OMRON Corporation and Subsidiaries

Consolidated Balance Sheets as of March 31, 2021 and 2020 and Consolidated Statements of Income, Comprehensive Income, Equity, and Cash Flows for Each of the Three Years in the Period Ended March 31, 2021 and Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Shijokarasuma FT Square
20 Naginataboko-cho
Karasuma-higashiiru, Shijo-dori
Shimogyo-ku, Kyoto 600-8008
Japan

Tel: +81 (75) 222 0181
Fax: +81 (75) 231 2703
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of OMRON Corporation:

Opinion

We have audited the consolidated financial statements of OMRON Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2021 and 2020, 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, 2021, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Valuation of goodwill and deferred tax assets for the consolidated entity in the United States (U.S.) relating to investments in Industrial Automation Business

   As part of the strategic investments based on "Value Generation 2020 (VG2020)", which is the Company's long-term vision, Industrial Automation Business (IAB) acquired the shares of Delta Tau Data Systems, Inc. and Adept Technology, Inc. in 2015 and the shares of Microscan Systems, Inc. in 2017. Consequently, these entities became consolidated subsidiaries of the Company. (A series of the acquisitions is referred to as "business combination transactions"). These consolidated subsidiaries operate in the U.S.

   The Company recorded goodwill in the consolidated balance sheet through the business combination transactions.

   In addition, the Company recorded operating loss carryforwards in the prior years within the U.S. consolidated tax group, which included the consolidated subsidiaries acquired through the business combination transactions, mainly as a result of the Company's investments focusing on research and developments activities to achieve high quality application by combining acquired technologies and the Company's existing technologies and marketing activities to acquire new customers.

The Company recorded deferred tax assets relating to operating loss carryforwards for a portion of existing tax benefits to be realized in the future in the consolidated balance sheet.

(1) Valuation of goodwill relating to investments in IAB

Key Audit Matter Description

As disclosed in Note "6. GOODWILL AND OTHER INTANGIBLE ASSETS" to the consolidated financial statements, the Company recorded goodwill of ¥33,938 million for IAB in the consolidated balance sheet as of March 31, 2021, which was recognized mainly through the business combination transactions as part of the strategic investments.

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, "Intangibles - Goodwill and Other", the Company performs goodwill impairment testing at least once annually and between annual tests in certain circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company determines the reporting unit where goodwill was allocated to as IAB excluding the inspection devices business and the Company expects to obtain benefits from synergies of the business combination transactions within the reporting unit. In performing impairment testing, the Company calculates the fair value of the reporting unit using the discounted cash flow (DCF) method and evaluates whether the fair value exceeds the carrying amount of the reporting unit.

As a result, although the fair value of the reporting unit exceeded the carrying amount sufficiently, the impairment testing results may vary depending on the scope of the reporting unit, therefore, the determination of the reporting unit includes significant management judgment considering the quantitative materiality of the balance.

Based on above, as the significant management judgment is involved in determining the reporting unit in accordance with ASC 350, we have determined the scope of the reporting unit as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures in addressing the key audit matter included the following, among others:

- We tested the effectiveness of controls over the management's process related to the valuation of goodwill. Particularly, we focused on the internal controls over the determination of the reporting unit.

- We inquired of management regarding the IAB's organizational structure, financial reporting system and business strategy, inspected the related internal documents, and then, assessed whether or not the reporting unit is one level below an operating segment, whether or not the discrete financial information is available and whether or not IAB management regularly reviews the operation results, in order to evaluate whether the reporting unit determined by the Company satisfied the definition of a reporting unit as stated in ASC Topic 350, "Intangibles - Goodwill and Other".

- We obtained an understanding of the synergies that the Company expected from the business combination transactions and inspected the Company's analysis documents regarding whether or not IAB excluding the inspection devices business is the reporting unit that obtains the expected benefits from the synergies.

(2) Valuation of deferred tax assets for the U.S. consolidated entity

Key Audit Matter Description

As disclosed in "Income Taxes" under Note "1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to the consolidated financial statements, deferred tax assets in the consolidated balance sheet reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts, operating loss carryforwards, and tax credit carryforwards. The Company recorded deferred tax assets of ¥4,895 million, including a portion of realizable operating loss carryforwards, related to the U.S. consolidated entity as of March 31, 2021.

ASC Topic 740, "Income taxes", requires deferred tax assets to be reduced by recording a valuation allowance when it is more likely than not that a portion of existing tax benefits will not be realized. The Company regularly performs an assessment on the realizability of the deferred tax assets and whether a valuation allowance is needed by examining all available evidence, both positive and negative.

In assessing the realization of deferred tax assets including a portion for the operating loss carryforwards, the Company considers the following assumptions:

- The nature, frequency and materiality of the current and accumulated net operating tax losses for each tax jurisdiction;
- Projections of future taxable income;
- Assessed assets value that exceeds the carrying amount on tax basis;
- The period before expiration dates of operating loss carryforwards;
- The historical information on the realizability of operating loss carryforwards; and
- The possibility to utilize operating loss carryforwards and tax credit carryforwards in future years.

Particularly, uncertainty exists in projections of future taxable income in the U.S. consolidated tax group and estimates involve management's subjective judgment.

Based on above, we have determined the valuation of deferred tax assets as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures in addressing the key audit matter included the following, among others:

- We tested the effectiveness of controls over the management's process for evaluating deferred tax assets, including the assessment of all available evidence mainly related to the projections of the future taxable income for the U.S. consolidated tax group, both positive and negative, supporting the realizability of deferred tax assets in the U.S. consolidated tax group.
- We evaluated management's assessments of the realizability of deferred tax assets based on all available evidence, both positive and negative.
- We evaluated the completeness of the positive or negative evidence examined by management.
- We evaluated the reasonableness of assumptions used in management's estimate, particularly around the projections of the future taxable income for the U.S. consolidated tax group. Regarding the reasonableness of the projections of the future taxable income, we evaluated the assumptions against current and past performance. We involved the U.S. consolidated entity's auditors and our network firm's tax specialists to assist us in assessing the appropriateness of the valuation.

- We evaluated the reliability of the management's estimates by comparing the projections of the future taxable income used in management's assessment on the realizability of the deferred tax assets in the prior year with the performance results in the current year.

2. Valuation of goodwill and investments in affiliates relating to investments in Healthcare Business

As part of the strategic investments based on "Value Generation 2020 (VG2020)", which is the Company's long-term vision, Healthcare Business (HCB) acquired the shares of NS Industria de Aparelhos Medicos Ltda. in 2014, the consolidated subsidiary, and gradually from 2017, acquired part of the shares of AliveCor, Inc., the investments by using equity method.

The Company recorded goodwill and investment in and advances to affiliates, which contain equity method goodwill, in the consolidated balance sheet through these transactions.

(1) Valuation of goodwill relating to investments in HCB

Key Audit Matter Description

As disclosed in Note "6. GOODWILL AND OTHER INTANGIBLE ASSETS" to the consolidated financial statements, the Company recorded goodwill of ¥5,121 million for HCB in the consolidated balance sheet as of March 31, 2021.

In accordance with ASC Topic 350, "Intangibles - Goodwill and Other", the Company performs goodwill impairment testing at least once annually and between annual tests in certain circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The goodwill of ¥3,143 million in HCB was recognized as part of its acquisition of shares in NS Industria de Aparelhos Medicos Ltda. The Company determines the reporting unit where goodwill was allocated to as the South American regional business in HCB and the Company expects to obtain benefits from synergies of the business acquisition within the reporting unit. In performing impairment testing, the Company calculates the fair value of the reporting unit using the DCF method and evaluates whether the fair value exceeds the carrying amount of the reporting unit.

In evaluating the fair value of the reporting unit, the Company used certain key assumptions such as the estimated sales growth rates and the estimated profit rates reflected in the future business plan, the permanent growth rate and the discount rate calculated based on weighted average cost of capital.

Given the challenging and uncertain economic situation and market environment in Brazil, uncertainty exists in these key assumptions and the use of these key assumptions involves significant management judgment.

Based on above, we have determined the key assumptions for valuation of goodwill as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures in addressing the key audit matter included the following, among others:

- We tested the effectiveness of controls over management's process related to the valuation of goodwill. Particularly, we focused on the internal controls over the assessment for the reasonableness of the underlying future business plan to evaluate the estimate of future cash flows used in management's impairment testing.

- We involved our network firm's valuation specialists to assist us in assessing the calculation methodology and the key assumptions used such as the discount rate calculated based on weighted average cost of capital and the permanent growth rate. We assessed whether the key assumptions were appropriate by comparing them with publicly available data.

- We inquired of management and the persons responsible for preparing the future business plan concerning the market scale/market share expansion and changes in the profit rates. We compared these assumptions with publicly available data and performed trend analysis using the past performance results. Additionally, for the key assumptions regarding the sales growth rates and profit rates, we evaluated the reasonableness of sensitivity analyses made by management.

- We evaluated the reliability of the management's estimates by comparing the future business plan used in management's assessment on the goodwill impairment testing in the prior year with the performance results in the current year.

(2) Valuation of investments in affiliates

Key Audit Matter Description

As disclosed in "Investments in Affiliates" under Note "1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to the consolidated financial statements, the Company recorded investment in and advances to affiliates in the consolidated balance sheet as of March 31, 2021 and investment in and advances to affiliates contains investments of ¥10,577 million for AliveCor, Inc., which provides support services and products for diagnosis and treatment of heart disease mainly in the U.S.

