

Carrying value, estimated fair value and the difference between them for financial instruments on the consolidated balance sheets as of December 31, 2017 and 2016 are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen			Thousands of U.S. dollars		
	2017					
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets:						
Cash and deposits.....	¥ 79,121	¥ 79,121	¥ —	\$ 700,186	\$ 700,186	\$ —
Notes and accounts receivable-trade	71,753			634,982		
Less allowance for doubtful receivables (*1)	(2,058)			(18,212)		
	69,695	69,695	—	616,770	616,770	—
Short-term investments and investments in securities:						
Other investment securities.....	15,311	15,311	—	135,496	135,496	—
Total assets	¥164,127	¥164,127	¥ —	\$1,452,452	\$1,452,452	\$ —
Liabilities:						
Notes and accounts payable-trade	¥ 30,725	¥ 30,725	¥ —	\$ 271,903	\$ 271,903	\$ —
Short-term bank loans and current portion of long-term loans.....	5,578	5,578	—	49,363	49,363	—
Bonds included in long-term debt.....	20,000	19,992	(8)	176,991	176,920	(71)
Bonds with stock acquisition rights.....	30,035	30,206	171	265,796	267,310	1,514
Long-term loans	100	100	(0)	885	885	(0)
Total liabilities.....	¥ 86,438	¥ 86,601	¥163	\$ 764,938	\$ 766,381	\$1,443
Derivative transactions (*2).....	¥ (2,911)	¥ (2,911)	¥ —	\$ (25,761)	\$ (25,761)	\$ —

	Millions of yen		
	2016		
	Carrying value	Fair value	Difference
Assets:			
Cash and deposits.....	¥ 64,485	¥ 64,485	¥ —
Notes and accounts receivable-trade	71,519		
Less allowance for doubtful receivables (*1)	(3,354)		
	68,165	68,165	—
Short-term investments and investments in securities:			
Other investment securities.....	14,685	14,685	—
Total assets	¥147,335	¥147,335	¥ —
Liabilities:			
Notes and accounts payable-trade	¥ 22,667	¥ 22,667	¥ —
Short-term bank loans and current portion of long-term loans.....	2,910	2,910	—
Current portion of long-term bonds	5,000	5,000	—
Bonds included in long-term debt	20,000	19,990	(10)
Bonds with stock acquisition rights.....	30,065	33,348	3,283
Long-term loans	4,000	4,009	9
Total liabilities.....	¥ 84,642	¥ 87,924	¥3,282
Derivative transactions (*2).....	¥ 16,363	¥ 16,363	¥ —

Notes:

(*1) The amount of less allowance for doubtful receivables in the above table is related to notes and accounts receivable-trade.

(*2) The value of assets and liabilities arising from derivatives is a net value, and the amount in parentheses represents a liability position.

Since cash and deposits, and notes and accounts receivable-trade are settled in a short period of time, their carrying value approximates the fair value.

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by the financial institutions making markets for these securities.

Since notes and accounts payable-trade, short-term bank loans and current portion of long-term loans and bonds are settled in a short period of time, their carrying value approximates the fair value.

The fair value of bonds included in long-term debt is based on the present value of the total of principal and interest discounted by the interest rate determined taking into account the remaining period for each bond and the current credit risk.

The fair value of bonds with stock acquisition rights is based on the prices provided by the financial institutions.

The fair value of long-term loans is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Regarding derivatives, refer to Note 17.

Carrying value of financial instruments for which it is extremely difficult to determine the fair value at December 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥423	¥384	\$3,743
Unlisted debt securities	120	120	1,062
Investments in limited liability partnerships	226	150	2,000

(c) Redemption schedule for monetary claims and investments by maturity date

The redemption schedule for monetary claims and debt securities by maturity date at December 31, 2017 is as follows:

	Millions of yen				Thousands of U.S. dollars			
	2017				2017			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 79,121	¥ —	¥ —	¥ —	\$ 700,186	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	71,753	—	—	—	634,982	—	—	—
Debt securities: Corporate bonds	—	—	—	120	—	—	—	1,062
Total	¥150,874	¥ —	¥ —	¥120	\$1,335,168	\$ —	\$ —	\$1,062

