OMRON Corporation and Subsidiaries

Consolidated Balance Sheets as of March 31, 2018 and 2017 and Consolidated Statements of Income, Comprehensive Income, Equity and Cash Flows for Each of the Three Years in the Period Ended March 31, 2018 and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of OMRON Corporation:

We have audited the accompanying consolidated financial statements of OMRON Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended March 31, 2018, and the related notes to the consolidated financial statements, 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 the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 financial position of OMRON Corporation and its subsidiaries as of March 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu LLC

June 20, 2018

Member of
Deloitte Touche Tohmatsu Limited

OMRON Corporation and Subsidiaries

Consolidated Balance Sheets
March 31, 2018 and 2017

ASSETS	Millions of Yen 2018	Millions of Yen 2017
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	¥ 113,023	¥ 126,026
Notes and accounts receivable – trade (Note 4)	174,065	169,210
Allowance for doubtful receivables (Note 1)	(1,117)	(1,320)
Inventories (Notes 1 and 2)	129,581	109,404
Deferred income taxes (Notes 1 and 11)	-	19,123
Other current assets (Notes 3, 16, 17 and 19)	21,833	13,461
Total current assets	437,385	435,904
PROPERTY, PLANT, AND EQUIPMENT (Notes 1, 6 and 19):		
Land	24,886	25,550
Buildings	145,389	141,527
Machinery and equipment	205,233	189,286
Construction in progress	10,063	6,104
Total	385,571	362,467
Accumulated depreciation	(250,468)	(234,852)
Net property, plant, and equipment	135,103	127,615
INVESTMENTS AND OTHER ASSETS:		
Goodwill (Notes 1, 5, 19 and 21)	38,705	30,385
Investments in and advances to affiliates (Note 1)	27,195	25,303
Investment securities (Notes 1, 3 and 19)	29,016	27,006
Leasehold deposits	7,531	6,907
Deferred income taxes (Notes 1 and 11)	39,947	21,101
Other assets (Notes 1, 5, 6, 19 and 21)	30,070	23,480
Total investments and other assets	172,464	134,182
TOTAL	¥ 744,952	¥ 697,701

LIABILITIES AND EQUITY	Millions of Yen 2018	Millions of Yen 2017
CURRENT LIABILITIES:		
Notes and accounts payable – trade	¥ 93,792	¥ 89,362
Accrued expenses	44,291	39,354
Income taxes payable	6,414	6,994
Other current liabilities (Notes 1, 8, 11, 16, 17, 18 and 19)	38,281	36,371
Total current liabilities	182,778	172,081
DEFERRED INCOME TAXES (Notes 1 and 11)	706	763
TERMINATION AND RETIREMENT BENEFITS (Notes 1 and 8)	42,342	43,708
OTHER LONG-TERM LIABILITIES (Note 18)	11,740	10,392
Total liabilities	237,566	226,944
EQUITY (Notes 1 and 9):		
Common stock, no par value: authorized, 487,000,000 shares in 2018 and 2017; issued, 213,958,172 shares in 2018 and 2017	64,100	64,100
Capital surplus	99,588	99,138
Legal reserve	19,940	17,813
Retained earnings	390,950	346,000
Accumulated other comprehensive income (loss) (Notes 1 and 15)	(49,359)	(57,363)
Treasury stock, at cost, 3,352,916 shares and 152,836 shares in 2018 and 2017, respectively	(19,689)	(659)
Total	505,530	469,029
Noncontrolling interests	1,856	1,728
Total equity	507,386	470,757
TOTAL	¥744,952	¥697,701

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen		
	2018	2017	2016
NET SALES (Note 1)	¥859,982	¥794,201	¥833,604
COSTS AND EXPENSES (Note 7):			
Cost of sales	502,297	482,399	512,792
Selling, general and administrative expenses (Note 1)	212,641	193,539	205,735
Research and development expenses	59,134	50,697	52,790
Other expenses (income), net (Note 10)	2,543	2,074	(3,399)
Total	776,615	728,709	767,918
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	83,367	65,492	65,686
INCOME TAXES (Notes 1 and 11)	21,615	19,882	20,043
EQUITY IN EARNINGS OF AFFILIATES	(1,754)	(712)	(2,039)
NET INCOME	63,506	46,322	47,682
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	347	335	392
NET INCOME ATTRIBUTABLE TO OMRON SHAREHOLDERS	¥ 63,159	¥ 45,987	¥ 47,290

	Yen		
	2018	2017	2016
PER SHARE DATA (Note 12):			
Net income attributable to OMRON shareholders:			
Basic	¥296.85	¥215.09	¥218.95
Diluted	-	215.09	218.95

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen		
	2018	2017	2016
NET INCOME	¥63,506	¥46,322	¥ 47,682
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX (Note 15):			
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	3,153	(9,003)	(23,916)
Reclassification adjustment for the portion realized in net income	-	(7)	-
Net unrealized gain (loss)	3,153	(9,010)	(23,916)
Pension liability adjustments:			
Pension liability adjustments arising during the year	451	4,908	(29,525)
Reclassification adjustment for the portion realized in net income	2,335	3,046	1,486
Net unrealized gain (loss)	2,786	7,954	(28,039)
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during the year	3,695	1,164	(5,776)
Reclassification adjustment for the portion realized in net income	(2,034)	(7,283)	(4,818)
Net unrealized gain (loss)	1,661	(6,119)	(10,594)
Net gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	(514)	983	658
Reclassification adjustment for the portion realized in net income	920	(1,109)	(946)
Net unrealized gain (loss)	406	(126)	(288)
OTHER COMPREHENSIVE INCOME (LOSS)	8,006	(7,301)	(62,837)
COMPREHENSIVE INCOME (LOSS)	71,512	39,021	(15,155)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	349	193	248
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO OMRON SHAREHOLDERS (Note 1)	¥71,163	¥38,828	¥(15,403)

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Equity
Years Ended March 31, 2018, 2017 and 2016

		Millions of Yen								
	Number of Common Shares Issued	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015	217,397,872	¥64,100	¥99,070	¥13,403	¥301,174	¥ 12,489	¥ (467)	¥489,769	¥2,325	¥492,094
Net income					47,290			47,290	392	47,682
Cash dividends paid to OMRON Corporation shareholders, ¥68 per share					(14,656)			(14,656)		(14,656)
Cash dividends paid to noncontrolling interests								-	(256)	(256)
Equity transaction with noncontrolling interests and other								-	(1)	(1)
Transfer to legal reserve				1,791	(1,791)			-		-
Other comprehensive income (loss)						(62,693)		(62,693)	(144)	(62,837)
Acquisition of treasury stock							(15,023)	(15,023)		(15,023)
Sale of treasury stock			0				0	0		0
Retirement of treasury stock	(3,439,700)				(14,846)		14,846	-		-
Issuance of stock acquisition rights			31					31		31
BALANCE, MARCH 31, 2016	213,958,172	64,100	99,101	15,194	317,171	(50,204)	(644)	444,718	2,316	447,034
Net income					45,987			45,987	335	46,322
Cash dividends paid to OMRON Corporation shareholders, ¥68 per share					(14,539)			(14,539)		(14,539)
Cash dividends paid to noncontrolling interests								-	(297)	(297)
Equity transaction with noncontrolling interests and other			14					14	(484)	(470)
Transfer to legal reserve				2,619	(2,619)			-		-
Other comprehensive income (loss)						(7,159)		(7,159)	(142)	(7,301)
Acquisition of treasury stock							(16)	(16)		(16)
Sale of treasury stock					(0)		1	1		1
Issuance of stock acquisition rights			23					23		23
BALANCE, MARCH 31, 2017	213,958,172	64,100	99,138	17,813	346,000	(57,363)	(659)	469,029	1,728	470,757
Net income					63,159			63,159	347	63,506
Cash dividends paid to OMRON Corporation shareholders, ¥76 per share					(16,083)			(16,083)		(16,083)
Cash dividends paid to noncontrolling interests								-	(215)	(215)
Equity transaction with noncontrolling interests and other			6		1			7	(6)	1
Share-based compensation			444					444		444
Transfer to legal reserve				2,127	(2,127)			-		-
Other comprehensive income (loss)						8,004		8,004	2	8,006
Acquisition of treasury stock							(19,030)	(19,030)		(19,030)
BALANCE, MARCH 31, 2018	213,958,172	¥64,100	¥99,588	¥19,940	¥390,950	¥(49,359)	¥(19,689)	¥505,530	¥1,856	¥507,386

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen		
	2018	2017	2016
OPERATING ACTIVITIES:			
Net income	¥ 63,506	¥ 46,322	¥ 47,682
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	29,465	28,966	31,460
Net loss (gain) on sales and disposals of property, plant, and equipment	949	705	(485)
Impairment losses on long-lived assets	911	12,998	463
Net gain on sales of investment securities	(3,003)	(3,764)	(1,499)
Impairment losses on investment securities	155	558	68
Gain on contribution of securities to retirement benefit trust	-	(7,004)	(4,140)
Termination and retirement benefits	2,706	2,863	698
Deferred income taxes	(2,607)	11	2,283
Equity in earnings of affiliates	(1,754)	(712)	(2,039)
Loss (gain) on sales of businesses	14	(3,686)	-
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	(3,210)	(8,923)	9,436
Decrease (increase) in inventories	(17,409)	(7,112)	6,061
Decrease (increase) in other assets	(6,113)	2,604	1,003
Increase (decrease) in notes and accounts payable – trade	4,116	8,384	(7,189)
Increase (decrease) in income taxes payable	(614)	852	3,433
Increase (decrease) in accrued expenses and other current liabilities	6,276	5,097	(4,614)
Other, net	285	(284)	1,586
Total adjustments	10,167	31,553	36,525
Net cash provided by operating activities	73,673	77,875	84,207
INVESTING ACTIVITIES:			
Proceeds from sale or maturities of investment securities	3,776	4,606	2,214
Purchase of investment securities	(649)	(3,274)	(330)
Capital expenditures	(38,542)	(25,816)	(37,903)
Decrease (increase) in leasehold deposits, net	(634)	(145)	115
Proceeds from sales of property, plant, and equipment	990	2,278	2,239
Decrease (increase) in investment in and loans to affiliates	-	30	(20)
Proceeds from sales of businesses, net of cash paid	(427)	7,187	-
Acquisition of business, net of cash acquired	(20,445)	-	(33,448)
Other, net	89	93	17
Net cash used in investing activities	(55,842)	(15,041)	(67,116)
FINANCING ACTIVITIES:			
Net borrowings (repayments) of short-term debt	951	155	2
Dividends paid by the Company	(15,378)	(14,539)	(16,077)
Dividends paid to noncontrolling interests	(215)	(297)	(256)
Payments for equity transactions with noncontrolling interests	-	(470)	-
Acquisition of treasury stock	(18,530)	(16)	(15,023)
Other, net	90	155	(196)
Net cash used in financing activities	(33,082)	(15,012)	(31,550)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,248	(4,706)	(5,253)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,003)	43,116	(19,712)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	126,026	82,910	102,622
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	¥113,023	¥126,026	¥ 82,910