The carrying amount included equity method goodwill of ¥9,164 million, which is the excess of the cost of an investment over the amount of underlying equity of the fair value of the net assets including contingent liabilities on the acquisition date of the affiliates.

In accordance with ASC Topic 323, "Investments: Equity method and joint ventures", a loss in value of an investment that is other than a temporary decline shall be recognized. In assessing whether a decline in value is temporary, the Company calculates the fair value of the investments using the DCF method based on the excess of earnings, and evaluates whether the fair value exceeds the carrying amount of the investments. In evaluating the fair value of the investments, the Company used certain key assumptions such as the estimated sales growth rates and the estimated profit rates reflected in the future business plan, the permanent growth rate and the discount rate calculated based on weighted average cost of capital.

Given the emerging markets applicable to the business of AliveCor, Inc., uncertainty exists in these key assumptions and the use of these key assumptions involves significant management judgment.

Based on above, we have determined the key assumptions for valuation of investment securities as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures in addressing the key audit matter included the following, among others:

- We tested the effectiveness of controls over the management's process related to the valuation of investments in affiliates.

- We involved our network firm's valuation specialists to assist us in assessing the calculation methodology and the key assumptions such as the discount rate calculated based on weighted average cost of capital. We assessed whether the key assumptions were reasonable by comparing them with publicly available data.

- We inquired of the department in HCB responsible for the business concerning the key assumptions such as the projection on market growth by sales type, growth of each business and changes in the profit rates used for the future business plans. We evaluated the reasonableness by comparing these assumptions with publicly available data and by performing trend analysis.

- We evaluated the reliability of the management's estimates by comparing the future business plan used in management's assessment on the excess of earnings in the prior year with the performance results in the current year.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2021

OMRON Corporation and Subsidiaries

Consolidated Balance Sheets
March 31, 2021 and 2020

ASSETS	Millions of Yen 2021	Millions of Yen 2020
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	¥ 250,755	¥ 185,533
Notes and accounts receivable – trade (Notes 2 and 5)	135,161	134,786
Allowance for doubtful receivables (Note 1)	(756)	(759)
Inventories (Notes 1 and 3)	103,265	104,301
Assets held for sale	-	441
Other current assets (Notes 4, 17, 18 and 20)	26,007	22,837
Total current assets	514,432	447,139
PROPERTY, PLANT, AND EQUIPMENT (Notes 1, 7 and 20):		
Land	19,778	20,446
Buildings	124,404	129,110
Machinery and equipment	153,142	147,038
Construction in progress	3,281	5,467
Total	300,605	302,061
Accumulated depreciation	(187,577)	(187,535)
Net property, plant, and equipment	113,028	114,526
INVESTMENTS AND OTHER ASSETS:		
Right-of-use assets under operating leases (Notes 1 and 8)	38,153	30,327
Goodwill (Notes 1, 6, 20 and 23)	39,160	38,568
Investments in and advances to affiliates (Note 1)	13,159	29,251
Investment securities (Notes 1, 4 and 20)	33,423	25,782
Leasehold deposits	7,675	7,486
Prepaid pension costs (Notes 1 and 9)	6,736	-
Deferred income taxes (Notes 1 and 12)	24,179	37,416
Other assets (Notes 1, 6, 7, 20 and 23)	30,434	27,629
Total investments and other assets	192,919	196,459
TOTAL	¥ 820,379	¥ 758,124

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020
CURRENT LIABILITIES:		
Notes and accounts payable – trade	¥ 69,561	¥ 64,496
Accrued expenses	44,441	37,179
Income taxes payable	3,504	2,516
Short-term operating lease liabilities (Notes 1 and 8)	11,179	11,070
Other current liabilities (Notes 1, 2, 9, 12, 17, 18, 19 and 20)	32,685	36,038
Total current liabilities	161,370	151,299
DEFERRED INCOME TAXES (Notes 1 and 12)	1,671	1,717
TERMINATION AND RETIREMENT BENEFITS (Notes 1 and 9)	7,598	40,236
LONG-TERM OPERATING LEASE LIABILITIES (Notes 1 and 8)	27,709	19,820
OTHER LONG-TERM LIABILITIES (Notes 2 and 19)	12,673	12,463
Total liabilities	211,021	225,535
EQUITY (Notes 1 and 10):		
Common stock, no par value: authorized, 487,000,000 shares in 2021 and 2020; issued, 206,244,872 shares in 2021 and 2020	64,100	64,100
Capital surplus	101,403	100,521
Legal reserve	22,931	20,981
Retained earnings	476,185	451,768
Accumulated other comprehensive income (loss) (Notes 1 and 16)	(32,945)	(83,606)
Treasury stock, at cost, 4,574,294 shares and 4,306,748 shares in 2021 and 2020, respectively (Note 1)	(24,816)	(23,349)
Total	606,858	530,415
Noncontrolling interests	2,500	2,174
Total equity	609,358	532,589
TOTAL	¥ 820,379	¥ 758,124

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2021, 2020 and 2019

	Millions of Yen		
	2021	2020	2019
NET SALES (Notes 1 and 2)	¥ 655,529	¥ 677,980	¥ 732,581
COSTS AND EXPENSES (Note 8):			
Cost of sales	357,178	374,278	407,097
Selling, general and administrative expenses (Notes 1 and 8)	192,687	202,954	208,895
Research and development expenses	43,184	45,988	49,335
Other expenses (income), net (Notes 4, 6, 7, 11 and 24)	(2,609)	2,924	1,342
Total	590,440	626,144	666,669
INCOME BEFORE INCOME TAXES AND EQUITY IN LOSS (EARNINGS) OF AFFILIATES	65,089	51,836	65,912
INCOME TAXES (Notes 1 and 12)	15,093	11,270	17,016
EQUITY IN LOSS (EARNINGS) OF AFFILIATES (Note 1)	6,098	963	1,578
NET INCOME FROM CONTINUING OPERATIONS	43,898	39,603	47,318
NET INCOME FROM DISCONTINUED OPERATIONS (Note 21)	-	35,732	7,673
NET INCOME	43,898	75,335	54,991
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	591	440	668
NET INCOME ATTRIBUTABLE TO OMRON CORPORATION SHAREHOLDERS	¥ 43,307	¥ 74,895	¥ 54,323

	Yen		
	2021	2020	2019
PER SHARE DATA (Note 14):			
Basic:			
Net income from continuing operations attributable to OMRON Corporation shareholders	¥214.72	¥191.00	¥223.95
Net income from discontinued operations attributable to OMRON Corporation shareholders	-	174.26	36.84
Net income attributable to OMRON Corporation shareholders	214.72	365.26	260.78
Diluted:			
Net income from continuing operations attributable to OMRON Corporation shareholders	-	-	-
Net income from discontinued operations attributable to OMRON Corporation shareholders	-	-	-
Net income attributable to OMRON Corporation shareholders	-	-	-

Note: OMRON Corporation (the "Company") and its subsidiaries (collectively, the "Companies") have reclassified certain amounts on the consolidated statements of income for the prior fiscal year ended March 31, 2019 for presentation purposes in connection with the classification of the Automotive Electronic Components Business (AEC) as a discontinued operation at fiscal year ended March 31, 2020. For more information, see Note 21. DISCONTINUED OPERATIONS.

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2021, 2020 and 2019

	Millions of Yen		
	2021	2020	2019
NET INCOME	¥43,898	¥ 75,335	¥ 54,991
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX (Note 16):			
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	23,138	(23,674)	(4,419)
Reclassification adjustment for the portion realized in net income	310	(119)	(109)
Net unrealized gain (loss)	23,448	(23,793)	(4,528)
Pension liability adjustments:			
Pension liability adjustments arising during the year	24,630	7,033	(11,419)
Reclassification adjustment for the portion realized in net income	3,053	3,365	2,556
Net unrealized gain (loss)	27,683	10,398	(8,863)
Net gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	(629)	77	32
Reclassification adjustment for the portion realized in net income	295	(160)	(73)
Net unrealized gain (loss)	(334)	(83)	(41)
OTHER COMPREHENSIVE INCOME (LOSS)	50,797	(13,478)	(13,432)
COMPREHENSIVE INCOME	94,695	61,857	41,559
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	727	368	651
COMPREHENSIVE INCOME ATTRIBUTABLE TO OMRON CORPORATION SHAREHOLDERS (Note 1)	¥93,968	¥ 61,489	¥ 40,908

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Equity
Years Ended March 31, 2021, 2020 and 2019