(d) Payment schedule for short-term bank loans and long-term debt

The payment schedule for short-term bank loans and long-term debt by payment due date at December 31, 2017 is as follows:

	Millions of yen					
	2017					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥1,578	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	20,000	—	—
Bonds with stock acquisition rights	—	30,000	—	—	—	—
Long-term loans	4,000	—	100	—	—	—
Lease obligations	740	639	561	497	412	3,128
Total	¥6,318	¥30,639	¥661	¥20,497	¥412	¥3,128

	Thousands of U.S. dollars					
	2017					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	\$13,965	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	176,991	—	—
Bonds with stock acquisition rights	—	265,487	—	—	—	—
Long-term loans	35,398	—	885	—	—	—
Lease obligations	6,549	5,655	4,965	4,398	3,646	27,681
Total	\$55,912	\$271,142	\$5,850	\$181,389	\$3,646	\$27,681

17 Derivatives and Hedging Activities

The outstanding currency-related derivatives positions not designated as hedging instruments at December 31, 2017 and 2016 are as follows:

Classification	Transaction	Millions of yen			
		2017			
		Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value	Unrealized gain
Over-the-counter transactions	Non-deliverable forwards:				
	Selling				
	BRL	¥6,783	¥ —	¥224	¥224
	Total	¥6,783	¥ —	¥224	¥224

Classification	Transaction	Millions of yen			
		2016			
		Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value	Unrealized loss
Over-the-counter transactions	Non-deliverable forwards:				
	Selling				
	BRL	¥9,905	¥ —	¥(200)	¥(200)
	Total	¥9,905	¥ —	¥(200)	¥(200)

Classification	Transaction	Thousands of U.S. dollars			
		2017			
		Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value	Unrealized gain
Over-the-counter transactions	Non-deliverable forwards:				
	Selling				
	BRL	\$60,027	\$ —	\$1,982	\$1,982
	Total	\$60,027	\$ —	\$1,982	\$1,982

Fair value is based on the prices obtained from counterparty financial institutions.

There are no outstanding interest-related derivative positions not designated as hedging instruments at December 31, 2017 and 2016.

The outstanding currency-related derivatives positions designated as hedging instruments at December 31, 2017 and 2016 are as follows:

Classification	Transaction	Hedged item	Millions of yen			Thousands of U.S. dollars		
			2017			2017		
			Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value	Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value
Deferral hedge accounting	Forward foreign exchange contracts:							
	Selling							
	USD	Accounts receivable-trade (Forecasted transaction)	¥ 124	¥ —	¥ 0	\$ 1,097	\$ —	\$ 0
	EUR	Accounts receivable-trade (Forecasted transaction)	1,511	—	(47)	13,372	—	(416)
	GBP	Accounts receivable-trade (Forecasted transaction)	14,855	7,514	835	131,460	66,495	7,389
	NOK	Accounts receivable-trade (Forecasted transaction)	408	—	7	3,611	—	62
	DKK	Accounts receivable-trade (Forecasted transaction)	524	—	(17)	4,637	—	(150)
	Buying							
	USD	Accounts payable-trade (Forecasted transaction)	208,430	104,939	(3,913)	1,844,513	928,664	(34,628)
	Subtotal		225,852	112,453	(3,135)	1,998,690	995,159	(27,743)
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:							
	Selling							
	USD	Accounts receivable-trade	142	—	—	1,257	—	—
	Buying							
	USD	Accounts payable-trade	1,943	—	—	17,195	—	—
	Total		¥227,937	¥112,453	¥(3,135)	\$2,017,142	\$995,159	\$(27,743)