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

OMRON Corporation (the "Company") is a multinational manufacturer of automation components, equipment and systems with advanced computer, communications, and control technologies. The Company conducts business in more than 30 countries around the world and strategically manages its worldwide operations through five regional management centers in the United States, the Netherlands, China, Singapore and South Korea. Products, classified by type and market, are organized into operating segments as described below.

Industrial Automation Business (IAB) manufactures and sells control components and systems, including programmable controllers, motion controllers, sensing devices, inspection systems, safety devices, industrial robots, precision laser processing equipment, and control devices used in automatic systems in the manufacturing industry. IAB targets a wide range of customers in major manufacturing industries worldwide to provide manufacturing support using sensing and control technology that stays ahead of customer needs.

Electronic and Mechanical Components Business (EMC) manufactures and sells electric and electronic components such as those found in relays, switches, connectors, amusement components and units, sensors for consumers, face recognition software, and image sensing components (HVC: human vision components). EMC also provides built-in control components for commercial and customer devices, automotive devices, environmental and energy devices, industrial equipment, and built-in components for mobile devices such as mobile phones.

Automotive Electronic Components Business (AEC) conducts design, production, and sales of automotive electronics to vehicle and component manufacturers throughout the world. AEC provides products such as automotive body electronics controllers, electric power steering controllers, passive entry and push engine start systems, keyless entry systems, power window switches and various automotive switches, and power conversion units and voltage monitoring units for electric vehicles.

Social Systems Solution and Service Business (SSB) creates solutions using sensing and control technologies, software, and total maintenance services for safer, more secure, and more comfortable communities, and works with customers to contribute to building an optimized society. SSB provides products such as railway station service systems, traffic and road management systems, card payment services, security and safety solutions, energy management business, and related maintenance business.

Healthcare Business (HCB) provides numerous types of products and services worldwide that aid in the prevention, improvement, and management of lifestyle diseases from household-use measurement devices to professional medical equipment in order to contribute to the health and a comfortable lifestyle for people. HCB provides products such as digital blood pressure monitors, nebulizers, low-frequency therapy equipment, ECGs, oxygen generators, digital thermometers, body composition monitors, pedometers and activity meters, electric toothbrushes, massagers, blood glucose monitors, vascular screening devices and visceral fat monitors.

Other develops and strengthens existing businesses as well as explores and develops new business fields under the direct control of headquarters. The group provides products such as solar power conditioners, electricity storage systems, electrical power measuring devices, power protection devices, uninterruptible power supplies, OEM development and manufacturing of electronic equipment, micro-electro-mechanical systems (MEMS) pressure sensors, MEMS thermal sensors, MEMS flow sensors, MEMS microphones, analog ICs, contract chip manufacturing services, and high-quality backlight units for LCDs.

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen. Based upon requirements for depositary receipts issued in Europe, the consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America. Certain reclassifications have been made to amounts previously reported in order to conform to classifications as of and for the year ended March 31, 2018. The Company is not registered with the Securities and Exchange Commission in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (collectively, the "Companies"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in which the Companies do not exert control but have a 20% to 50% interest (affiliates) are accounted for using the equity method.

The consolidated financial statements include all of the Company's subsidiaries (165 companies at March 31, 2018 and 164 companies at March 31, 2017).

The Companies have introduced a performance share plan using a structure called a BIP Trust and an ESOP Trust in the fiscal year ended March 31, 2018. The Companies acquired the Company's shares from the stock market, and grant the Company's shares and cash in the amount of the converted value of such shares to the members of the Board of Directors and Executive Officers according to executive position and their degree of achievement of performance targets.

The Companies have both the power to direct the activities that most significantly impact the trusts' economic performance through the establishment of their plans. The Companies have the potential obligation since the Companies may entrust additional money to the trusts for use in acquisition of additional shares of the Company. As a result, the Companies are considered to be the primary beneficiaries of the trusts and therefore consolidate the trusts as variable interest entities; however the trusts are not included in the number of the Company's subsidiaries.

The carrying amounts of assets and net assets of the trusts which are included in the consolidated balance sheet as of March 31, 2018 were ¥62 million of cash and cash equivalents and ¥4,213 million of treasury stock.

Application of Equity Method

Investments in the Company's affiliated companies are accounted for using the equity method.

Affiliated companies that are accounted for using the equity method are

Hitachi-Omron Terminal Solutions, Corp. and others.
Total: 17 companies and 16 companies as of March 31, 2018 and 2017, respectively.

Differing Fiscal Year-Ends

There are 42 subsidiaries as of March 31, 2018 and 2017, respectively, which have different fiscal year-ends from that of the Company. The March 31 year-end financial statements were used by 40 subsidiaries as of March 31, 2018 and 2017, respectively, for the purpose of the Company's consolidation. For the remaining subsidiaries, the effect due to the difference in fiscal year-ends did not have a material effect on the Company's consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less, including time deposits, commercial paper, securities purchased with resale agreements and money market instruments.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is established in amounts considered to be appropriate based primarily upon the Companies' past credit loss experience and an evaluation of potential losses within the outstanding receivables.

Marketable Securities and Investments

The Companies classify all of their marketable equity and debt securities as available-for-sale. Available-for-sale securities are carried at market value with the corresponding recognition of net unrealized holding gains and losses as a separate component of accumulated other comprehensive income (loss), net of related taxes, until recognized. If necessary, individual securities classified as available-for-sale are reduced to fair value by a charge to income in the period in which the decline is deemed to be other-than-temporary. Available-for-sale securities are reviewed for other-than-temporary declines in the carrying amount based on criteria that include the length of time and the extent to which the market value has been less than the cost, the financial condition, and near-term prospects of the issuer, and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Other investments are accounted for at cost and tested for impairment periodically. The cost of securities sold is determined on the average cost basis.

Inventories

Domestic inventories are mainly stated at the lower of cost, determined by the first-in, first-out method, or market value. In addition, overseas inventories are mainly stated at the lower of cost, determined by the moving-average method, or market value.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment is computed principally by the declining-balance method based upon the estimated useful lives of the assets. However, certain of the Company's subsidiaries located outside of Japan compute depreciation using the straight-line method based upon the estimated useful lives of the assets.

The estimated useful lives primarily range from 3 to 50 years for buildings and from 2 to 15 years for machinery and equipment. Depreciation expense was ¥23,014 million, ¥23,136 million, and ¥26,041 million for the years ended March 31, 2018, 2017 and 2016, respectively.

Goodwill and Other Intangible Assets

The Companies account for goodwill and other intangible assets in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, "Intangibles - Goodwill and Other", which requires that goodwill is not to be amortized, but instead tested for impairment at least annually. ASC 350 also requires recognized intangible assets with finite lives be amortized over their respective estimated useful lives and reviewed for impairment. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment at least annually.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might be unrecoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be potentially impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of other than by sale are considered held and used until disposed. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value, less selling costs.

Advertising Costs

Advertising costs are charged to earnings as incurred and included in selling, general and administrative expenses. Advertising expense was ¥10,320 million, ¥8,293 million, and ¥9,259 million for the years ended March 31, 2018, 2017 and 2016, respectively.

Shipping and Handling Charges

Shipping and handling charges are included in selling, general and administrative expenses. Shipping and handling charges were ¥10,015 million, ¥8,852 million, and ¥9,669 million for the years ended March 31, 2018, 2017 and 2016, respectively.

Termination and Retirement Benefits

Termination and retirement benefits are accounted for and are disclosed in accordance with ASC 715, "Compensation - Retirement Benefits", based on the fiscal year end fair value of plan assets and the projected benefit obligations of employees. The provision for termination and retirement benefits includes amounts for directors and corporate auditors of the Companies.

Income Taxes

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts, operating loss carryforwards, and tax credit carryforwards. Future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, are recognized to the extent that such benefits are more likely than not to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Companies apply the guidance ASC 740, "Accounting for Uncertainty in Income Taxes". In evaluating the tax benefits based on available information at the reporting date, the Company records a tax benefit using a more likely than not threshold.

The Company and certain domestic subsidiaries compute current income taxes based on consolidated taxable income as permitted by Japanese tax regulations.

Consumption Taxes and Other Value-Added Taxes

Consumption taxes and other value-added taxes have been excluded from sales.

Deferred Taxes

The FASB issued Accounting Standards Update (ASU) No. 2015-17, "Balance Sheet Classification of Deferred Taxes". The ASU requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The Companies did not retrospectively adjust the consolidated financial statements. The carrying amounts of current portion of deferred tax assets and deferred tax liabilities included in the consolidated balance sheets as of March 31, 2017 were ¥19,123 million and ¥32 million, respectively.