	Number of Common Shares Issued	Millions of Yen: Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total	Noncontrolling Interests	Total Equity
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
Cumulative effects from the adoption of accounting standard update (ASU) No. 2016-01 and 2018-03*					7,650	(7,426)		224		224
BALANCE, APRIL 1, 2018 AFTER THE ADOPTION OF ASU NO. 2016-01 AND 2018-03*	213,958,172	64,100	99,588	19,940	398,600	(56,785)	(19,689)	505,754	1,856	507,610
Net income					54,323			54,323	668	54,991
Cash dividends paid to OMRON Corporation shareholders, ¥84 per share					(17,398)			(17,398)		(17,398)
Cash dividends paid to noncontrolling interests								-	(343)	(343)
Equity transaction with noncontrolling interests and other								-	(65)	(65)
Share-based compensation			645					645		645
Transfer to legal reserve				1,886	(1,886)			-		-
Other comprehensive income (loss)						(13,415)		(13,415)	(17)	(13,432)
Acquisition of treasury stock							(25,697)	(25,697)		(25,697)
BALANCE, MARCH 31, 2019	213,958,172	64,100	100,233	21,826	433,639	(70,200)	(45,386)	504,212	2,099	506,311
Net income					74,895			74,895	440	75,335
Cash dividends paid to OMRON Corporation shareholders, ¥84 per share					(17,107)			(17,107)		(17,107)
Cash dividends paid to noncontrolling interests								-	(293)	(293)
Equity transaction with noncontrolling interests and other			2					2		2
Change in shareholders' equity due to decrease in consolidated subsidiaries			(74)	(2,386)	2,460			-		-
Share-based compensation**			360					360		360
Transfer to legal reserve				1,541	(1,541)			-		-
Other comprehensive income (loss)						(13,406)		(13,406)	(72)	(13,478)
Acquisition of treasury stock							(18,541)	(18,541)		(18,541)
Cancellation of treasury stock					(40,578)		40,578	-		-
BALANCE, MARCH 31, 2020	206,244,872	64,100	100,521	20,981	451,768	(83,606)	(23,349)	530,415	2,174	532,589
Net income					43,307			43,307	591	43,898
Cash dividends paid to OMRON Corporation shareholders, ¥84 per share					(16,940)			(16,940)		(16,940)
Cash dividends paid to noncontrolling interests								-	(401)	(401)
Equity transaction with noncontrolling interests and other			0					0		0
Share-based compensation***			882					882		882
Transfer to legal reserve				1,950	(1,950)			-		-
Other comprehensive income (loss)						50,661		50,661	136	50,797
Acquisition of treasury stock							(1,467)	(1,467)		(1,467)
BALANCE, MARCH 31, 2021	206,244,872	¥64,100	¥101,403	¥22,931	¥476,185	¥(32,945)	¥(24,816)	¥606,858	¥2,500	¥609,358

* Represents the impact of adopting the new accounting standard related to financial instruments. For more information, see Note 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.
** Includes a decrease of ¥275 million in capital surplus due to a change in estimate related to share-based compensation.
*** Includes an increase of ¥309 million in capital surplus due to a change in estimate related to share-based compensation.

See notes to consolidated financial statements.

OMRON Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2021, 2020 and 2019

	Millions of Yen		
	2021	2020	2019
OPERATING ACTIVITIES:			
Net income	¥ 43,898	¥ 75,335	¥ 54,991
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,756	28,605	30,459
Net gain on sales and disposals of property, plant, and equipment	(325)	(1,487)	(1,098)
Impairment losses on long-lived assets	1,976	498	196
Net loss (gain) on sales of investment securities	-	43	-
Gain on sales of businesses	-	(51,450)	(407)
Net loss (gain) on valuation of investment securities	(7,615)	1,170	563
Termination and retirement benefits and prepaid pension costs	(617)	(436)	3,818
Deferred income taxes	1,164	(125)	(383)
Equity in loss (earnings) of affiliates	6,098	963	1,578
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	3,893	12,944	(534)
Decrease (increase) in inventories	5,425	10,704	(3,491)
Decrease (increase) in other assets	955	(6,442)	(294)
Increase (decrease) in notes and accounts payable – trade	6,237	(1,319)	(5,401)
Increase (decrease) in income taxes payable	833	15,614	(2,775)
Increase (decrease) in accrued expenses and other current liabilities	5,301	3,570	(6,851)
Other, net	3,852	1,600	874
Total adjustments	49,933	14,452	16,254
Net cash provided by operating activities	93,831	89,787	71,245
INVESTING ACTIVITIES:			
Proceeds from sale or maturities of investment securities	751	1,423	465
Purchase of investment securities	(1,057)	(2,344)	(602)
Capital expenditures	(26,662)	(37,629)	(39,045)
Decrease (increase) in leasehold deposits, net	(189)	62	(193)
Proceeds from sales of property, plant, and equipment	2,069	4,565	3,475
Decrease (increase) in investment in and loans to affiliates, net	7,850	(2,231)	(498)
Proceeds from sales of businesses, net of cash paid	2,453	64,460	1,817
Acquisition of business, net of cash acquired	-	-	(830)
Other, net	0	333	454
Net cash provided by (used in) investing activities	(14,785)	28,639	(34,957)
FINANCING ACTIVITIES:			
Net borrowings (repayments) of short-term debt	(1,587)	6,365	2,109
Dividends paid by the Company	(16,952)	(17,250)	(16,776)
Dividends paid to noncontrolling interests	(352)	(293)	(343)
Acquisition of treasury stock	(1,471)	(18,571)	(25,716)
Other, net	10	319	(57)
Net cash used in financing activities	(20,352)	(29,430)	(40,783)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6,528	(13,713)	1,722
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,222	75,283	(2,773)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	185,533	110,250	113,023
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	250,755	185,533	110,250
CASH AND CASH EQUIVALENTS FROM DISCONTINUED OPERATIONS AT END OF THE YEAR	-	-	6,400
CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS AT END OF THE YEAR	¥ 250,755	¥ 185,533	¥ 103,850

Note: Consolidated statements of cash flows consist of cash flows from continuing operations and cash flows from discontinued operations. The Company has not presented cash flows separately for discontinued operations. For more information, see Note 21. DISCONTINUED OPERATIONS.

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 programmable controllers, motion controllers, sensing devices, industrial camera/code reader devices, inspection systems, safety devices and industrial robots. With the vision to "bring innovation to manufacturing by automation, to enrich lives of people all over the world", IAB leverages OMRON technologies to create innovations in manufacturing. These innovations contribute to productivity advancements in the world's manufacturing industry. Setting our unique i-Automation! concept, our aim is to enrich the lives of people around the world by generating/making manufacturing innovations through our technologies and solutions based on the widest range of control devices in the industrial market.

Electronic and Mechanical Components Business (EMC) manufactures and sells relays, switches, connectors, amusement components and units, general sensors, face recognition software, image sensing component and MEMS sensors. The mission of EMC: "With our devices and modules, create customer value, and contribute to society". EMC is OMRON's core business unit as a global component supplier of relays, switches, connectors and sensors that act as eyes and ears for wide variety of products playing a vital role in switching and connecting devices, for customers across various industries including smartphones, home appliances, automotive and industrial equipment manufacturers.

Social Systems Solution and Service Business (SSB) provides products such as energy solutions, railway station service systems, traffic and road management systems, card payment services, security and safety solutions, IoT (power protection, data protection) solutions and related maintenance business. The mission of the SSB is "Creating a society in which the people of the world live in safety, security, and comfort". We provide a wide range of terminals and systems, including PV inverters, storage batteries, railway station systems such as automated ticket gates and ticket vending machines, traffic and road management systems, payment systems, and UPS that protect equipment from unexpected power disruption which cause data loss. We also provide total solutions ranging from software development to comprehensive maintenance services to support the social infrastructure.

Healthcare Business (HCB) 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. The mission of HCB is "To help realize healthy and comfortable lives for people around the world". By living up to this mission, we have developed healthcare products and services with a focus on usability and accuracy of readings. This is intended to allow anyone to take measurements easily and correctly, with accuracy that ensures reliability for medical use. OMRON has achieved certification for medical use for a variety of devices in various countries, including blood pressure monitors, digital thermometers, and nebulizers (devices that deliver asthma medication through inhalation by patients). Moreover, OMRON also provides services that are compatible with each country's/region's social infrastructures and healthcare system, which varies from country to country. These products and services are now available in more than 110 countries across the world.

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. 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 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 (126 companies at March 31, 2021 and 129 companies at March 31, 2020).

The Companies have introduced a performance based share compensation plan using structures called a BIP Trust and an ESOP Trust starting from 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 their executive position and 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, 2021 and 2020 were ¥221 million and ¥168 million of cash and cash equivalents and ¥4,161 million and ¥4,164 million of treasury stock, respectively.

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

March 31, 2021
AliveCor, Inc. and others.
Total: 6 companies

March 31, 2020
Hitachi-Omron Terminal Solutions, Corp. and others.
Total: 19 companies

On March 29, 2021, the Company entered into a share transfer agreement to transfer all shares of Hitachi-Omron Terminal Solutions, Corp. held by the Company to Hitachi, Ltd. The relevant share transfer was completed on March 31, 2021. In connection with this transaction, the Company recorded equity in loss of affiliates in the amount of ¥6,787 million on the consolidated statements of income for the year ended March 31, 2021.

Differing Fiscal Year-Ends

There are 27 and 27 subsidiaries as of March 31, 2021 and 2020, respectively, which have different fiscal year-ends from that of the Company. The March 31 year-end financial statements were used by 26 and 26 subsidiaries as of March 31, 2021 and 2020, respectively, for the purpose of the Company's consolidation. The remaining subsidiary was consolidated based on their respective year end as the effects due to the differing 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.

In response to the ongoing and rapidly evolving global outbreak of the novel corona virus disease ("COVID-19"), we considered the impact of the estimated economic implications on our significant accounting estimates, including the impairment of long-lived assets, the impairment of goodwill and non-amortized intangible assets, investments in affiliates and the assessment of the recoverability of deferred tax assets.