Classification	Transaction	Hedged item	Millions of yen		
			Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value
			2016		
Deferral hedge accounting	Forward foreign exchange contracts:				
	Selling				
	USD	Accounts receivable-trade (Forecasted transaction)	¥ 48	¥ —	¥ (4)
	EUR	Accounts receivable-trade (Forecasted transaction)	1,148	—	(13)
	GBP	Accounts receivable-trade (Forecasted transaction)	14,412	6,808	1,310
	NOK	Accounts receivable-trade (Forecasted transaction)	543	—	(17)
	DKK	Accounts receivable-trade (Forecasted transaction)	482	—	(7)
	Buying				
	USD	Accounts payable-trade (Forecasted transaction)	197,765	90,396	15,294
	Subtotal		214,398	97,204	16,563
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:				
	Selling				
	USD	Accounts receivable-trade	123	—	—
	Buying				
	USD	Accounts payable-trade	1,719	—	—
	Total		¥216,240	¥97,204	¥16,563

The fair value of forward foreign exchange contracts that qualify for the allocation method is included in accounts receivable-trade and accounts payable-trade. Fair value is based on the prices obtained from counterparty financial institutions.

The outstanding interest-related derivatives positions designated as hedging instruments at December 31, 2017 and 2016 are as follows:

Method of hedge accounting	Transaction and major hedged items	Millions of yen			Thousands of U.S. dollars		
		Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value	Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value
		2017					
Swap rates applied to underlying debt	Pay fixed / Receive floating	Long-term loans	¥2,400	¥ —	¥ —	\$21,239	\$ —

Method of hedge accounting	Transaction and major hedged items	Millions of yen			
		Contract value (notional principal amount)	Portion in excess of 1 year in contract value	Estimated fair value	
		2016			
Swap rates applied to underlying debt	Pay fixed / Receive floating	Long-term loans	¥2,400	¥2,400	¥ —

The fair value of interest-rate swaps that qualify for special treatment is included in long-term loans.

18 Other Comprehensive Loss

The following table presents the changes in the components of other comprehensive loss for the years ended December 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gain (loss) on securities:			
Unrealized holding gain (loss) arising during the year	¥ 1,483	¥(1,975)	\$ 13,124
Net gain reclassified into income	(140)	(9)	(1,239)
Subtotal	1,343	(1,984)	11,885
Less: tax effect	(414)	1,471	(3,664)
Net unrealized holding gain (loss) on securities	929	(513)	8,221
Unrealized deferred loss on hedges:			
Unrealized deferred loss arising during the year	(24,688)	(2,935)	(218,478)
Net loss reclassified into income	3,900	465	34,513
Subtotal	(20,788)	(2,470)	(183,965)
Less: tax effect	5,351	777	47,354
Unrealized deferred loss on hedges	(15,437)	(1,693)	(136,611)
Revaluation reserve for assets of overseas subsidiaries	(37)	(37)	(327)
Translation adjustments:			
Translation adjustments arising during the year	6,055	(7,332)	53,584
Net gain reclassified into income	—	—	—
Subtotal	6,055	(7,332)	53,584
Less: tax effect	—	—	—
Translation adjustments	6,055	(7,332)	53,584
Retirement benefits liability adjustments:			
Retirement benefits liability adjustments arising during the year	(440)	(56)	(3,894)
Net loss reclassified into income	28	101	248
Subtotal	(412)	45	(3,646)
Less: tax effect	66	(34)	584
Retirement benefits liability adjustments	(346)	11	(3,062)
Total other comprehensive loss, net	¥ (8,836)	¥(9,564)	\$ (78,195)

19 Supplementary Information on the Consolidated Statement of Cash Flows

Information on significant non-cash transactions

The Company and its consolidated subsidiaries recorded leased assets of ¥915 million (\$8,097 thousand) and ¥333 million and lease obligations of ¥915 million (\$8,097 thousand) and ¥333 million under finance leases for the years ended December 31, 2017 and 2016, respectively.

Assets corresponding to asset retirement obligations recorded as of December 31, 2017 and 2016 were ¥136 million (\$1,204 thousand) and ¥60 million, respectively. Liabilities corresponding to asset retirement obligations recorded as of December 31, 2017 and 2016 were ¥152 million (\$1,345 thousand) and ¥74 million, respectively.