Product Warranties

A liability for estimated warranty-related costs is established at the time revenue is recognized and is included in other current liabilities. The liability is established using historical information, including the nature, frequency, and average cost of past warranty claims.

Derivatives

Derivative instruments and hedging activities are accounted for in accordance with ASC 815, "Derivatives and Hedging". This standard establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value.

For forward exchange contracts, currency option contracts and commodity swap contracts, on the date the derivative contract is entered into, the Companies designate the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The Companies formally document all relationships between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities in the consolidated balance sheet or to specific firm commitments or forecasted transactions. Based on the Companies' policy, all forward exchange contracts, currency option contracts and commodity swap contracts entered into must be highly effective in offsetting changes in cash flows of hedged items.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss) until earnings are affected by the variability in cash flows of the designated hedged item.

Cash Dividends

Cash dividends are reflected in the consolidated financial statements at proposed amounts in the year to which they are applicable, even though payment is not approved by shareholders until the annual general meeting of shareholders held early in the following fiscal year. Resulting dividends payable are included in other current liabilities in the consolidated balance sheets.

Revenue Recognition

The Companies recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred, service has been rendered, the sales price is fixed or determinable, and collectibility is probable.

Share-Based Compensation

The Companies apply ASC 718, "Compensation - Stock Compensation", and measure stock-based compensation costs based on the fair value at the grant date, and recognize the costs over the vesting period.

Translation of Financial Statement Items of the Company's Subsidiaries Located Outside of Japan into Japanese Yen

Consolidated financial statements of the Company's subsidiaries located outside of Japan are translated based upon ASC 830, "Foreign Currency Matters". Assets and liabilities of the subsidiaries are translated into Japanese yen at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from translation of financial statements are reported in accumulated other comprehensive income (loss) as foreign currency translation adjustments.

Comprehensive Income

The Companies apply ASC 220, "Comprehensive Income". Comprehensive income is composed of net income attributable to shareholders, changes in foreign currency translation adjustments, changes in pension liability adjustments, changes in unrealized gains (losses) on available-for-sale securities and changes in net gains (losses) on derivative instruments designated as cash flow hedges and disclosed within the consolidated statements of comprehensive income.

New Accounting Standards

In May 2014, the FASB and International Accounting Standards Board (IASB) issued their final standard on revenue from contracts with customers. The standard, issued as ASU No. 2014-09, "Revenue from Contracts with Customers", outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The ASU requires entities to disclose both quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, ASU No. 2015-14, "Revenue from Contracts with Customers – postponement of effective date", was issued and the Companies plan to adopt ASU No. 2015-14 as of April 1, 2018. The adoption of this standard is not expected to have a significant impact on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". The ASU requires a revision to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also requires certain disclosures associated with the fair value of financial instruments. The Companies plan to adopt ASU No. 2016-01 as of April 1, 2018. The Companies will recognize a cumulative-effect adjustment to retained earnings of ¥7,426 million as of April 1, 2018 for the after-tax unrealized gains on available-for-sale equity securities previously recognized in accumulated other comprehensive income. The Companies are currently evaluating the effect that the adoption of this guidance will have on the consolidated financial statements related to the equity investments without readily determinable fair values.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The ASU requires the recognition of the lease assets and liabilities on balance sheet which are classified as operating leases in the current standard. The Companies plan to adopt ASU No. 2016-02 as of April 1, 2019. The Companies are currently evaluating the effect that the adoption of this guidance will have on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment". The ASU requires the elimination of Step 2 from the goodwill impairment test. The ASU also requires the recognition of an impairment charge for the amount by which the carrying amount exceeds a reporting unit's fair value, on the condition that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The Companies plan to adopt ASU No. 2017-04 as of April 1, 2021. The Companies are currently evaluating the effect that the adoption of this guidance will have on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The ASU requires entities to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The ASU also requires the other components to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The ASU allows only the service cost component to be eligible for capitalization when applicable. The Companies plan to adopt ASU No. 2017-07 as of April 1, 2018. The adoption of this standard is not expected to have a significant impact on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Targeted improvements to Accounting for Hedging Activities". This ASU amends the hedge accounting recognition and presentation requirements to improve the transparency and understandability of information. The ASU eliminates the requirement to separately measure and report hedge ineffectiveness, and requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The Companies plan to adopt ASU No. 2017-12 as of April 1, 2019. The Companies are currently evaluating the effect that the adoption of this guidance will have on the consolidated financial statements.

2. INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of:

	Millions of Yen	
	2018	2017
Finished products	¥ 77,006	¥ 62,338
Work in process	14,804	15,714
Materials and supplies	37,771	31,352
Total	¥129,581	¥109,404

3. MARKETABLE SECURITIES AND INVESTMENTS

Cost, gross unrealized holding gains and losses, and fair value of available-for-sale and held-to-maturity securities at March 31, 2018 and 2017 were as follows:

Available-for-sale securities

	Millions of Yen			
	2018			
	Cost (*)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities	¥6,887	¥14,471	¥ -	¥21,358

	Millions of Yen			
	2017			
	Cost (*)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities	¥7,218	¥12,333	¥(0)	¥19,551

(*) Cost represents cost of equity securities.

Held-to-maturity securities

	Millions of Yen			
	2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Debt securities	¥ -	¥ -	¥ -	¥ -

	Millions of Yen			
	2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Debt securities	¥25	¥ -	¥ -	¥25

Maturities of debt securities classified as held-to-maturity securities at March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Due within one year	¥ -	¥ -	¥25	¥25
Due after one year through five years	-	-	-	-
Total	¥ -	¥ -	¥25	¥25

Gross unrealized holding losses and fair value of certain available-for-sale equity securities, aggregated by the length of time that they have been in a continuous unrealized loss position at March 31, 2018 and 2017 were as follows:

Less than 12 months

	Millions of Yen			
	2018		2017	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Equity securities	¥ -	¥ -	¥0	¥(0)

(*) With respect to the gross unrealized holding losses of available-for-sale securities, the related securities have been in a loss position for a relatively short period of time. Based on this fact and other relevant factors, management has determined that these investments are not considered other-than-temporarily impaired.

No impairment losses on available-for-sale securities were recognized to reflect declines in market value considered to be other-than-temporary for the year ended March 31, 2018. Impairment losses on available-for-sale securities recognized to reflect declines in market value considered to be other-than-temporary were ¥213 million for the year ended March 31, 2017. No impairment losses on available-for-sale securities were recognized to reflect declines in market value considered to be other-than-temporary for the year ended March 31, 2016.

The aggregate cost of nonmarketable equity securities accounted for under the cost method totaled ¥6,396 million and ¥6,736 million at March 31, 2018 and 2017, respectively. Investments with an aggregate cost of ¥6,338 million and ¥6,684 million at March 31, 2018 and 2017, respectively, were not evaluated for impairment because (a) the Companies did not estimate the fair value of those investments as it was not practicable to do so and (b) the Companies did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments. The Companies have pledged investment securities of ¥200 million as of March 31, 2018 and 2017 as collateral against liabilities owed by the investees of the investment securities.

Proceeds from sales, gross realized gains, and realized losses on sales of available-for-sale securities for the years ended March 31, 2018, 2017 and 2016 were as follows:

	Millions of Yen		
	2018	2017	2016
Proceeds from sales	¥3,350	¥4,608	¥2,010
Gross realized gains	2,948	3,764	1,478

The Companies have not contributed available-for-sale securities to the retirement benefit trust for the year ended March 31, 2018. The fair value of available-for-sale securities which contributed to the retirement benefit trust was ¥9,962 million and ¥9,677 million at March 31, 2017 and 2016, respectively, and gain on contribution of securities to the retirement benefit trust was ¥7,004 million and ¥4,140 million for the years ended March 31, 2017 and 2016, respectively.

4. NOTES AND ACCOUNTS RECEIVABLE

The Companies have entered into different types of transactions with affiliated companies through the ordinary course of business.

The amount of accounts receivable with affiliates resulting from these transactions was ¥2,173 million and ¥2,178 million for the years ended March 31, 2018 and 2017, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of acquired intangible assets, excluding goodwill, at March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018		2017	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Software	¥52,808	¥42,510	¥51,639	¥39,945
Customer-related asset	5,628	509	2,790	315
Technology-based asset	6,622	838	2,670	396
Other	5,851	1,998	5,726	2,116
Total	¥70,909	¥45,855	¥62,825	¥42,772

Aggregate amortization expense related to intangible assets was ¥6,451 million, ¥5,830 million, and ¥5,419 million for the years ended March 31, 2018, 2017 and 2016, respectively.

Estimated amortization expense for the next five years ending March 31 is as follows:

Years Ending March 31	Millions of Yen
2019	¥6,119
2020	4,836
2021	3,435
2022	2,432
2023	1,607

Intangible assets, not subject to amortization, at March 31, 2018 and 2017 were immaterial.