Although the business environment surrounding the Companies are gradually recovering, COVID-19 is not expected to subside as of March 31, 2021, and the Companies believe that the effect of COVID-19 will continue past the end of the current fiscal year to the next consolidated fiscal year, and factored such consideration into the above-mentioned accounting estimates. For more information about these balances as of the end of the current fiscal year, see Consolidated Financial Statements and related Notes to Consolidated Financial Statements.

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.

Investments

The Companies measure equity securities that have readily determinable fair value at fair values with changes recognized in "Net loss on valuation of investment securities" or "Net gain on valuation of investment securities". Equity securities without readily determinable fair values are accounted for at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer or at other reasonable methods with changes recognized in "Net loss on valuation of investment securities" or "Net gain on valuation of investment securities". Realized gains and losses are determined by the average cost method.

Inventories

Domestic inventories are mainly stated at the lower of cost, determined by the first-in, first-out method, or net realizable value. Overseas inventories are mainly stated at the lower of cost, determined by the moving-average method, or net realizable value.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment is computed principally by 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 ¥16,660 million, ¥19,497 million, and ¥19,222 million for the years ended March 31, 2021, 2020 and 2019, 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 annually during the fourth quarter of the fiscal year and between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at the reporting unit level. Reporting units are operating segments or one level below the operating segments.

The Companies calculate the fair value by discounting the estimated future cash flow based on a business plan that has been approved by the management to the present value using a discount rate calculated based on the weighted average cost of capital. The business plans are formulated using assumptions such as macroeconomic conditions, market growth rates, profit margins, and capital expenditures plan, and cash flows after the forecast period in the business plan are calculated based on the growth rate estimated within the range of the long-term average growth rate of the market to which the reporting unit belongs. If the main assumptions used to calculate the fair value for the year ended March 31, 2021 deviate significantly from the situation as of March 31, 2021, and the carrying amount of goodwill exceeds its fair value, the situation may have a significant impact on the amount of goodwill.

If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, the Companies then calculate the implied fair value of the goodwill, and compare it with the carrying amount of the goodwill. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

Intangible assets with finite lives are amortized over their respective estimated useful lives.

Long-Lived Assets

Property, plant, and equipment and intangible assets which is amortized ("long-lived assets") are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might be unrecoverable. Long-lived Assets are reviewed for impairment for each asset group. An asset group is the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The 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 asset exceeds its fair value. The Companies use present values of the expected future cash flows which is based on forecasts of the respective assets or observable market prices to estimate the fair value of these assets. Estimates of future cash flows are based on the remaining useful life of the primary asset of the group. 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.

Leases

The Companies do not have any material finance lease agreements.

The Companies have operating lease agreements primarily involving offices and equipment for varying periods. The Companies determine if a contract is, or contains, a lease at the inception of each contract. Some of the contracts include options to extend or to terminate the lease. The Companies take such options into account to determine the lease term when it is reasonably certain that it will exercise these options. The Companies' lease arrangements do not contain material residual value guarantees or material restrictive covenants. As the rate implicit in the majority of the Companies' leases cannot be determined, the Companies use their incremental borrowing rate based on the information available at commencement to determine the present values of lease payments. The incremental borrowing rate is the rate of interest that the Companies would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments, in a similar economic environment and over a similar term. The Companies have lease contracts with lease and non-lease components, which are accounted for separately. The Companies allocate the consideration in the lease contract to the lease and non-lease components based upon the estimated standalone prices. Lease expense for lease payments are recognized on a straight-line basis over the term of the lease. The Companies determine the standalone prices for each of the lease and non-lease components based on the prices which lessor or similar suppliers would charge to sell the lease or non-lease component separately.

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.

Revenue Recognition

Revenue from contracts with customers is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which the Companies expects to be entitled in exchange for transferring these goods or services by applying the following five steps model:

Step 1: Identify the contracts with customers
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when, or as, the entity satisfies a performance obligation

The transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, less any discounts, rebates or other similar items. The Companies consider all the information (historical, current, and forecast) that is reasonably available to estimate the amount of variable consideration. As a practical expedient, the Companies do not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Advertising Costs

Advertising costs are charged as incurred and included in selling, general and administrative expenses. Advertising expense was ¥8,084 million, ¥9,701 million, and ¥11,354 million for the years ended March 31, 2021, 2020 and 2019, respectively.

Shipping and Handling Charges

Shipping and handling charges are included in selling, general and administrative expenses. Shipping and handling charges were ¥10,566 million, ¥9,208 million, and ¥9,079 million for the years ended March 31, 2021, 2020 and 2019, respectively.

Income Taxes

"Income Taxes" include income taxes from continuing operations, and "Net income from discontinued operations" include income taxes from discontinuing operations.

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. Carrying amounts of deferred tax assets require a reduction by a valuation allowance if, based on available evidence, it is more likely than not that such assets will not be realized prior to expiration. Accordingly, the need to establish a valuation allowance for deferred tax assets is assessed periodically with appropriate consideration given to all positive and negative evidence related to the realization of the deferred tax assets. Management's judgments related to this assessment consider, among other matters, the nature, frequency and severity of current and cumulative losses on an individual tax jurisdiction basis, forecasts of future profitability, excess of appreciated asset value over the tax basis of net assets, the duration of statutory carryforward periods, the future availability of net operating loss carryforwards and tax credits carryforwards. The Companies believe that it is highly likely that the currently recorded deferred tax assets will be recovered based on past taxable income levels and forecasts of future taxable income during the deductible period of deferred tax assets. However, if factors that affect the forecast of taxable income change, such as market trends and exchange fluctuations surrounding the Companies, and the uncertainty of the forecast of taxable income increases, it might affect the recoverability of estimates of deferred tax assets.

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 taxation system as permitted by Japanese tax regulations. The Company and certain domestic subsidiaries will shift to a tax sharing system established by the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and the items under the non-consolidated taxation system has been reviewed in conjunction with the transition to the group tax sharing system. The effects resulting from the adoption of this law was not material.

Consumption Taxes and Other Value-Added Taxes

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

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 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. Corresponding dividends payable are included in other current liabilities in the consolidated balance sheets.

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 in accordance with 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 and changes in net gains (losses) on derivative instruments designated as cash flow hedges and disclosed within the consolidated statements of comprehensive income.

Investments in Affiliates

The excess of the cost of an investment over the amount of underlying equity of the fair value of the net assets including contingent liabilities on the acquisition date of the affiliates is recorded as equity method goodwill and is included in the carrying amount of investment. Of the ¥13,159 million in investments and loans to affiliates recorded on consolidated balance sheet as of March 31, 2021, equity method goodwill was ¥9,164 million, all of which was for AliveCor, Inc., which provides remote diagnosis and monitoring services for atrial fibrillation in the United States, implemented during the growth strategies of our long-term vision Value Generation (VG) 2020 (launched in 2011) related to HCB.

The Company evaluates the fair value of investments in affiliates based on the excess earning power of the affiliates. If the decrease in value is other than temporary decline, a loss in value of an investment is recognized for the excess of the book value of the equity over the proportional fair value of the affiliates. The Company calculates the fair value of investments in affiliates by discounting the estimated future cash flow based on the business plans that has been approved by management to the present value using a discount rate calculated based on the weighted average cost of capital. The business plans are formulated using assumptions such as macroeconomic conditions, market growth rates, profit margins, and equipment plans, and cash flows after the forecast period in the business plan are calculated based on the growth rate estimated within the range of the long-term average growth rate of the market to which the investee belongs. If the main assumptions used to calculate the amount recorded in the consolidated balance sheet for the year ended March 31, 2021 deviate significantly from the situation as of March 31, 2021, and the carrying amount of the investment in the affiliate exceeds its fair value, the situation may have a significant impact on the amount of investment in affiliates.

New Accounting Standards

Recently issued accounting guidance not yet adopted

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment". This ASU requires the elimination of Step 2 from the goodwill impairment test. This 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 on April 1, 2021. The impact of the adoption of this guidance will be immaterial on the consolidated financial statements.

Changes in Accounting Estimates

Changes in depreciation method

Beginning with for the year ended March 31, 2021, the Company and our domestic consolidated subsidiaries changed the depreciation method from the declining balance method to the straight-line method for property, plant, and equipment.

Based on the growth strategies of our long-term vision Value Generation 2020 (launched in 2011) and VG2.0 medium-term management plan, we have invested in manufacturing and development facilities for our focus business domains: IAB, HCB, and SSB. In the prior consolidated fiscal year, we expanded our Yasu office and Katsuragawa office and reconstructed the OMRON Healthcare Co., Ltd. Matsusaka factory. In addition, we reorganized our production centers and consolidated production lines to build a global production system for EMC. We have also conducted a review of our business portfolio, including the divestment of AEC. As a result, the Company and our consolidated subsidiaries in Japan expect the stable operations of our facilities and more normalized levels of capital investment and repairs and maintenance expense.

Considering the circumstances discussed above, we decided that depreciation via the straight-line method more appropriately reflects the actual usage of our property, plant, and equipment for which we expect stable operations. This change in depreciation method was treated as a change in accounting estimate based on ASC 250, "Accounting Changes and Error Corrections", the impact of which is recognized prospectively. Due to this change, depreciation for the year ended March 31, 2021 decreased by ¥2,120 million compared to the former method, while net income attributable to OMRON shareholders and basic net income per share increased by ¥1,580 million and ¥7.83, respectively.