20 Amounts per Share

Amounts per share at December 31, 2017 and 2016 and for the years then ended are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets	¥1,051.45	¥1,053.28	\$9.30
Profit attributable to owners of parent:			
Basic	68.33	82.01	0.60
Diluted	64.42	77.41	0.57
Cash dividends applicable to the year	23.50	23.50	0.21

The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year end. Basic profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the years ended December 31, 2017 and 2016, respectively. Diluted profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during each the years ended December 31, 2017 and 2016 after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options and bonds with stock acquisition rights.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal year.

The financial data used in the computation of basic profit per share and diluted profit per share for the years ended December 31, 2017 and 2016 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Information used in computation of basic profit per share:			
Profit attributable to owners of parent.....	¥ 12,970	¥ 15,567	\$ 114,779
Adjustments to profit attributable to owners of parent.....	¥ (21)	¥ (20)	\$ (186)
	Thousands of shares		
	2017	2016	
Weighted-average number of shares of common stock outstanding.....	189,824	189,820	
Increase in common stock.....	11,182	11,023	
Increase attributable to:			
Bonds with stock acquisition rights.....	11,048	10,949	
Stock acquisition rights.....	134	74	

21 Segment Information

1. Outline of reportable segments

Reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Meeting of the Company to make decisions on the allocation of management resources and assess performance.

The Company is mainly engaged in business management activities and research and development as the global headquarters.

The Group is primarily engaged in the manufacture and sales of sporting goods. ASICS Japan Corporation and other subsidiaries in Japan are responsible for Japan. ASICS America Corporation is responsible for America. ASICS Europe B.V. is responsible for Europe, Middle East and Africa. ASICS Oceania PTY., Ltd. and ASICS Asia PTE., Ltd. are responsible for Oceania, South-East Asia, and South Asia. ASICS China Trading Co., Ltd. and ASICS Korea Corporation are responsible for relevant areas of East Asia. Local legal entities are independent management units and they set overall management strategy for their businesses and conduct separate business activities.

The "Japan," the "America," the "Europe" (including Middle East and Africa), the "Oceania/Southeast and South Asia Area" and the "East Asia" segments primarily manufacture and sell sporting goods and the "Other business" segment manufactures and sells outdoor products under the "HAGLÖFS" brand.

2. Calculation method used for sales, income or loss, assets and other items on each reportable segment

Accounting policies of the reportable business segments are the same as those noted in the "Note 2. Summary of Significant Accounting Policies."

The amount of income on reportable segments is based on operating income. Intersegment sales and transfers between segments are based on market price.

3. Information on net sales, income or loss, assets and other items by reportable segment

Reportable segment information for the years ended December 31, 2017 and 2016 is as follows:

	Millions of yen								
	2017								
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Net sales:									
Sales to customers.....	¥101,107	¥106,120	¥106,194	¥27,659	¥49,085	¥ 8,871	¥399,036	¥ 1,122	¥400,158
Intersegment.....	18,356	57	97	—	46	368	18,924	(18,924)	—
Total sales.....	¥119,463	¥106,177	¥106,291	¥27,659	¥49,131	¥ 9,239	¥417,960	¥(17,802)	¥400,158
Segment income (loss).....	¥ 5,886	¥ 2,361	¥ 8,297	¥ 4,057	¥ 5,097	¥ (253)	¥ 25,445	¥ (5,874)	¥ 19,571
Segment assets.....	¥ 73,164	¥ 74,336	¥ 80,004	¥23,488	¥31,229	¥15,118	¥297,339	¥ 50,893	¥348,232
Other items									
Depreciation and amortization.....	¥ 1,125	¥ 2,150	¥ 1,812	¥ 427	¥ 561	¥ 549	¥ 6,624	¥ 2,739	¥ 9,363
Increases in property, plant and equipment and intangible assets.....	554	3,574	2,787	332	627	159	8,033	4,631	12,664
	Millions of yen								
	2016								
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Net sales:									
Sales to customers.....	¥101,601	¥112,864	¥107,568	¥24,038	¥43,460	¥ 8,763	¥398,294	¥ 813	¥399,107
Intersegment.....	18,389	50	34	1	14	401	18,889	(18,889)	—
Total sales.....	¥119,990	¥112,914	¥107,602	¥24,039	¥43,474	¥ 9,164	¥417,183	¥(18,076)	¥399,107
Segment income (loss).....	¥ 6,282	¥ 863	¥ 11,309	¥ 3,631	¥ 4,997	¥ (421)	¥ 26,661	¥ (1,188)	¥ 25,473
Segment assets.....	¥ 77,948	¥ 79,871	¥ 84,677	¥19,508	¥23,508	¥14,390	¥299,902	¥ 42,910	¥342,812
Other items									
Depreciation and amortization.....	¥ 1,224	¥ 1,814	¥ 1,968	¥ 370	¥ 364	¥ 541	¥6,281	¥ 2,073	¥ 8,354
Increases in property, plant and equipment and intangible assets.....	288	1,797	1,289	300	412	148	4,234	5,677	9,911
	Thousands of U.S. dollars								
	2017								
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Net sales:									
Sales to customers.....	\$ 894,752	\$ 939,115	\$ 939,770	\$ 244,770	\$ 434,381	\$ 78,504	\$ 3,531,292	\$ 9,929	\$ 3,541,221
Intersegment.....	162,443	504	858	—	407	3,257	167,469	(167,469)	—
Total sales.....	\$ 1,057,195	\$ 939,619	\$ 940,628	\$ 244,770	\$ 434,788	\$ 81,761	\$ 3,698,761	\$ (157,540)	\$ 3,541,221
Segment income (loss).....	\$ 52,088	\$ 20,894	\$ 73,425	\$ 35,903	\$ 45,106	\$ (2,239)	\$ 225,177	\$ (51,982)	\$ 173,195
Segment assets.....	\$ 647,469	\$ 657,841	\$ 708,000	\$ 207,858	\$ 276,363	\$ 133,788	\$ 2,631,319	\$ 450,380	\$ 3,081,699
Other items									
Depreciation and amortization.....	\$ 9,956	\$ 19,027	\$ 16,035	\$ 3,779	\$ 4,965	\$ 4,857	\$ 58,619	\$ 24,239	\$ 82,858
Increases in property, plant and equipment and intangible assets.....	4,903	31,628	24,664	2,938	5,549	1,406	71,088	40,983	112,071

(Notes) 1. (1) Adjustments on segment sales mainly consist of adjustments of intersegment transactions and sales which are not included in the reportable segments.

(2) Adjustments on segment income or loss mainly consists of adjustments of intersegment transaction and income or loss which are not included in the reportable segments.

(3) Adjustments on segment assets mainly consist of the eliminations of investment balance and corporate assets.

2. Segment income or loss is reconciled primarily to operating income on the consolidated statement of income.

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of sporting goods in Japan and overseas. As most of the consolidated net sales were related to sports and leisure-related products, the disclosure of business segment information has been omitted.

Net sales by geographical segment for the years ended December 31, 2017 and 2016 are summarized as follows:

Millions of yen						
2017						
	Japan	America	Europe	East Asia	Other	Total
Net sales.....	¥101,073	¥107,169	¥108,950	¥49,935	¥33,031	¥400,158

Millions of yen						
2016						
	Japan	America	Europe	East Asia	Other	Total
Net sales.....	¥101,560	¥113,697	¥110,285	¥44,301	¥29,264	¥399,107

Thousands of U.S. dollars						
2017						
	Japan	America	Europe	East Asia	Other	Total
Net sales.....	\$894,451	\$948,398	\$964,159	\$441,903	\$292,310	\$3,541,221

(Note) Net sales are based on customer locations and classified by country and territory.

Property, plant and equipment by geographical segment as of December 31, 2017 and 2016 are summarized as follows:

Millions of yen					
2017					
	Japan	America	Europe	Other	Total
Property, plant and equipment.....	¥21,181	¥11,616	¥5,917	¥1,999	¥40,713

Millions of yen					
2016					
	Japan	America	Europe	Other	Total
Property, plant and equipment.....	¥21,490	¥10,336	¥4,232	¥1,885	¥37,943

Thousands of U.S. dollars					
2017					
	Japan	America	Europe	Other	Total
Property, plant and equipment.....	\$187,442	\$102,796	\$52,363	\$17,691	\$360,292

As there are no customers accounting for 10% or more of consolidated net sales, the disclosure of information on major customers has been omitted.