The carrying amounts of goodwill in each segment at March 31, 2018 and 2017, and changes in their carrying amounts for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen						
	2018						
	Industrial Automation Business	Electronic and Mechanical Components Business	Automotive Electronic Components Business	Social Systems Solution and Service Business	Healthcare Business	Other	Total
Balance at beginning of year:							
Goodwill	¥33,083	¥ 425	¥ 588	¥ -	¥6,615	¥ 1,475	¥ 42,186
Accumulated impairment losses	(9,406)	(332)	(588)	-	-	(1,475)	(11,801)
Total	¥23,677	¥ 93	¥ -	¥ -	¥6,615	¥ -	¥ 30,385
Acquisition	10,720	-	-	-	-	-	10,720
Impairment	-	-	-	-	-	-	-
Sales of business entity	-	-	-	-	-	-	-
Foreign currency translation adjustments and other	(1,777)	4	-	-	(627)	-	(2,400)
Balance at end of year:							
Goodwill	42,026	429	588	-	5,988	1,475	50,506
Accumulated impairment losses	(9,406)	(332)	(588)	-	-	(1,475)	(11,801)
Total	¥32,620	¥ 97	¥ -	¥ -	¥5,988	¥ -	¥ 38,705

	Millions of Yen						
	2017						
	Industrial Automation Business	Electronic and Mechanical Components Business	Automotive Electronic Components Business	Social Systems Solution and Service Business	Healthcare Business	Other	Total
Balance at beginning of year:							
Goodwill	¥33,573	¥ 431	¥ 588	¥ -	¥12,436	¥ 1,475	¥ 48,503
Accumulated impairment losses	(9,406)	(227)	(588)	-	(6,554)	(1,475)	(18,250)
Total	¥24,167	¥ 204	¥ -	¥ -	¥ 5,882	¥ -	¥ 30,253
Acquisition	-	-	-	-	-	-	-
Impairment	-	(105)	-	-	-	-	(105)
Sales of business entity	(338)	-	-	-	-	-	(338)
Foreign currency translation adjustments and other	(152)	(6)	-	-	733	-	575
Balance at end of year:							
Goodwill	33,083	425	588	-	6,615	1,475	42,186
Accumulated impairment losses	(9,406)	(332)	(588)	-	-	(1,475)	(11,801)
Total	¥23,677	¥ 93	¥ -	¥ -	¥ 6,615	¥ -	¥ 30,385

The Companies have adopted ASC 350, "Intangibles - Goodwill and Other". No impairment losses were recognized for the fiscal years ended March 31, 2018 and 2016. The Companies recognized impairment losses for the fiscal year ended March 31, 2017 of ¥105 million due to increasing competition in the electronic components market in the EMC. The impairment losses are included in other expenses (income), net in the consolidated statements of income. The fair value of the reporting unit was estimated by using the present value of expected future cash flows.

6. IMPAIRMENT LOSSES ON LONG-LIVED ASSETS

In accordance with ASC 360, "Property, Plant, and Equipment", the Companies recognized impairment losses of ¥5 million on long-lived assets for the fiscal year ended March 31, 2018 related to part of the HCB related to the closure of the part of the service business. The Companies also recognized impairment losses of ¥163 million on long-lived assets due to decreasing profitability of the backlight business and ¥73 million due to decreasing profitability of the micro-device related business, both in Other. Furthermore, the Companies recognized impairment losses of ¥670 million on long-lived assets due to some idle equipment in Eliminations and Others.

The Companies recognized impairment losses of ¥397 million on long-lived assets for the fiscal year ended March 31, 2017 related to part of the relay-related business due to a change in its business plan in the EMC. The Companies also recognized impairment losses of ¥275 million on long-lived assets that were held-for-sale due to revaluation and ¥227 million on part of the service business due to decreasing profitability, both in the HCB. Furthermore, the Companies recognized impairment losses of ¥10,997 million on long-lived assets due to a change in its business plan in accordance with the change of the backlight related business environment and ¥1,102 million due to decreasing profitability of the micro-device related business, both in Other.

The Companies recognized impairment losses of ¥271 million on long-lived assets for the fiscal year ended March 31, 2016 related to part of the service business due to decreasing profitability in the HCB. The Companies also recognized impairment losses of ¥192 million on long-lived assets due to decreasing profitability in Other.

These impairment losses are included in other expenses (income), net within the consolidated statements of income. The fair values of the held-for-sale long-lived assets in the HCB were estimated based on the contract amounts. For the held-for-use long-lived assets, fair values were estimated using the present value of expected future cash flows and the appraised value.

7. LEASES

The Companies do not have any material capital lease agreements.

The Companies have operating lease agreements primarily involving offices and equipment for varying periods. Generally, leases that expire are expected to be renewed or replaced by other leases. At March 31, 2018, future minimum lease payments applicable to noncancelable leases having remaining noncancelable lease terms in excess of one year were as follows:

Years Ending March 31	Millions of Yen
2019	¥ 2,980
2020	2,764
2021	2,388
2022	876
2023	469
Thereafter	1,093
Total	¥10,570

Lease expense amounted to ¥13,776 million, ¥13,638 million, and ¥14,493 million for the years ended March 31, 2018, 2017 and 2016, respectively.

8. TERMINATION AND RETIREMENT BENEFITS

The Company and its domestic subsidiaries sponsor termination and retirement benefit plans which cover substantially all domestic employees (the "funded contributory termination and retirement plan in Japan"). Benefits were based on a point-based benefits system, under which benefits are calculated mainly based on accumulated points awarded to employees each year according to their job classification and performance. If termination is involuntary, employees are usually entitled to greater payments than in the case of voluntary termination.

The Company and its domestic subsidiaries fund a portion of the obligation under these plans. The general funding policy is to contribute amounts computed in accordance with actuarial methods acceptable under Japanese tax law.

Obligations and Funded Status

The reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets at March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	¥230,770	¥232,111
Service cost	6,917	7,031
Interest cost	1,846	1,625
Actuarial loss	7,921	(1,895)
Benefits paid	(6,716)	(6,525)
Settlement paid	(775)	(671)
Divestitures	(65)	(906)
Benefit obligation at end of year	¥239,898	¥230,770
Change in plan assets:		
Fair value of plan assets at beginning of year	¥158,786	¥157,455
Actual return on plan assets	5,771	3,804
Employers' contributions	3,706	4,409
Contributions from assets in retirement benefit trust	2,297	-
Benefits paid	(5,733)	(5,669)
Settlement paid	(775)	(671)
Divestitures	(46)	(542)
Fair value of plan assets at end of year	¥164,006	¥158,786
Fair value of assets in retirement benefit trust at beginning of year	¥ 31,273	¥ 15,997
Actual return on assets in retirement benefit trust	7,191	5,314
Contributions to plan assets	(2,297)	-
Employers' contributions	-	9,962
Fair value of assets in retirement benefit trust at end of year	¥ 36,167	¥ 31,273
Funded status at end of year	¥ (39,725)	¥ (40,711)

Amounts recognized in the consolidated balance sheets at March 31, 2018 and 2017, consisted of:

	Millions of Yen	
	2018	2017
Other current liability	¥ (1,078)	¥ (819)
Termination and retirement benefit	(38,647)	(39,892)
Total	¥(39,725)	¥(40,711)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2018 and 2017, before tax, consisted of:

	Millions of Yen	
	2018	2017
Net actuarial loss	¥90,473	¥95,594
Prior service benefit	(1,853)	(3,406)
Total	¥88,620	¥92,188

The accumulated benefit obligation at March 31, 2018 and 2017 was as follows:

	Millions of Yen	
	2018	2017
Accumulated benefit obligation	¥229,875	¥225,193

Components of Net Periodic Benefit Cost

The expense recorded for the contributory termination and retirement benefit plans for the years ended March 31, 2018, 2017 and 2016, included the following components:

	Millions of Yen		
	2018	2017	2016
Service cost	¥ 6,917	¥ 7,031	¥ 5,702
Interest cost on projected benefit obligation	1,846	1,625	2,726
Expected return on plan assets	(4,860)	(4,713)	(4,531)
Amortization	3,358	4,050	2,185
Net periodic benefit cost	¥ 7,261	¥ 7,993	¥ 6,082

The unrecognized prior service benefit is amortized on a straight-line basis over 15 years. The unrecognized actuarial gains and losses are amortized on a straight-line basis over 15 years that exceed 10% of the larger of the projected benefit obligation or plan assets.

The estimated net actuarial loss and prior service benefit that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost for the year ending March 31, 2019 are summarized as follows:

	Millions of Yen
Net actuarial loss	¥ 4,813
Prior service benefit	(1,294)

Measurement Date

The Company and some of its domestic subsidiaries which cover the majority of the projected benefit obligation and plan assets of the termination and retirement benefits use March 31 as the measurement date.

Assumptions

Weighted-average assumptions used to determine the benefit obligations at March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate	0.75%	0.80%
Compensation increase rate	2.00%	2.00%

Weighted-average assumptions used to determine termination and retirement benefit costs for the years ended March 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Discount rate	0.80%	0.70%	1.40%
Compensation increase rate	2.00%	2.00%	2.00%
Expected long-term rate of return on plan assets	3.00%	3.00%	3.00%

The expected return on plan assets is determined by estimating the future rate of return on each category of plan assets considering actual historical returns and current economic trends and conditions.

Plan Assets

The Company's investment policies are designed to ensure that adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company formulates a model portfolio composed of the optimal combination of equity and debt securities in order to yield a total return that will match the expected return on a mid-term to long-term basis.

The Company evaluates the gap between long-term expected return and actual return of invested plan assets to determine if such differences necessitate a revision in the formulation of the model portfolio. In the event that the Company determines the need for a revision of the model portfolio to accomplish the expected long-term rate of return on plan assets, the Company revises the model portfolio to the extent necessary.

The target allocation of plan assets is 15.5% equity securities, 59.5% debt securities and life insurance general account assets, and 25.0% other. Equity securities are mainly composed of stocks that are listed on various securities exchanges. The Company has investigated the business condition of investee companies and appropriately diversified the equity investments by type of industry, brand, and other relevant factors. Debt securities are primarily composed of government bonds, public debt instruments, and corporate bonds. The Company has investigated the quality of the debt issued, including credit rating, interest rate, and repayment dates and appropriately diversified the debt investments. For investments in life insurance general account assets, contracts with the insurance companies include a guaranteed interest and return of capital. Others are joint trusts mainly composed of alternative and appropriately diversified.