2. REVENUE

Disaggregation of Revenue

The following table presents the Companies' revenues disaggregated by geographical region and operating segment for the years ended March 31, 2021, 2020 and 2019.

2021	Millions of Yen IAB	EMC	SSB	HCB	Total	Eliminations and Others	Consolidated
Sales:							
Sales to external customers	¥ 346,446	¥ 86,028	¥ 95,663	¥ 123,087	¥ 651,224	¥ 4,305	¥ 655,529
Intersegment sales	5,029	43,327	8,994	292	57,642	(57,642)	-
Total	¥ 351,475	¥ 129,355	¥ 104,657	¥ 123,379	¥ 708,866	¥ (53,337)	¥ 655,529
Major regional market (external customers):							
Japan	¥ 126,805	¥ 20,885	¥ 95,414	¥ 29,610	¥ 272,714	¥ 3,898	¥ 276,612
Americas	27,629	12,061	-	23,952	63,642	-	63,642
Europe	65,554	13,141	-	22,784	101,479	-	101,479
Greater China	87,824	28,668	174	34,160	150,826	341	151,167
Southern Asia and Others	38,534	11,089	-	12,140	61,763	-	61,763
Direct Exports	100	184	75	441	800	66	866
Total	¥ 346,446	¥ 86,028	¥ 95,663	¥ 123,087	¥ 651,224	¥ 4,305	¥ 655,529

2020	Millions of Yen IAB	EMC	SSB	HCB	Total	Eliminations and Others	Consolidated
Sales:							
Sales to external customers	¥ 352,762	¥ 88,357	¥ 116,008	¥ 111,999	¥ 669,126	¥ 8,854	¥ 677,980
Intersegment sales	5,120	44,061	9,813	440	59,434	(59,434)	-
Total	¥ 357,882	¥ 132,418	¥ 125,821	¥ 112,439	¥ 728,560	¥ (50,580)	¥ 677,980
Major regional market (external customers):							
Japan	¥ 139,970	¥ 22,845	¥ 115,225	¥ 26,081	¥ 304,121	¥ 7,390	¥ 311,511
Americas	32,635	13,560	-	21,605	67,800	-	67,800
Europe	71,766	15,051	-	21,690	108,507	-	108,507
Greater China	68,775	24,149	283	31,408	124,615	1,439	126,054
Southern Asia and Others	39,404	12,530	-	10,808	62,742	-	62,742
Direct Exports	212	222	500	407	1,341	25	1,366
Total	¥ 352,762	¥ 88,357	¥ 116,008	¥ 111,999	¥ 669,126	¥ 8,854	¥ 677,980

2019	Millions of Yen IAB	EMC	SSB	HCB	Total	Eliminations and Others	Consolidated
Sales:							
Sales to external customers	¥ 391,826	¥ 103,123	¥ 100,564	¥ 115,493	¥ 711,006	¥ 21,575	¥ 732,581
Intersegment sales	6,426	51,115	10,021	172	67,734	(67,734)	-
Total	¥ 398,252	¥ 154,238	¥ 110,585	¥ 115,665	¥ 778,740	¥ (46,159)	¥ 732,581
Major regional market (external customers):							
Japan	¥ 154,726	¥ 23,187	¥ 99,306	¥ 26,909	¥ 304,128	¥ 14,556	¥ 318,684
Americas	34,980	17,883	-	23,612	76,475	-	76,475
Europe	79,851	17,742	-	22,668	120,261	-	120,261
Greater China	78,169	30,768	435	30,968	140,340	6,136	146,476
Southern Asia and Others	43,771	13,469	-	10,696	67,936	-	67,936
Direct Exports	329	74	823	640	1,866	883	2,749
Total	¥ 391,826	¥ 103,123	¥ 100,564	¥ 115,493	¥ 711,006	¥ 21,575	¥ 732,581

Note: 1. Major countries or regions belonging to segments other than Japan are as follows:

(1) Americas: United States of America, Canada, Brazil
(2) Europe: Netherlands, Great Britain, Germany, France, Italy, Spain
(3) Greater China: China, Hong Kong, Taiwan
(4) Southeast Asia and Others: Singapore, South Korea, India, Australia
(5) Direct Exports: Direct delivery exports

2. In 2021, based on the transfer of the Environmental Solutions Business to the SSB and the closure of the Backlights Business, management reclassified a portion of the Other to SSB and the rest to Eliminations and Others. Accordingly, the segment information figures as of March 31, 2020 and 2019 have been restated to conform with the current year categorization as presented for four segments (IAB, EMC, SSB, and HCB).

In relation to businesses other than the SSB, the Companies recognize revenue from domestic sales of goods when goods are delivered at customer's sites, unless stated otherwise in a contract. The revenue from export sales for such businesses is recognized when the transfer of the risk of loss to customer is complete, based on the trade terms and conditions such as Incoterms.

In addition, the Companies will provide for an estimate of rebates for customers based on the quantities sold to promote the sales of its products. The amount of the rebate is included in variable consideration and can be reasonably estimated, therefore, the estimate of variable consideration is not constrained. Consideration is received in approximately three months. The product of the Company or subsidiaries does not include any right of return.

In relation to the SSB, there are contracts for which the Companies recognize revenue when the products are accepted by the customers. Consideration is received in approximately three months. In addition, certain trades include long-term maintenance service for which revenue is recognized over a certain period. Consideration for such service rendered is received in approximately three months. The Companies may receive consideration as an advance payment for future products or sales, in which case will be recognized as a contract liability is recorded in other current liabilities or other non-current liabilities.

Contract Balances

The beginning and the ending balances of contract liabilities for the fiscal year ended March 31, 2021 were as follows:

	Millions of Yen			
		Contract Liabilities		
	Notes and Accounts Receivable	Other Current Liabilities	Other Long-Term Liabilities	Total
Balance at beginning of year	¥134,786	¥2,248	¥8,903	¥11,151
Balance at ending of year	135,161	3,019	8,930	11,949

For the year ended March 31, 2021, revenue of ¥2,215 million was recognized from contract liabilities at the beginning of the year.

The beginning and the ending balances of contract liabilities for the fiscal year ended March 31, 2020 were as follows:

	Millions of Yen			
		Contract Liabilities		
	Notes and Accounts Receivable	Other Current Liabilities	Other Long-Term Liabilities	Total
Balance at beginning of year	¥149,171	¥1,710	¥8,543	¥10,253
Balance at ending of year	134,786	2,248	8,903	11,151

For the year ended March 31, 2020, revenue of ¥1,793 million was recognized from contract liabilities at the beginning of the year.

The beginning and the ending balances of contract liabilities for the fiscal year ended March 31, 2019 were as follows:

	Millions of Yen			
		Contract Liabilities		
	Notes and Accounts Receivable	Other Current Liabilities	Other Long-Term Liabilities	Total
Balance at beginning of year	¥151,148	¥1,685	¥7,360	¥ 9,045
Balance at ending of year	149,171	1,710	8,543	10,253

For the year ended March 31, 2019, revenue of ¥1,552 million was recognized from contract liabilities at the beginning of the year.

Transaction Price Allocated to Remaining Performance Obligations

Remaining performance obligations at March 31, 2021 are mainly expected to be recognized as revenue within 1 to 15 years. We have not disclosed information about transaction price allocated to remaining performance obligations that have original expected durations of one year or less.

3. INVENTORIES

Inventories at March 31, 2021 and 2020 consisted of:

	Millions of Yen	
	2021	2020
Finished products	¥ 62,007	¥ 61,262
Work in process	12,421	14,094
Materials and supplies	28,837	28,945
Total	¥ 103,265	¥ 104,301

4. INVESTMENTS

The unrealized holding gains or losses and realized gains or losses on equity securities for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		
	2021	2020	2019
Net losses (gains) recognized during the period on equity securities	¥(7,615)	¥1,170	¥563
Net losses (gains) realized during the period on equity securities sold during the period	16	101	(36)
Unrealized losses (gains) recognized during the period on equity securities held at March 31	(7,631)	1,069	599

No impairment was recorded, and other adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, recorded to gain during the year ended March 31, 2021 were ¥144 million. The aggregate amount of equity securities without readily determinable fair values was ¥2,932 million at March 31, 2021.

No impairment was recorded, and other adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, recorded to loss during the year ended March 31, 2020 were ¥126 million. The aggregate amount of equity securities without readily determinable fair values was ¥2,788 million at March 31, 2020.

No impairment was recorded, and other adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, recorded to gains during the year ended March 31, 2019 were ¥48 million. The aggregate amount of equity securities without readily determinable fair values was ¥4,738 million at March 31, 2019.

The losses (gains) are included in the table above.

5. NOTES AND ACCOUNTS RECEIVABLE

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

There are no significant amount of accounts receivable with affiliates resulting from these transactions for the year ended March 31, 2021. The amount of accounts receivable with affiliates resulting from these transactions was ¥1,565 million for the year ended March 31, 2020.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of acquired intangible assets, excluding goodwill, at March 31, 2021 and 2020 were as follows:

	Millions of Yen			
	2021		2020	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Software	¥66,579	¥55,133	¥61,748	¥50,966
Customer-related asset	5,513	1,335	5,490	1,035
Technology-based asset	6,804	2,722	6,754	2,081
Other	3,930	464	4,441	867
Total	¥82,826	¥59,654	¥78,433	¥54,949

Aggregation of amortization expense related to intangible assets was ¥6,096 million, ¥6,207 million, and ¥6,132 million for the years ended March 31, 2021, 2020 and 2019, respectively.