Loss on impairment of property, plant and equipment by reportable segment for the years ended December 31, 2017 and 2016 is summarized as follows:

Millions of yen									
2017									
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Loss on impairment of property, plant and equipment.....	¥46	¥—	¥—	¥—	¥—	¥—	¥46	¥28	¥74

Millions of yen									
2016									
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Loss on impairment of property, plant and equipment.....	¥570	¥—	¥474	¥—	¥—	¥75	¥1,119	¥—	¥1,119

Thousands of U.S. dollars									
2017									
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Loss on impairment of property, plant and equipment.....	\$407	\$—	\$—	\$—	\$—	\$—	\$407	\$248	\$655

Amortization of goodwill for the years ended December 31, 2017 and 2016 and the balance of goodwill as of December 31, 2017 and 2016 by reportable segment are summarized as follows:

Millions of yen									
2017									
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Amortization	¥193	¥—	¥—	¥—	¥—	¥ 226	¥ 419	¥ 941	¥ 1,360
Remaining as of December 31	198	—	—	—	—	2,943	3,141	7,808	10,949

Millions of yen									
2016									
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Amortization	¥193	¥46	¥—	¥—	¥—	¥ 221	¥ 460	¥ 693	¥ 1,153
Remaining as of December 31	390	—	—	—	—	2,970	3,360	9,024	12,384

Thousands of U.S. dollars									
2017									
	Japan	America	Europe	Oceania / Southeast and South Asia Area	East Asia	Other business	Total	Adjustments	Consolidated
Amortization	\$1,708	\$—	\$—	\$—	\$—	\$ 2,000	\$ 3,708	\$ 8,327	\$12,035
Remaining as of December 31	1,752	—	—	—	—	26,045	27,797	69,097	96,894

Information on gain on negative goodwill has been omitted as these are no applicable items to be disclosed for the years ended December 31, 2017 and 2016.

22 Subsequent Events

(1) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2017, was approved at a meeting of the shareholders of the Company held on March 29, 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥23.50 = US\$0.21 per share).....	¥4,461	\$39,478

(2) Purchase of treasury stock

The Company resolved at the Board of Directors' meeting held on February 14, 2018, to purchase treasury stock as stated below pursuant to Item 1, Paragraph 1, Article 459 of the Companies Act of Japan and Article 43 of the Articles of Incorporation of the Company.

(a) Reasons for purchase of treasury stock

To conduct flexible capital management in order to deal with changes in the business environment and return profit to shareholders based on the Company's shareholder return policy.

INDEPENDENT AUDITOR'S REPORT

(b) Outline of purchase	
Type of shares to be purchased	Common stock of the Company
Aggregate number of shares to be purchased	Up to 1,300,000 shares
Aggregate amount of purchase price	Up to ¥2,000,000,000 (\$17,699 thousand)
Purchase period	From February 15, 2018 to March 31, 2018
Purchase method	Market purchase from the Tokyo Stock Exchange
(c) Results of purchase	
Type of shares purchased	Common stock of the Company
Aggregate number of shares purchased	1,127,300 shares
Aggregate amount of purchase price	¥1,999,979,600 (\$17,699 thousand)
Purchase period	From February 15, 2018 to March 23, 2018 (Trade date basis)
Purchase method	Market purchase from the Tokyo Stock Exchange

(3) Retirement of treasury stock

The Company resolved at the Board of Directors' meeting held on March 29, 2018, to retire a portion of its treasury stock as stated below pursuant to Article 178 of the Companies Act of Japan.

(a) Reason for retirement of the Company's treasury stock

In order to mitigate future potential dilution in accordance with the Company's shareholder return policy, the Company plans to retire the equivalent number of treasury stock expected to be remaining once the Zero-coupon unsecured bonds with stock acquisition rights due 2019 are converted and the corresponding treasury stock disposed.

(b) Outline of retirement

Type of shares to be retired	Common stock of the Company
Number of shares to be retired	92,432 shares (Equivalent to 0.05% of the aggregate number of issued shares before the retirement)
Scheduled retirement date	April 12, 2018
Retirement method	Deduction from capital surplus

After the retirement, the Company's aggregate number of issued shares will be 199,870,559 shares.