The fair values of the Company's pension plan assets by asset category as of March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic stocks (*1 and 2)	¥37,211	¥ -	¥ -	¥ 37,211
Joint trusts (*3 and 4)	-	-	-	28,989
Debt securities:				
Joint trusts (*3 and 5)	-	-	-	40,840
Other assets:				
Life insurance general account assets	-	30,965	-	30,965
Joint trusts (*3)	-	-	-	59,409
Other	275	2,484	-	2,759
Total	¥37,486	¥33,449	¥ -	¥200,173

	Millions of Yen			
	2017			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic stocks (*1 and 2)	¥34,502	¥ -	¥ -	¥ 34,502
Joint trusts (*3 and 4)	-	-	-	31,745
Debt securities:				
Joint trusts (*3 and 5)	-	-	-	26,020
Other assets:				
Life insurance general account assets	-	29,059	-	29,059
Joint trusts (*3)	-	-	-	68,461
Other	272	-	-	272
Total	¥34,774	¥29,059	¥ -	¥190,059

(*) 1 No common stock of the Company was included in Domestic stocks for the years ended March 31, 2018 and 2017.

2 Domestic stocks include ¥33,422 million and ¥31,013 million of retirement benefit trusts for the years ended March 31, 2018 and 2017, respectively.

3 Certain assets evaluated by net asset value per share (or its equivalent) are not categorized in the fair value hierarchy. Total amounts in the above table are presented to reconcile the amounts in the fair value hierarchy to the amounts stated on the consolidated balance sheets.

4 Joint trusts of equity securities invest in listed equity securities at a ratio of 10% Japanese companies and 90% foreign companies for the years ended March 31, 2018 and 2017.

5 Joint trusts of debt securities invest at a ratio of approximately 30% Japanese government bonds and 70% foreign government bonds for the year ended March 31, 2018, and 20% Japanese government bonds and 80% foreign government bonds for the year ended March 31, 2017.

Level 1 assets are composed principally of equity securities which are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions.

Level 2 assets are composed principally of life insurance general account assets that invest in equity, debt securities and other assets. Life insurance general account assets are valued based on the sum of original value and return.

Joint trusts are valued at their net asset values.

Cash Flows

Contributions

As of March 31, 2017, the Companies' expected contribution to their domestic termination and retirement benefit plans for the year ended March 31, 2018 was ¥4,366 million; however, the Companies actually contributed ¥3,706 million to the retirement benefit plans for the year ended March 31, 2018. The Companies expect to contribute ¥2,417 million to their domestic termination and retirement benefit plans in the year ending March 31, 2019.

Benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years Ending March 31	Millions of Yen
2019	¥ 8,056
2020	8,092
2021	8,622
2022	9,047
2023	9,581
2024 – 2028	53,187

The aggregate liability for the termination plans, excluding the funded contributory termination and retirement plan in Japan, as of March 31, 2018 and 2017 was ¥3,695 million and ¥3,816 million, respectively. The aggregate net periodic benefit cost for such plans for the years ended March 31, 2018, 2017 and 2016 was ¥563 million, ¥126 million, and ¥1,024 million, respectively.

The termination plans excluding the funded contributory termination and retirement plan in Japan, include the termination and retirement benefit plans in European subsidiaries. Certain employees of European subsidiaries are covered by a defined benefit pension plan. The projected benefit obligation for the plan and related fair value of plan assets were ¥9,078 million and ¥8,178 million, respectively, at March 31, 2018, and ¥8,108 million and ¥7,278 million, respectively, at March 31, 2017. The Companies also have unfunded noncontributory termination plans administered by the Companies.

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act").

The Companies Act requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock, while the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Companies Act permits Japanese companies, upon approval of the board of directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within equity.

The Companies Act also requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as: (1) having a board of directors; (2) having independent auditors; (3) having a Board of Corporate Auditors; and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) if the Company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution of the board of directors if it is stipulated by the articles of incorporation of the Company. Under the Companies Act, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Companies Act also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million. Such amount available for dividends under the Companies Act was ¥80,966 million at March 31, 2018, based on the amount recorded in the Company's general books of account.

10. OTHER EXPENSES (INCOME), NET

Other expenses (income), net, for the years ended March 31, 2018, 2017 and 2016, consisted of the following:

	Millions of Yen		
	2018	2017	2016
Net loss (gain) on sales and disposals of property, plant, and equipment	¥ 949	¥ 705	¥ (485)
Impairment losses on long-lived assets	911	12,998	463
Cost for quality control	1,068	1,956	620
Gain on contribution of securities to retirement benefit trust	-	(7,004)	(4,140)
Impairment losses on investment securities	155	558	68
Net gain on sales of investment securities	(3,003)	(3,764)	(1,499)
Loss (gain) on sales of businesses	14	(3,686)	-
Interest income, net	(697)	(514)	(373)
Foreign exchange loss, net	3,328	9	1,389
Dividend income	(749)	(817)	(1,074)
Penalty charges assumed in connection with Competition Law	-	-	517
Restructuring expenses	-	1,340	-
Other, net	567	293	1,115
Total	¥ 2,543	¥ 2,074	¥(3,399)

11. INCOME TAXES

The provision for income taxes for the years ended March 31, 2018, 2017 and 2016, consisted of the following:

	Millions of Yen		
	2018	2017	2016
Current income tax expense	¥24,222	¥19,871	¥17,760
Deferred income tax expenses, exclusive of the following	(4,389)	(3,375)	1,273
Change in the valuation allowance	1,386	3,386	(264)
Change in the effective statutory tax rates	396	-	1,274
Total	¥21,615	¥19,882	¥20,043

With the reduction of corporate tax rates enacted into U.S. law in December 2017, income tax expense increased due to a decrease of ¥396 million in deferred tax assets resulting from the revaluation of such assets based on the newly-enacted income tax rates. With the reduction of corporate tax rates enacted into law in Japan in March, 2016, the statutory income tax rate was reduced from approximately 33.0% to 31.0% effective April 1, 2016, income tax expense increased due to a decrease of ¥1,274 million in deferred tax assets resulting from the revaluation of such assets based on the newly-enacted income tax rates.

The total amount of income taxes for the years ended March 31, 2018, 2017 and 2016, respectively, were allocated to the following items:

	Millions of Yen		
	2018	2017	2016
"Income taxes" in consolidated statements of income	¥21,615	¥19,882	¥ 20,043
Accumulated other comprehensive income (loss):			
Foreign currency translation adjustments	93	(382)	(136)
Pension liability adjustments	1,259	3,551	(13,358)
Unrealized gains (losses) on available-for-sale securities	746	(2,749)	(3,395)
Net gains (losses) on derivative instruments	182	(57)	(135)
Total	¥23,895	¥20,245	¥ 3,019

The Company and its domestic subsidiaries are subject to a number of taxes based on income. The statutory effective tax rate is 31.0% for the fiscal years ended March 31, 2018 and 2017, and 33.0% for the fiscal year ended March 31, 2016.

The effective income tax rates of the Companies differ from the normal Japanese statutory effective tax rates for the years ended March 31, 2018, 2017 and 2016, as follows:

	2018	2017	2016
Japanese statutory effective tax rates	31.0%	31.0%	33.0%
Increase in taxes resulting from permanently nondeductible items	0.7	1.0	1.8
Tax credit for research and development expenses	(4.2)	(3.2)	(4.0)
Losses of subsidiaries for which no tax benefit was provided	2.0	2.0	2.5
Difference in subsidiaries' tax rates	(3.0)	(2.1)	(4.5)
Change in the valuation allowance	(0.3)	3.1	(0.4)
Realization of previously unrecognized deferred tax effects	(1.9)	(2.2)	-
Change in the effective statutory tax rates	0.5	-	1.9
Other, net	1.1	0.8	0.2
Effective income tax rates	25.9%	30.4%	30.5%

The approximate effect of temporary differences and tax credit and loss carryforwards that gave rise to deferred tax balances at March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018		2017	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Inventory valuation	¥ 6,930	¥ -	¥ 6,402	¥ -
Accrued bonuses and vacations	6,060	-	5,561	-
Termination and retirement benefits	18,273	-	18,472	-
Marketable securities	-	2,251	-	1,479
Property, plant, and equipment	3,623	-	3,936	-
Other temporary differences	8,213	2,303	7,371	2,414
Net operating loss carryforwards	11,566	-	13,430	-
	¥ 54,665	¥4,554	¥ 55,172	¥3,893
Valuation allowance	(10,870)	-	(11,850)	-
Total	¥ 43,795	¥4,554	¥ 43,322	¥3,893

The total valuation allowance decreased by ¥980 million in 2018 and increased by ¥3,386 million in 2017.

As of March 31, 2018, the Companies had net operating loss carryforwards for corporate income taxes approximating ¥39,786 million in domestic subsidiaries which expire by 2027 and ¥28,948 million in overseas which expire by 2038.

The Company has not provided deferred tax liabilities on unremitted earnings of certain foreign subsidiaries to the extent that they are believed to be indefinitely reinvested. The accumulated unremitted earnings of the foreign subsidiaries for which the Company has not recognized deferred tax liabilities were ¥128,373 million and ¥106,429 million at March 31, 2018 and 2017, respectively. Dividends received from domestic subsidiaries are expected to be substantially free of tax.

A reconciliation of beginning and ending amounts of unrecognized tax benefits was as follows:

	Millions of Yen	
	2018	2017
Balance at beginning of year	¥ 282	¥ 911
Additions based on tax positions related to the current year	1,483	-
Additions based on tax positions related to the prior year	183	-
Reductions for tax positions of prior years	(465)	(629)
Balance at end of year	¥1,483	¥ 282

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is ¥1,124 million and ¥282 million for the years ended March 31, 2018 and 2017, respectively.

Based on the information available as of March 31, 2018, a change to the unrecognized tax benefits within the next 12 months is expected to be immaterial.

The Companies recognize interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of income. The Companies file income tax returns in Japan and foreign jurisdictions. With few exceptions, tax examinations in Japan and in foreign countries for years on or prior to March 31, 2015 and 2007, respectively, have been completed.

12. SHARE BASED PAYMENTS

Outline of Performance Share Plan

The Companies introduced a performance share plan (hereinafter the "Plan") for the members of the board of directors and executive officers in the fiscal year ended March 31, 2018.