Estimated amortization expenses for the next five years ending March 31 are as follows:

Years Ending March 31	Millions of Yen
2022	¥5,534
2023	4,745
2024	3,483
2025	2,555
2026	1,791

Intangible assets, not subject to amortization, at March 31, 2021 and 2020 were immaterial.

The carrying amounts of goodwill in each segment at March 31, 2021 and 2020, and changes in their carrying amounts for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen					
	2021					
	IAB	EMC	SSB	HCB	Eliminations and Others	Total
Balance at beginning of year:						
Goodwill	¥38,946	¥ 418	¥ -	¥5,275	¥ 1,475	¥46,114
Accumulated impairment losses	(5,739)	(332)	-	-	(1,475)	(7,546)
Total	¥33,207	¥ 86	¥ -	¥5,275	¥ -	¥38,568
Acquisition	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Sales of business entity	-	-	-	-	-	-
Foreign currency translation adjustments and other	731	15	-	(154)	-	592
Balance at end of year:						
Goodwill	39,677	433	-	5,121	1,475	46,706
Accumulated impairment losses	(5,739)	(332)	-	-	(1,475)	(7,546)
Total	¥33,938	¥ 101	¥ -	¥5,121	¥ -	¥39,160

	Millions of Yen					
	2020					
	IAB	EMC	SSB	HCB	Eliminations and Others	Total
Balance at beginning of year:						
Goodwill	¥39,683	¥ 425	¥ -	¥ 6,495	¥ 1,475	¥48,078
Accumulated impairment losses	(5,739)	(332)	-	-	(1,475)	(7,546)
Total	¥33,944	¥ 93	¥ -	¥ 6,495	¥ -	¥40,532
Acquisition	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Sales of business entity	-	-	-	-	-	-
Foreign currency translation adjustments and other	(737)	(7)	-	(1,220)	-	(1,964)
Balance at end of year:						
Goodwill	38,946	418	-	5,275	1,475	46,114
Accumulated impairment losses	(5,739)	(332)	-	-	(1,475)	(7,546)
Total	¥33,207	¥ 86	¥ -	¥ 5,275	¥ -	¥38,568

The Companies records goodwill and other intangible assets in accordance with ASC 350, "Intangibles - Goodwill and Other". No impairment losses were recognized for the fiscal years ended March 31, 2021 and 2020. The fair value of the reporting unit was estimated by using the present value of expected future cash flows method.

In 2021, based on the transfer of the Environmental Solutions Business to the SSB and the closure of the Backlights Business, management reclassified a portion of the Other to SSB and the rest to Eliminations and Others. Accordingly, the carrying amounts of goodwill in each segment at March 31, 2020, and changes in their carrying amounts for the years ended March 31, 2020 have been restated to conform with the current year presentation.

7. IMPAIRMENT LOSSES ON LONG-LIVED ASSETS

In accordance with ASC 360, "Property, Plant, and Equipment", the Companies recognized impairment losses of ¥1,976 million on long-lived assets for the fiscal year ended March 31, 2021 due to decreasing profitability in some manufacturing equipment of the semiconductor-related business and other under Eliminations and Others.

The Companies recognized impairment losses of ¥339 million related to certain idle equipment used by the EMC segment for the fiscal year ended March 31, 2020. The Companies also recognized impairment losses of ¥113 million on long-lived assets due to some idle equipment under Eliminations and Others. Furthermore, the Companies recognized impairment losses of ¥46 million on long-lived assets due to decreasing profitability of the backlight business, in Eliminations and Others.

The Companies recognized impairment losses of ¥99 million related to certain idle equipment used by the EMC segment for the fiscal year ended March 31, 2019. The Companies also recognized impairment losses of ¥97 million on long-lived assets due to decreasing profitability of the backlight business, in Eliminations and Others.

These impairment losses are included in other (income) expenses, net within the consolidated statements of income. The fair values were estimated using the present value of expected future cash flows and the appraised value.

In 2021, based on the transfer of the Environmental Solutions Business to the SSB and the closure of the Backlights Business, management reclassified a portion of the Other to SSB and the rest to Eliminations and Others. Accordingly, the amounts of impairment losses at March 31, 2020 and 2019 have been restated to conform with the current year presentation.

8. LEASES

Lease costs are included in cost of goods sold or selling, general and administrative expense in the accompanying consolidated statement of income. Supplemental income statement information for the fiscal years ended March 31, 2021 and 2020 is as follows:

	Millions of Yen	
Year Ended March 31	2021	2020
Finance lease cost:		
Amortization of right-of-use assets	¥ 2,156	¥ 2,506
Operating lease cost	11,621	12,359
Short-term lease cost	643	794
Other lease cost	952	863
Total lease cost	¥ 15,372	¥ 16,522

Operating Lease Cash Flow

Supplemental cash flow information for the fiscal years ended March 31, 2021 and 2020 is as follows:

Year Ended March 31	Millions of Yen 2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	¥11,482	¥11,479
Noncash activity - Right-of-use assets obtained in exchange for operating lease liabilities		
Operating leases	9,572	8,311

Maturity Analysis

The following is a schedule by year of the future minimum lease payments under operating leases at March 31, 2021:

Years Ending March 31	Millions of Yen
2022	¥11,286
2023	8,470
2024	5,025
2025	3,233
2026	2,297
Thereafter	9,603
Total future minimum lease payments	39,914
Less Imputed Interest	(1,026)
Total lease liabilities	¥38,888

The following is a schedule by year of the future minimum lease payments under operating leases at March 31, 2020:

Years Ending March 31	Millions of Yen
2021	¥11,182
2022	7,965
2023	5,126
2024	2,209
2025	1,440
Thereafter	3,948
Total future minimum lease payments	31,870
Less Imputed Interest	(979)
Total lease liabilities	¥30,890

Remaining Lease Term and Discount Rate

The following is remaining lease term and discount rate under operating leases at March 31, 2021 and 2020:

Year Ended March 31	Millions of Yen 2021	2020
Weighted-average remaining lease term – operating leases	77 months	57 months
Weighted-average discount rate – operating leases	0.8%	1.3%

9. TERMINATION AND RETIREMENT BENEFITS

In the fiscal year ended March 31, 2020, the Company and certain domestic subsidiaries decided to switch from the existing defined benefit pension plan and lump-sum payment plan (the "Plans") to the defined contribution pension plan (the "DC") for future service rendered on or after July 1, 2019. The Company also decided to amend the Plans and switch certain parts of the Plans for service rendered prior to June 30, 2019 to the DC over a period required by the regulation.

The Companies recognized a decrease in pension benefit obligation ("PBO") due to the amendment of the Plans as "Amendments" and also recorded a "Prior service benefit". In addition, the decrease in PBO from the Plans termination (curtailments) was recognized as "Curtailments" in the table below and also recognized as "Net actual loss". Furthermore, prior service benefit recorded in prior years was recognized as "Curtailments gain" as one-time gain. Additionally, the decrease in PBO from the payment to the DC as a result of the switch to the DC was recognized as "Settlements", and the difference between the PBO decrease and the payment to the DC was recognized as "Settlements loss" in earnings.

The Company and its domestic subsidiaries had sponsored termination and retirement benefit plans which cover substantially all domestic employees (the "funded contributory termination and retirement plan in Japan") until the switch to the DC was decided. Benefits had been 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, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	¥ 209,200	¥ 238,081
Service cost	-	1,856
Interest cost	1,213	1,117
Actuarial loss (gain)	(582)	4,757
Benefits paid	(8,663)	(8,466)
Settlement paid	(2,454)	(1,433)
Curtailments	-	(15,660)
Amendments	-	(9,938)
Settlements	(1,001)	(1,114)
Benefit obligation at end of year	¥ 197,713	¥ 209,200
Change in plan assets:		
Fair value of plan assets at beginning of year	¥ 149,105	¥ 156,180
Actual return on plan assets	21,645	(1,697)
Employers' contributions	-	689
Contributions from assets in retirement benefit trust	1,383	1,284
Benefits paid	(6,013)	(5,918)
Settlement paid	(2,454)	(1,433)
Fair value of plan assets at end of year	¥ 163,666	¥ 149,105
Fair value of assets in retirement benefit trust at beginning of year	¥ 24,660	¥ 30,271
Actual return on assets in retirement benefit trust	16,529	(4,327)
Contributions to plan assets	(1,383)	(1,284)
Amounts of trust contributions from the Company	977	-
Fair value of assets in retirement benefit trust at end of year	¥ 40,783	¥ 24,660
Funded status at end of year	¥ 6,736	¥ (35,435)

Amounts recognized in the consolidated balance sheets at March 31, 2021 and 2020, consisted of:

	Millions of Yen	
	2021	2020
Other current liability	¥ -	¥ (1,113)
Prepaid pension cost (Termination and retirement benefit)	6,736	(34,322)
Total	¥6,736	¥(35,435)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2021 and 2020, before tax, consisted of:

	Millions of Yen	
	2021	2020
Net actuarial loss	¥ 61,060	¥ 100,872
Prior service benefit	(14,813)	(15,236)
Total	¥ 46,247	¥ 85,636

The accumulated benefit obligation at March 31, 2021 and 2020 was as follows:

	Millions of Yen	
	2021	2020
Accumulated benefit obligation	¥197,713	¥209,200

Components of Net Periodic Benefit Cost

The expense recorded for the contributory termination and retirement benefit plans for the years ended March 31, 2021, 2020 and 2019, included the following components:

	Millions of Yen		
	2021	2020	2019
Service cost	¥ -	¥ 1,856	¥ 6,884
Interest cost on projected benefit obligation	1,213	1,117	1,724
Expected return on plan assets	(3,624)	(4,846)	(4,880)
Amortization	3,774	3,814	3,029
Curtailments gain	-	(537)	-
Settlements loss	1,643	1,734	-
Net periodic benefit cost	¥ 3,006	¥ 3,138	¥ 6,757

In accordance with ASC 715, "Compensation - Retirement Benefits", the unrecognized prior service benefit occurred in the fiscal year ended March 31, 2020 is amortized on a straight-line basis over the average remaining life expectancy years of 37 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, 2022 are summarized as follows:

	Millions of Yen
Net actuarial loss	¥4,105
Prior service benefit	(423)

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, 2021 and 2020 were as follows:

	2021	2020
Discount rate	0.63%	0.58%

Weighted-average assumptions used to determine termination and retirement benefit costs for the years ended March 31, 2021, 2020 and 2019 were as follows:

	2021	2020	2019
Discount rate	0.58%	0.52%	0.75%
Compensation increase rate	- %	- %	2.00%
Expected long-term rate of return on plan assets	2.20%	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.