The Board of Directors
ASICS Corporation

We have audited the accompanying consolidated financial statements of ASICS Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shin Nihon LLC

March 29, 2018
Osaka, Japan

CORPORATE INFORMATION

Corporate Data (As of December 31, 2017)

Corporate Name:	ASICS Corporation
Founded:	September 1, 1949
Paid-in Capital:	¥23,972 million
Principal Business:	Manufacture and sales of sports goods
Head Office:	1-1, Minatojima-Nakamachi 7-chome, Chuo-ku, Kobe 650-8555, Japan Tel: +81-78-303-2231
Institute:	ASICS Institute of Sport Science 2-1, Takatsukadai 6-chome, Nishi-ku, Kobe 651-2271, Japan Tel: +81-78-992-0810
Number of Employees:	8,586 (consolidated basis)

Major Consolidated Subsidiaries (As of December 31, 2017)

- ASICS Japan Corporation
- ASICS America Corporation
- ASICS BRASIL LTDA
- ASICS Europe B.V.
- ASICS Oceania PTY. LTD.
- ASICS Asia PTE. LTD.
- ASICS Korea Corporation
- ASICS China Trading Co., Ltd.
- HAGLÖFS AB
- SANIN ASICS Industry Corporation
- ASICS Apparel Industry Corporation

Executives (As of April 1, 2018)

Chairman and CEO, Representative Director:	Motoi Oyama
President and COO, Representative Director:	Yasuhiro Hirota
Directors:	Hokuto Nakano Manabu Nishimae Tsuyoshi Nishiwaki Naoki Matsushita
Outside Directors:	Katsuro Tanaka Takeshi Hanai Hitoshi Kashiwaki Kazuo Sumi
Executive Officers:	Yuichi Honma Megumi Ohta Yuji Mabuchi Koji Kajiwara Koji Hayashi Paul Miles Gerard Klein Shinji Senda Manabu Kuramoto Norio Takaoka Kenichi Harano Ryoji Shoda Gary Fukumoto Tomoki Yanagisawa Alistair Cameron Gene McCarthy Junji Kobayashi
Audit & Supervisory Board Members:	Tadashi Inoue Keiji Miyakawa
Outside Audit & Supervisory Board Members:	Hideaki Mihara Miwa Suto

Shareholder Information (As of December 31, 2017)

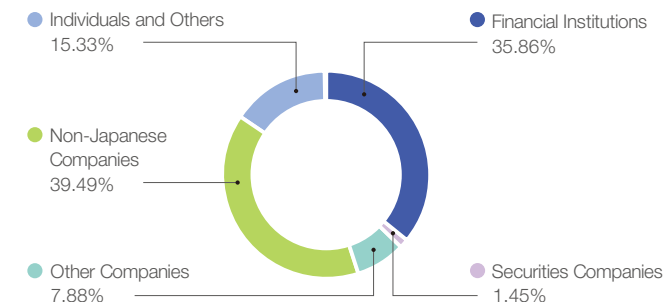
Common Stock:	Authorized 790,000,000 shares Issued 199,962,991 shares (including treasury stock of 10,137,292 shares)
Number of Shareholders:	39,204

Principal Shareholders: (As of December 31, 2017)

Name	Shareholdings (Thousands)	Ownership* (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,787	5.2
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,858	4.1
Sumitomo Mitsui Banking Corporation	6,607	3.5
Japan Trustee Services Bank, Ltd. (Trust Account)	6,370	3.4
Nippon Life Insurance Company	5,679	3.0
JP MORGAN CHASE BANK 385632	4,634	2.4
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,787	2.0
STATE STREET BANK AND TRUST COMPANY 505325	3,296	1.7
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	2,900	1.5
Japan Trustee Services Bank, Ltd. (Trust Account 1)	2,813	1.5

Breakdown of Shareholders: (As of December 31, 2017)

Number of Shareholders



*Ownership ratios were calculated by deducting shares of treasury stock.