The Plan consists of two structures, a BIP Trust and an ESOP Trust. The BIP Trust is established for an executive incentive program similar to the performance share and restricted stock plans in the U.S. and Europe. It is designed to grant the Company's shares acquired by the BIP Trust and cash in the amount of the converted value of such shares to directors and executive officers according to executive position and their degree of achievement of performance targets. The ESOP Trust is used for an employee incentive program using a trust fund based on the Employee Stock Ownership Plan in the U.S. The shares held by the BIP Trust and the ESOP Trust are accounted for as treasury stock.

Vesting conditions are subject to individuals holding the position of directors and executive officers and meeting other specific requirements. The rights of granted points (1 point = 1 share) will be awarded to directors and executive officers on the last day of each fiscal year during the term of a new medium-term management plan according to their positions and the degree of achievement of performance targets. The number of performance-linked points due to directors and executive officers will be awarded after the term of the plan, and non-performance-linked points will be awarded over a specified period each year during the term of the plan. Directors and executive officers will receive the Company's shares and cash which are awarded based on their points after following completion of certain settlement procedures.

Number of Points Granted during the Period and Weighted-Average Fair Value of Points

The numbers of points granted are 121,012 points for the fiscal year ended March 31, 2018. The weighted-average fair value of the points was ¥5,044 million. The fair value of the points on the date of grant is determined by adjusting the market price of the Company's shares taking expected dividends into account.

Share-Based Payment Expenses

Share-based payment expense recognized in the consolidated statement of income for the fiscal year ended March 31, 2018 was ¥444 million.

13. PER SHARE DATA

The Company calculates its net income per share in accordance with ASC 260, "Earnings Per Share". The numerators and denominators of net income attributable to shareholders per share computations are shown below. The dilutive effect was not stated since there were no potentially dilutive securities as of March 31, 2018 as stock acquisition rights had no effect as of March 31, 2017.

Numerator

	Millions of Yen		
	2018	2017	2016
Net income attributable to shareholders	¥63,159	¥45,987	¥47,290
Diluted net income attributable to shareholders	-	45,987	47,290

Denominator

	2018	2017	2016
Weighted-average common shares outstanding	212,766,401	213,807,653	215,985,589
Dilutive effect of:			
Issuance of stock acquisition rights	-	-	123
Diluted common shares outstanding	-	213,807,653	215,985,712

Note:

The Company's shares held through the BIP Trust and the ESOP Trust are included in the number of treasury stock shares to be deducted in calculation of the weighted-average shares for the earnings per share computation (473,908 shares for the year ended March 31, 2018 and nil shares for the years ended March 31, 2017 and 2016).

14. SUPPLEMENTAL INFORMATION FOR CASH FLOWS

Supplemental cash flow information for the years ended March 31, 2018, 2017 and 2016 was as follows:

	Millions of Yen		
	2018	2017	2016
Interest paid	¥ 172	¥ 160	¥ 383
Income taxes paid	23,678	20,261	14,550
Noncash investing and financing activities:			
Liabilities assumed in connection with capital expenditures	1,405	1,095	1,219
Decrease of retained earnings in connection with retirement of treasury stock	-	-	14,846
Fair value of securities contributed to retirement benefit trust	-	9,962	9,677

15. OTHER COMPREHENSIVE INCOME (LOSS)

Tax effects allocated to each component of other comprehensive income (loss), including other comprehensive income (loss) attributable to noncontrolling interests and reclassification adjustments for the years ended March 31, 2018, 2017 and 2016 were as follows:

	Millions of Yen								
	2018			2017			2016		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Foreign currency translation adjustments:									
Beginning balance	¥ (6,058)	¥ (269)	¥ (6,327)	¥ 3,192	¥ (651)	¥ 2,541	¥ 27,100	¥ (787)	¥ 26,313
Foreign currency translation adjustments arising during the year	3,246	(93)	3,153	(9,384)	381	(9,003)	(24,052)	136	(23,916)
Reclassification adjustment for the portion realized in net income	-	-	-	(8)	1	(7)	-	-	-
Net unrealized gain (loss)	3,246	(93)	3,153	(9,392)	382	(9,010)	(24,052)	136	(23,916)
Other comprehensive income (loss) attributable to noncontrolling interests	(2)	-	(2)	142	-	142	144	-	144
Ending balance	(2,814)	(362)	3,176	(6,058)	(269)	(6,327)	3,192	(651)	2,541
Pension liability adjustments:									
Beginning balance	(93,358)	36,787	(56,571)	(104,863)	40,338	(64,525)	(63,466)	26,980	(36,486)
Pension liability adjustments arising during the year	661	(210)	451	7,090	(2,182)	4,908	(43,582)	14,057	(29,525)
Reclassification adjustment for the portion realized in net income	3,384	(1,049)	2,335	4,415	(1,369)	3,046	2,185	(699)	1,486
Net unrealized gain (loss)	4,045	(1,259)	2,786	11,505	(3,551)	7,954	(41,397)	13,358	(28,039)
Ending balance	(89,313)	35,528	(53,785)	(93,358)	36,787	(56,571)	(104,863)	40,338	(64,525)
Unrealized gains (losses) on available-for-sale securities:									
Beginning balance	12,598	(6,833)	5,765	21,466	(9,582)	11,884	35,455	(12,977)	22,478
Unrealized holding gains (losses) arising during the year	5,355	(1,660)	3,695	1,687	(523)	1,164	(8,371)	2,595	(5,776)
Reclassification adjustment for the portion realized in net income	(2,948)	914	(2,034)	(10,555)	3,272	(7,283)	(5,618)	800	(4,818)
Net unrealized gain (loss)	2,407	(746)	1,661	(8,868)	2,749	(6,119)	(13,989)	3,395	(10,594)
Ending balance	15,005	(7,579)	7,426	12,598	(6,833)	5,765	21,466	(9,582)	11,884
Net gains (losses) on derivative instruments:									
Beginning balance	(319)	89	(230)	(136)	32	(104)	287	(103)	184
Unrealized holding gains (losses) arising during the year	(745)	231	(514)	1,424	(441)	983	968	(310)	658
Reclassification adjustment for the portion realized in net income	1,333	(413)	920	(1,607)	498	(1,109)	(1,391)	445	(946)
Net unrealized gain (loss)	588	(182)	406	(183)	57	(126)	(423)	135	(288)
Ending balance	269	(93)	176	(319)	89	(230)	(136)	32	(104)
Other comprehensive income (loss):									
Beginning balance	(87,137)	29,774	(57,363)	(80,341)	30,137	(50,204)	(624)	13,113	12,489
Unrealized holding gains (losses) arising during the year	8,517	(1,732)	6,785	817	(2,765)	(1,948)	(75,037)	16,478	(58,559)
Reclassification adjustment for the portion realized in net income	1,769	(548)	1,221	(7,755)	2,402	(5,353)	(4,824)	546	(4,278)
Net unrealized gain (loss)	10,286	(2,280)	8,006	(6,938)	(363)	(7,301)	(79,861)	17,024	(62,837)
Other comprehensive income (loss) attributable to noncontrolling interests	(2)	-	(2)	142	-	142	144	-	144
Ending balance	¥(76,853)	¥27,494	¥(49,359)	¥ (87,137)	¥29,774	¥(57,363)	¥ (80,341)	¥ 30,137	¥(50,204)

The reclassification adjustment related to unrealized gains (losses) on available-for-sale securities for the portion realized in net income is included in other expenses (income), net. The reclassification adjustment related to pension liability adjustments for the portion realized in net income is included in other retirement benefit expenses and expenses (income), net. The reclassification adjustment related to net gains (losses) on derivative instruments for the portion realized in net income is included in cost of sales and other expenses (income), net. The reclassification adjustment related to foreign currency translation adjustments for the portion realized in net income is included in other expenses (income), net. The tax effect is included in income tax expense.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying amounts and estimated fair values as of March 31, 2018 and 2017, of the Companies' financial instruments were as follows:

	Millions of Yen			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Derivatives)				
Forward exchange contracts:				
Other current assets	¥3,409	¥3,409	¥ 248	¥ 248
Other current liabilities	(285)	(285)	(3,141)	(3,141)
Currency option contracts:				
Other current assets	-	-	2	2
Other current liabilities	-	-	(27)	(27)

The following methods and assumptions were used to estimate the fair values of each class of financial instrument for which it is practicable to estimate its value:

Nonderivatives

(1) Cash and cash equivalents, notes and accounts receivable, leasehold deposits, and notes and accounts payable:

The carrying amounts approximate fair value. Cash and cash equivalents are classified as Level 1, which others are classified as Level 2.

(2) Investment securities (see Note 3):

The fair values are estimated based on quoted market prices or dealer quotes for marketable securities or similar instruments. Certain equity securities included in investments have no readily determinable public market value and it is not practicable to estimate their fair values.

Derivatives

The fair value of derivatives generally reflects the estimated amounts that the Companies would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses on open contracts. Dealer quotes are available for most of the Companies' derivatives. For the rest of the Companies' derivatives, valuation models are applied to current market information to estimate fair value. The Companies do not use derivatives for trading purposes.

17. DERIVATIVES AND HEDGING ACTIVITIES

The Companies enter into forward exchange contracts and currency option contracts to hedge changes in foreign currency exchange rates (primarily the U.S. dollar and the Euro). The Companies enter into commodity swap contracts to hedge changes in prices of commodities, including copper and silver used in the manufacturing of various products. The Companies do not use derivatives for trading purposes. The Companies are exposed to credit risk in the event of nonperformance by counterparties to derivatives, but management considers the exposure to such risk to be minimal since the counterparties maintain good credit ratings.