Since the Company and certain domestic subsidiaries decided to switch from the existing Plans to the DC for future service rendered on or after July 1, 2019, Compensation increase rate is no longer required.

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 20.0% equity securities, 47.0% debt securities and life insurance general account assets, and 33.0% 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, 2021 and 2020 were as follows:

	Millions of Yen			
	2021			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic stocks (*1 and 2)	¥36,642	¥ -	¥ -	¥ 36,642
Joint trusts (*3 and 4)	-	-	-	34,803
Debt securities:				
Joint trusts (*3 and 5)	-	-	-	30,212
Other assets:				
Life insurance general account assets	-	32,172	-	32,172
Joint trusts (*3)	-	-	-	66,479
Other	4,090	51	-	4,141
Total	¥40,732	¥32,223	¥ -	¥204,449

	Millions of Yen			
	2020			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic stocks (*1 and 2)	¥23,166	¥ -	¥ -	¥ 23,166
Joint trusts (*3 and 4)	-	-	-	23,672
Debt securities:				
Joint trusts (*3 and 5)	-	-	-	37,734
Other assets:				
Life insurance general account assets	-	30,838	-	30,838
Joint trusts (*3)	-	-	-	56,861
Other	1,475	19	-	1,494
Total	¥24,641	¥30,857	¥ -	¥173,765

(*) 1 No common stock of the Company was included in Domestic stocks for the years ended March 31, 2021 and 2020.

2 Domestic stocks include ¥36,642 million and ¥23,166 million of retirement benefit trusts for the years ended March 31, 2021 and 2020, 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 30% Japanese companies and 70% foreign companies for the year ended March 31, 2021 and 20% Japanese companies and 80% foreign companies for the year ended March 31, 2020.

5 Joint trusts of debt securities invested at a ratio of approximately 30% in Japanese government bonds and 70% in foreign government bonds for the year ended March 31, 2021, and 30% in Japanese government bonds and 70% in foreign government bonds for the year ended March 31, 2020.

Level 1 assets are composed principally of cash in bank and 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. 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

<u>Contributions</u>

The Companies do not expect to contribute to their domestic termination and retirement benefit plans in the year ending March 31, 2022.

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
2022	¥ 9,886
2023	10,338
2024	10,398
2025	10,596
2026	10,178
2027 – 2031	48,031

The aggregate liability for the termination plans, excluding the funded contributory termination and retirement plan in Japan, as of March 31, 2021 and 2020 was ¥7,598 million and ¥5,914 million, respectively. The aggregate net periodic benefit cost for such plans for the years ended March 31, 2021, 2020 and 2019 was ¥342 million, ¥256 million, and ¥351 million, respectively.

The termination plans excluding the funded contributory termination and Omron Corporate pension plan, include the termination and retirement benefit plans in European subsidiaries and the Companies' other termination and retirement benefit plans. 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 in European subsidiaries were ¥11,485 million and ¥10,622 million, respectively, at March 31, 2021, and ¥9,371 million and ¥8,559 million, respectively, at March 31, 2020. The projected benefit obligation and related fair value of the Companies' other termination and retirement benefit plans, which provide lump-sum termination payment at the employee's termination, were not material at March 31, 2021 and 2020.

Defined contribution

	Millions of Yen		
	2021	2020	2019
Defined contribution expenses	¥7,714	¥6,116	¥3,261

10. 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 ¥118,813 million at March 31, 2021, based on the amount recorded in the Company's general books of account.

11. OTHER EXPENSES (INCOME), NET

Other expenses (income), net, for the years ended March 31, 2021, 2020 and 2019, consisted of the following:

	Millions of Yen		
	2021	2020	2019
Net gain on sales and disposals of property, plant, and equipment	¥ (325)	¥(1,089)	¥(1,074)
Impairment losses on long-lived assets	1,976	498	196
Cost for quality control	-	-	606
Net loss (gain) on valuation of investment securities	(7,615)	1,170	563
Gain on sales of businesses	-	-	(407)
Disaster related expenses	-	-	2,478
Insurance proceeds	-	(326)	(2,535)
Interest income, net	(813)	(965)	(515)
Foreign exchange loss, net	1,238	797	2,790
Dividend income	(552)	(818)	(772)
Net periodic benefit costs	3,006	1,282	(127)
Restructuring expenses	-	1,250	-
Settlements paid	844	-	-
Other, net	(368)	1,125	139
Total	¥(2,609)	¥ 2,924	¥ 1,342

12. INCOME TAXES

The provision for income taxes for the years ended March 31, 2021, 2020 and 2019, consisted of the following:

	Millions of Yen		
	2021	2020	2019
Current income tax expense	¥13,929	¥10,470	¥17,691
Deferred income tax expenses, exclusive of the following	2,177	890	838
Change in the valuation allowance	(1,013)	(90)	(1,513)
Total	¥15,093	¥11,270	¥17,016

The Company and its domestic subsidiaries are subject to a number of taxes based on income. The statutory effective tax rate is 30.5% for the fiscal year ended March 31, 2021, and was 30.5% for the fiscal year ended March 31, 2020.

The effective income tax rates of the Companies differ from the normal Japanese statutory effective tax rates for the years ended March 31, 2021, 2020 and 2019, as follows:

	2021	2020	2019
Japanese statutory effective tax rates	30.5%	30.5%	31.0%
Increase in taxes resulting from permanently nondeductible items	0.5	0.8	1.0
Tax credit for research and development expenses	(2.4)	(4.3)	(3.7)
Losses of subsidiaries for which no tax benefit was provided	0.4	3.1	1.8
Difference in subsidiaries' tax rates	(5.8)	(4.0)	(3.6)
Change in the valuation allowance	(0.5)	(3.3)	(4.1)
Realization of previously unrecognized deferred tax effects	0.0	0.0	(0.3)
Taxes on undistributed earnings	1.4	1.7	3.3
Temporary difference in investments to subsidiaries	(0.1)	(1.7)	-
Other, net	(0.8)	(1.1)	0.4
Effective income tax rates	23.2%	21.7%	25.8%

The approximate effect of temporary differences and tax credit and loss carryforwards that gave rise to deferred tax balances at March 31, 2021 and 2020 were as follows:

	Millions of Yen			
	2021		2020	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Inventory valuation	¥ 6,739	¥ -	¥ 6,596	¥ -
Accrued bonuses and vacations	6,566	-	6,060	-
Termination and retirement benefits	4,124	-	15,889	-
Marketable securities	-	5,341	-	3,276
Property, plant, and equipment	1,679	-	2,592	-
Taxes on undistributed earnings	-	6,482	-	5,078
Other temporary differences	11,920	1,290	9,536	1,131
Net operating loss carryforwards	7,695	-	7,604	-
	¥38,723	¥13,113	¥48,277	¥9,485
Valuation allowance	(3,101)	-	(3,093)	-
Total	¥35,621	¥13,113	¥45,184	¥9,485

The total valuation allowance increased by ¥8 million in 2021 and decreased by ¥1,513 million in 2020.

As of March 31, 2021, the Companies had net operating loss carryforwards for corporate income taxes ¥25,597 million in domestic subsidiaries which will expire by 2028 and ¥24,316 million in overseas which will 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 ¥61,242 million and ¥51,847 million at March 31, 2021 and 2020, 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	
	2021	2020
Balance at beginning of year	¥1,326	¥1,080
Additions based on tax positions related to the current year	-	357
Additions based on tax positions related to the prior year	258	-
Reductions for tax positions of current years	-	(111)
Balance at end of year	¥1,584	¥1,326

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is ¥1,584 million and ¥1,326 million for the years ended March 31, 2021 and 2020, respectively.

Based on the information available as of March 31, 2021, 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, 2019 and 2007, respectively, have been completed.

13. 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 is consisted 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, upon completion of certain settlement procedures.