Changes in the fair value of forward exchange contracts, currency option contracts and commodity swap contracts designated and qualifying as cash flow hedges are reported in accumulated other comprehensive income (loss). Gains and losses on forward exchange contracts and currency option contracts are subsequently reclassified into other expenses (income), net, and gains and losses on commodity swap contracts are subsequently reclassified into cost of sales, net, in the same period as and when the hedged items affect earnings. Substantially all of the accumulated other comprehensive income (loss) in relation to derivatives at March 31, 2018 is expected to be reclassified into earnings within 12 months.

The notional amounts of outstanding contracts to exchange foreign currencies at March 31, 2018 and 2017 were as follows:

	Millions of Yen	
	2018	2017
Forward exchange contracts	¥103,606	¥102,169
Currency option contracts	-	3,029

The fair values of derivatives at March 31, 2018 and 2017 were as follows:

Derivatives designated as hedges

Assets

		Millions of Yen	
	Account	2018	2017
Forward exchange contracts	Other current assets	¥3,409	¥248
Currency option contracts	Other current assets	-	2

Liabilities

		Millions of Yen	
	Account	2018	2017
Forward exchange contracts	Other current liabilities	¥(285)	¥(3,141)
Currency option contracts	Other current liabilities	-	(27)

The effects on the consolidated statements of income for the years ended March 31, 2018, 2017 and 2016 were as follows:

Derivatives designated as hedges

Cash flow hedge

	Unrealized Holding Gains (Losses) in Other Comprehensive Income (Loss) (Hedge Effective Portion)			Transfer from Other Comprehensive Income (Loss) to Profit and Loss (Hedge Effective Portion)		
	Millions of Yen			Millions of Yen		
	2018	2017	2016	2018	2017	2016
Forward exchange contracts	¥(523)	¥1,035	¥704	¥929	¥(1,155)	¥(964)
Currency option contracts	-	(52)	-	-	52	-
Commodity swap contracts	9	0	(46)	(9)	(6)	18

The amount of hedge ineffectiveness was immaterial.

18. COMMITMENTS AND CONTINGENT LIABILITIES

Commitment

The Companies have non-cancelable contracts with outside service providers to receive certain information technology-related services. The amount of outstanding contracts as of March 31, 2018 and 2017 is ¥1,826 million and ¥2,136 million, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Companies to concentrations of credit risk consist principally of short-term cash investments and trade receivables. The Companies place their short-term cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to trade receivables, as approximately 40% of total sales are concentrated in Japan, are limited due to the large number of well-established customers and their dispersion across many industries. The Company normally requires customers to deposit funds to serve as security for ongoing credit sales.

Guarantees

The Companies provide guarantees for bank loans of employees. The guarantees are made to enhance employees' credit. The Company did not have any guarantees for bank loans of employees at March 31, 2018 and 2017 were both nil.

Cost for Environmental Remediation

The Companies record an environmental remediation accrual when it is probable that a liability has been incurred and the amount can be reasonably be estimated. The environmental remediation accrual as of March 31, 2018 and 2017 was ¥377 million and ¥630 million, respectively.

Product Warranties

The Companies issue contractual product warranties under which they generally guarantee the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty cost for the years ended March 31, 2018 and 2017 were summarized as follows:

	Millions of Yen	
	2018	2017
Balance at beginning of year	¥ 3,395	¥ 1,781
Additions	1,976	2,814
Utilizations	(1,388)	(1,200)
Balance at end of year	¥ 3,983	¥ 3,395

Deferred Revenue

The Companies provide extended warranties for certain products, and the revenue is recognized using the straight-line method over the warranty term. The costs from the extended warranties are charged to earnings as incurred. The deferred revenue as of March 31, 2018 and 2017 was ¥8,449 million and ¥7,901 million, respectively into other current liabilities and other long-term liabilities.

Lawsuits

The Company and some of its subsidiaries are facing several petitions and lawsuits arising from the normal course of business. However, based upon the information currently available to both the Company and its legal counsel, management of the Company believes that damages from such petitions and lawsuits, if any, would not have a material effect on the consolidated financial statements.

19. FAIR VALUE MEASUREMENTS

ASC 820, "Fair Value Measurements and Disclosures", defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs are significant to measure fair value of assets or liabilities and unobservable.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The assets and liabilities that are measured at fair value on a recurring basis at March 31, 2018 and 2017 were as follows:

	Amount of Fair Value Measurements			
	Millions of Yen			
	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities:				
Equity securities	¥21,358	¥ -	¥ -	¥21,358
Derivative:				
Forward exchange contracts	-	3,409	-	3,409
Liabilities				
Derivative:				
Forward exchange contracts	¥ -	¥285	¥ -	¥285

	Amount of Fair Value Measurements			
	Millions of Yen			
	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities:				
Equity securities	¥19,551	¥ -	¥ -	¥19,551
Derivative:				
Forward exchange contracts	-	248	-	248
Currency option contracts	-	2	-	2
Liabilities				
Derivative:				
Forward exchange contracts	¥ -	¥3,141	¥ -	¥3,141
Currency option contracts	-	27	-	27

Investment Securities

Investment securities mainly consist of publicly-listed stocks. Since fair value of the investment securities is valued using quoted market prices in active markets for identical assets and can be observed, these are classified as Level 1.

Derivatives

Derivatives consist of forward exchange contracts, currency option contracts and commodity swap contracts. Since fair value of derivatives is determined using the observable market data, such as rates or interest rates, these are classified as Level 2.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The assets and liabilities that are measured at fair value on a nonrecurring basis at March 31, 2018 and 2017 were as follows:

	Amount of Fair Value Measurements				
	Millions of Yen				
	2018				
	Total Amount of Gain (Loss)	Level 1	Level 2	Level 3	Total Amount of Fair Value
Assets					
Investment securities	¥(155)	¥ -	¥ -	¥ 58	¥ 58
Long-lived assets	(911)	-	-	1,243	1,243

	Amount of Fair Value Measurements				
	Millions of Yen				
	2017				
	Total Amount of Gain (Loss)	Level 1	Level 2	Level 3	Total Amount of Fair Value
Assets					
Investment securities	¥ (345)	¥ -	¥ -	¥ 52	¥ 52
Long-lived assets	(12,723)	-	-	626	626
Goodwill	(105)	-	-	-	-

During the years ended March 31, 2018 and 2017, the Company classified most of the assets described above as Level 3 as the Company used unobservable inputs to value these assets when recognizing impairment losses related to the assets. The fair value for the major assets was measured using the discounted future cash flows method.

20. SEGMENT INFORMATION

Operating Segment Information

ASC 280, "Segment Reporting", establishes the disclosure of information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company discloses five operating segments: "Industrial Automation Business", "Electronic and Mechanical Components Business", "Automotive Electronic Components Business", "Social Systems Solution and Service Business", and "Healthcare Business". These segments are mainly separated based on the Companies' consideration of their lines of business and size within the consolidation. The Company presents operating segments other than the above five segments in "Other".

The primary products included in each segment are as follows:

(1) IAB: Programmable controllers, motion controllers, sensing devices, inspection systems, safety devices, industrial robots, precision laser processing equipment, and control devices.

(2) EMC: Relays, switches, connectors, amusement components and units, sensors for consumers, face recognition software, and image sensing component (HVC: human vision component).

(3) AEC: Automotive body electronics controllers, electric power steering controllers, passive entry and push engine start systems, keyless entry systems, power window switches and various automotive switches, and power conversion units and voltage monitoring units for electric vehicles.

(4) SSB: Railway station service systems, traffic and road management systems, card payment services, security and safety solutions, energy management business and related maintenance business.

(5) HCB: Digital blood pressure monitors, nebulizers, low-frequency therapy equipment, ECGs, oxygen generators, digital thermometers, body composition monitors, pedometers and activity meters, electric toothbrushes, massagers, blood glucose monitors, vascular screening devices and visceral fat monitors.

(6) Other: Solar power conditioners, electricity storage system, electrical power measuring devices, power protection devices, uninterruptible power supplies, OEM development and manufacturing of electronic equipment, MEMS pressure sensors, MEMS thermal sensors, MEMS flow sensors, MEMS microphones, analog ICs, contract chip manufacturing services, and high-quality backlight units for LCDs.

The segment information is presented in accordance with accounting principles generally accepted in the United States of America. Revenues and expenses directly associated with specific segments are disclosed in the figures of each segment's operating results. Based on the Company's allocation method used by management to evaluate results of each segment, revenues and expenses not directly associated with specific segments are allocated to each segment or included in "Eliminations and Others". Segment profit (loss) is presented by subtracting cost of sales, selling, general and administrative expenses, and research and development expenses from net sales.

Operating segment information as of and for the years ended March 31, 2018, 2017 and 2016 was as follows:

	Millions of Yen								
2018	Industrial Automation Business	Electronic and Mechanical Components Business	Automotive Electronic Components Business	Social Systems Solution and Service Business	Healthcare Business	Other	Total	Eliminations and Others	Consolidated
I. Sales and segment profit (loss)									
1. Sales to external customers	¥396,140	¥102,842	¥131,152	¥63,713	¥108,489	¥54,826	¥857,162	¥ 2,820	¥859,982
2. Intersegment sales	6,724	56,226	2,034	4,542	306	10,251	80,083	(80,083)	-
Total	¥402,864	¥159,068	¥133,186	¥68,255	¥108,795	¥65,077	¥937,245	¥(77,263)	¥859,982
Segment profit (loss)	¥73,980	¥12,131	¥5,816	¥4,111	¥11,211	¥(2,122)	¥105,127	¥(19,217)	¥85,910
II. Assets, depreciation, and capital expenditures									
Assets	¥384,926	¥138,874	¥89,048	¥78,018	¥92,024	¥47,678	¥830,568	¥(85,616)	¥744,952
Depreciation and amortization	5,216	7,738	5,150	1,454	3,037	758	23,353	6,112	29,465
Capital expenditures	9,322	10,017	5,825	1,567	3,152	911	30,794	8,058	38,852

	Millions of Yen								
2017	Industrial Automation Business	Electronic and Mechanical Components Business	Automotive Electronic Components Business	Social Systems Solution and Service Business	Healthcare Business	Other	Total	Eliminations and Others	Consolidated
I. Sales and segment profit (loss)									
1. Sales to external customers	¥330,959	¥ 93,938	¥132,060	¥61,883	¥101,295	¥68,509	¥788,644	¥ 5,557	¥794,201
2. Intersegment sales	5,268	48,348	502	4,169	239	10,077	68,603	(68,603)	-
Total	¥336,227	¥142,286	¥132,562	¥66,052	¥101,534	¥78,586	¥857,247	¥(63,046)	¥794,201
Segment profit (loss)	¥52,005	¥9,428	¥7,127	¥3,685	¥8,535	¥(1,853)	¥78,927	¥(11,361)	¥67,566
II. Assets, depreciation, and capital expenditures									
Assets	¥336,722	¥128,849	¥81,024	¥75,611	¥81,992	¥51,396	¥755,594	¥(57,893)	¥697,701
Depreciation and amortization	4,213	7,866	4,877	1,430	3,293	1,716	23,395	5,571	28,966
Capital expenditures	4,546	6,513	5,241	1,393	2,209	1,376	21,278	4,414	25,692

	Millions of Yen								
2016	Industrial Automation Business	Electronic and Mechanical Components Business	Automotive Electronic Components Business	Social Systems Solution and Service Business	Healthcare Business	Other	Total	Eliminations and Others	Consolidated
I. Sales and segment profit (loss)									
1. Sales to external customers	¥335,959	¥103,681	¥139,966	¥70,378	¥108,121	¥70,188	¥828,293	¥ 5,311	¥833,604
2. Intersegment sales	5,438	48,973	580	4,491	304	10,838	70,624	(70,624)	-
Total	¥341,397	¥152,654	¥140,546	¥74,869	¥108,425	¥81,026	¥898,917	¥(65,313)	¥833,604
Segment profit (loss)	¥47,929	¥8,494	¥7,342	¥2,542	¥7,285	¥(3,463)	¥70,129	¥(7,842)	¥62,287
II. Assets, depreciation, and capital expenditures									
Assets	¥314,629	¥125,117	¥76,421	¥75,686	¥77,405	¥61,024	¥730,282	¥(46,957)	¥683,325
Depreciation and amortization	3,973	8,298	5,340	1,572	3,809	3,129	26,121	5,339	31,460
Capital expenditures	5,286	8,882	6,861	1,462	2,756	5,363	30,610	6,249	36,859

Annotations about the above segment information:

- Intersegment sales are recorded at the same prices used in transactions with third parties.

- Eliminations and others include unclassifiable expenses and eliminations of intersegment transactions.

- Depreciation and amortization and capital expenditures include expenses and expenditures arising from intangible assets.

- In 2018, based on change in the Companies' organization, management reclassified a portion of the SSB was moved to Other. Accordingly, the segment information figures as of March 31, 2017 and 2016 have been restated to conform with the current year categorization as presented herein.

A reconciliation between segment profit (loss) and income before income taxes and equity in loss (earnings) of affiliates for the years ended March 31, 2018, 2017 and 2016 is as follows:

	Millions of Yen		
	2018	2017	2016
Total amount of segment profit	¥105,127	¥ 78,928	¥70,129
Other expenses (income), net	2,543	2,074	(3,399)
Eliminations and others	(19,217)	(11,362)	(7,842)
Income before income taxes and equity in loss (earnings) of affiliates	¥ 83,367	¥ 65,492	¥65,686

The gain on sale of business ¥3,530 million in the IAB and impairment losses of ¥12,099 million on long-lived assets in Other were included in Other expenses (income) for the fiscal year ended March 31, 2017.

Geographic Information

Information on the Companies' sales to external customers and property, plant, and equipment by major geographic area as of and for the years ended March 31, 2018, 2017 and 2016, was as follows:

	Millions of Yen					
	2018					
	Japan	Americas	Europe	Greater China	Southeast Asia and Others	Consolidated
Sales to external customers	¥340,703	¥118,490	¥118,001	¥171,856	¥110,932	¥859,982
Property, plant, and equipment	68,793	13,580	4,863	34,375	13,492	135,103

	Millions of Yen					
	2017					
	Japan	Americas	Europe	Greater China	Southeast Asia and Others	Consolidated
Sales to external customers	¥339,841	¥112,191	¥102,633	¥147,751	¥91,785	¥794,201
Property, plant, and equipment	66,073	14,138	4,015	29,812	13,577	127,615

	Millions of Yen					
	2016					
	Japan	Americas	Europe	Greater China	Southeast Asia and Others	Consolidated
Sales to external customers	¥342,824	¥130,968	¥109,147	¥162,508	¥88,157	¥833,604
Property, plant, and equipment	73,089	13,078	4,297	42,308	13,793	146,565

Annotations about the above geographic information:

- Classification of country or area is based upon physical geographic proximity.

- Major countries or areas belonging to segments other than Japan are as follows:

  (1) Americas: United States of America, Canada, Brazil and Mexico

  (2) Europe: Netherlands, Great Britain, Germany, France, Italy and Spain

  (3) Greater China: China, Hong Kong and Taiwan

  (4) Southeast Asia and Others: Singapore, Republic of Korea, India and Australia

- For sales and property, plant, and equipment, there were no material amounts specific to a particular country, except for Japan, that require separate disclosure as of and for the years ended March 31, 2018, 2017 and 2016.

- For sales to external customers, there were no amounts specific to particular customers that require separate disclosure for the years ended March 31, 2018, 2017 and 2016.

21. BUSINESS COMBINATIONS

1. Sentech Co., Ltd.

On July 3, 2017 the Company, through Omron Sentech Co., Ltd., acquired Industrial Camera business of Sentech Co., Ltd. (ST Group), including 100% of outstanding stock of seven subsidiaries. The Company paid ¥3,193 million for this acquisition in cash. The acquisition-related costs incurred in connection with the acquisition of the stock of ST Group, such as due diligence costs, were immaterial. The purpose of this acquisition is to enhance the Companies' factory automation technology by acquiring the high resolution, high speed and miniaturized camera design technology of ST Group in the IAB. The fair values of the acquired assets and assumed liabilities at July 3, 2017 were as follows:

	Fair Value
	Millions of Yen
Current assets	¥ 3,013
Property, plant, and equipment	18
Total investments and other assets	1,561
Current liabilities	(1,366)
Long-term liabilities	(33)
Total net assets	¥(3,193)

Goodwill and identifiable intangible assets included in total investments and other assets were ¥26 million and ¥1,455 million, respectively. The goodwill has been assigned to the IAB. The pro forma information for the acquisition of ST Group was immaterial.

2. Microscan Systems, Inc.

On October 2, 2017 the Company, through Omron Management Center of America Inc., acquired 100% of outstanding stock of Microscan Systems, Inc. (MS Group), including three subsidiaries of MS Group. The Company paid ¥17,478 million for this acquisition in cash. The acquisition-related costs incurred in connection with the acquisition of the stock of MS Group, such as due diligence costs, were immaterial. The purpose of this acquisition is to help develop the Companies' factory automation technology and enhance the skills of the sales force in the IAB. The fair values of the acquired assets and assumed liabilities at October 2, 2017 were as follows:

	Fair Value
	Millions of Yen
Current assets	¥ 2,343
Property, plant, and equipment	126
Total investments and other assets	17,173
Current liabilities	(921)
Long-term liabilities	(1,243)
Total net assets	¥(17,478)

Goodwill and identifiable intangible assets included in total investments and other assets were ¥10,694 million and ¥6,179 million, respectively. The goodwill has been assigned to the IAB and is not deductible from taxable income. The pro forma information for the acquisition of MS Group was immaterial.

22. SALES OF BUSINESSES

1. Omron Credit Service Co. Ltd.

On May 15, 2017 the Company sold all of its shares of Omron Credit Service Co. Ltd., which was a wholly-owned subsidiary of the Company, to a third party, Aino Taxiticket Corporation. The transfer of shares was completed on August 1, 2017. The loss on sale of the business was immaterial. Omron Credit Service Co. Ltd. was included in the Eliminations and Others segment.

2. Omron Oilfield and Marine, Inc.

On May 31, 2016 the Company sold all of its shares of Omron Oilfield and Marine, Inc., which was a wholly-owned subsidiary of OMRON Electronics LLC, to a third party, Schlumberger. Omron Oilfield and Marine, Inc. was included in the IAB. The gain of ¥3,530 million on sale of the business ¥3,530 million was included in other expenses (income), net, in the consolidated statement of income for the year ended March 31, 2017.

3. Omron Colin Co.

On June 9, 2016 the Company reached an agreement whereby all of its shares of Omron Colin Co., which was a wholly-owned subsidiary of Omron Healthcare Co., were sold to Fukuda Denshi Co. Since the completion of the transfer was planned in 2016, the assets and the liabilities of Omron Colin Co. were classified as held-for-sale assets and held-for-sale liabilities in the quarterly consolidated balance sheets for the year ended March 31, 2017. As a result of the reduction to the fair value less cost to sell, impairment losses of ¥275 million were included in other expenses (income), net in the consolidated statement of income for the year ended March 31, 2017. As a result of the completion of the transfer of shares on December 1, 2016, the gain on sale of business of ¥156 million was included in other expenses (income), net, in the consolidated statement of income for the year ended March 31, 2017. Omron Colin Co. was included in the HCB.

23. SUBSEQUENT EVENTS

The Companies have evaluated subsequent events in accordance with ASC 855, "Subsequent Events".

No significant event took place from March 31, 2018 through June 20, 2018, the date when the Yukashouken-Houkokusho (Annual Securities Report filed under the Financial Instruments and Exchange Act of Japan) for the year ended March 31, 2018 was available to be issued.

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