The following table summarizes the unvested points activity in 2021 and 2020:

	2021		2020	
		Millions of Yen		Millions of Yen
	Number of Points	Weighted-Average Grant-Date Fair Value	Number of Points	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of year	290,580	¥5,106	226,868	¥5,075
Granted	115,228	4,840	117,816	5,155
Vested	-	-	-	-
Change in accounting estimate	55,951	5,515	(54,104)	5,079
Outstanding at ending of year	461,759	¥5,090	290,580	¥5,106

Note: The Weighted-Average Grant-Date Fair Value is calculated by using the market value of the Company's shares with adjustment considering expected dividend.

Share-Based Payment Expenses

Share-based payment expense recognized in the consolidated statement of income was ¥882 million, ¥371 million, and ¥632 million for the fiscal years ended March 31, 2021, 2020 and 2019, respectively.

14. 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, 2021, 2020 and 2019.

Numerator

	Millions of Yen		
	2021	2020	2019
Net income from continuing operations attributable to shareholders	¥43,307	¥39,163	¥46,650
Net income from discontinued operations attributable to shareholders	-	35,732	7,673
Net income attributable to shareholders	43,307	74,895	54,323
Diluted net income from continuing operations attributable to shareholders	-	-	-
Diluted net income from discontinued operations attributable to shareholders	-	-	-
Diluted net income attributable to shareholders	-	-	-

Denominator

	2021	2020	2019
Weighted-average common shares outstanding	201,692,643	205,044,394	208,306,026
Dilutive effect of:			
Diluted common shares outstanding	-	-	-

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 (760,724 shares for the year ended March 31, 2021, 765,846 shares for the year ended March 31, 2020 and 767,253 shares for the year ended March 31, 2019).

15. SUPPLEMENTAL INFORMATION FOR CASH FLOWS

Supplemental cash flow information for the years ended March 31, 2021, 2020 and 2019 was as follows:

	Millions of Yen		
	2021	2020	2019
Interest paid	¥ 187	¥ 231	¥ 431
Income taxes paid	14,287	13,513	22,529
Noncash investing and financing activities:			
Liabilities assumed in connection with capital expenditures	659	3,362	4,221
Decrease in retained earnings due to cancellation of treasury stock	-	40,578	-
Fair value of securities contributed to retirement benefit trust	977	-	-

16. 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, 2021, 2020 and 2019 were as follows:

	Millions of Yen								
	2021			2020			2019		
	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	¥ (31,398)	¥ (10)	¥ (31,408)	¥ (7,408)	¥ (279)	¥ (7,687)	¥ (2,814)	¥ (362)	¥ (3,176)
Foreign currency translation adjustments arising during the year	23,194	(56)	23,138	(23,889)	215	(23,674)	(4,502)	83	(4,419)
Reclassification adjustment for the portion realized in net income	310	-	310	(173)	54	(119)	(109)	-	(109)
Net unrealized gain (loss)	23,504	(56)	23,448	(24,062)	269	(23,793)	(4,611)	83	(4,528)
Other comprehensive income (loss) attributable to noncontrolling interests	(136)	-	(136)	72	-	72	17	-	17
Ending balance	(8,030)	(66)	(8,096)	(31,398)	(10)	(31,408)	(7,408)	(279)	(7,687)
Pension liability adjustments:									
Beginning balance	(87,235)	34,985	(52,250)	(102,199)	39,551	(62,648)	(89,313)	35,528	(53,785)
Pension liability adjustments arising during the year	35,271	(10,641)	24,630	10,112	(3,079)	7,033	(16,590)	5,171	(11,419)
Reclassification adjustment for the portion realized in net income	4,351	(1,298)	3,053	4,852	(1,487)	3,365	3,704	(1,148)	2,556
Net unrealized gain (loss)	39,622	(11,939)	27,683	14,964	(4,566)	10,398	(12,886)	4,023	(8,863)
Ending balance	(47,613)	23,046	(24,567)	(87,235)	34,985	(52,250)	(102,199)	39,551	(62,648)
Unrealized gains (losses) on available-for-sale securities:									
Beginning balance	-	-	-	-	-	-	15,005	(7,579)	7,426
Cumulative effects from the adoption of ASU No. 2016-01 and 2018-03*	-	-	-	-	-	-	(15,005)	7,579	(7,426)
Unrealized holding gains (losses) arising during the year	-	-	-	-	-	-	-	-	-
Reclassification adjustment for the portion realized in net income	-	-	-	-	-	-	-	-	-
Net unrealized gain (loss)	-	-	-	-	-	-	-	-	-
Ending balance	-	-	-	-	-	-	-	-	-
Net gains (losses) on derivative instruments:									
Beginning balance	91	(39)	52	210	(75)	135	269	(93)	176
Unrealized holding gains (losses) arising during the year	(904)	275	(629)	111	(34)	77	46	(14)	32
Reclassification adjustment for the portion realized in net income	424	(129)	295	(230)	70	(160)	(105)	32	(73)
Net unrealized gain (loss)	(480)	146	(334)	(119)	36	(83)	(59)	18	(41)
Ending balance	(389)	107	(282)	91	(39)	52	210	(75)	135
Other comprehensive income (loss):									
Beginning balance	(118,542)	34,936	(83,606)	(109,397)	39,197	(70,200)	(76,853)	27,494	(49,359)
Cumulative effects from the adoption of ASU No. 2016-01 and 2018-03*	-	-	-	-	-	-	(15,005)	7,579	(7,426)
Unrealized holding gains (losses) arising during the year	57,561	(10,422)	47,139	(13,666)	(2,898)	(16,564)	(21,046)	5,240	(15,806)
Reclassification adjustment for the portion realized in net income	5,085	(1,427)	3,658	4,449	(1,363)	3,086	3,490	(1,116)	2,374
Net unrealized gain (loss)	62,646	(11,849)	50,797	(9,217)	(4,261)	(13,478)	(17,556)	4,124	(13,432)
Other comprehensive income (loss) attributable to noncontrolling interests	(136)	-	(136)	72	-	72	17	-	17
Ending balance	¥ (56,032)	¥ 23,087	¥ (32,945)	¥ (118,542)	¥ 34,936	¥ (83,606)	¥ (109,397)	¥ 39,197	¥ (70,200)

* Represents the impact of adopting the new accounting standard related to financial instruments.

The reclassification adjustment related to foreign currency translation adjustments for the portion realized in net income is included in other expenses (income), net and equity in loss (earnings) of affiliates. The reclassification adjustment related to pension liability adjustments for the portion realized in net income is included in retirement benefit expenses, other expenses (income), net and equity in loss (earnings) of affiliates. 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 discontinued operations is included in net income from discontinued operations for the fiscal year ended March 31, 2020. The tax effect related to continuing operations is included in income tax expense, and the tax effect related to discontinued operations is included in net income from discontinued operations.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying amounts and estimated fair values as of March 31, 2021 and 2020, of the Companies' financial instruments were as follows:

	Millions of Yen			
	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Derivatives)				
Forward exchange contracts:				
Other current assets	¥6,781	¥6,781	¥ 1,125	¥ 1,125
Other current liabilities	(914)	(914)	(1,563)	(1,563)
Commodity swap contracts:				
Other current liabilities	(4)	(4)	-	-

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:

<u>Derivatives</u>

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.

<u>Nonderivatives</u>

(1) Cash and cash equivalents, notes and accounts receivable, leasehold deposits, notes and accounts payable, and short-term operating lease liabilities, long-term operating lease liabilities:

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

(2) Investment securities

Equity securities that have readily determinable fair values are valued using quoted market prices in active markets. Equity securities without readily determinable fair values are valued with adjustments for observable changes in prices or impairments, or using other reasonable methods. (See Note 20 about equity securities measured at fair value on a recurring basis.)

18. DERIVATIVES AND HEDGING ACTIVITIES

The Companies enter into forward exchange 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 (income) expenses, 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, 2021 is expected to be reclassified into earnings within 12 months.

The notional amounts of outstanding contracts to forward exchange and commodity swap at March 31, 2021 and 2020 were as follows:

	Millions of Yen	
	2021	2020
Forward exchange contracts	¥131,133	¥107,245
Commodity swap contracts	84	-

The fair values of derivatives at March 31, 2021 and 2020 were as follows:

Derivatives designated as hedges

Assets

	Account	Millions of Yen	
		2021	2020
Forward exchange contracts	Other current assets	¥6,781	¥1,125

Liabilities

	Account	Millions of Yen	
		2021	2020
Forward exchange contracts	Other current liabilities	¥(914)	¥(1,563)
Commodity swap contracts	Other current liabilities	(4)	-

The effects on the consolidated statements of income for the years ended March 31, 2021, 2020 and 2019 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		
	2021	2020	2019	2021	2020	2019
Forward exchange contracts	¥(605)	¥77	¥ 50	¥295	¥(187)	¥(79)
Commodity swap contracts	(24)	-	(18)	-	27	6

The amount of hedge ineffectiveness was immaterial.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Commitment

The Companies have non-cancelable contracts mainly for certain information technology-related services and materials. The amounts of outstanding contracts as of March 31, 2021 and 2020 is ¥1,588 million and ¥1,366 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 42% 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.

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 reasonably be estimated. The environmental remediation accrual as of March 31, 2021 and 2020 was ¥261 million and ¥300 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, 2021 and 2020 were summarized as follows:

	Millions of Yen	
	2021	2020
Balance at beginning of year	¥ 1,317	¥ 1,820
Additions	770	870
Utilizations	(1,027)	(1,373)
Balance at end of year	¥ 1,060	¥ 1,317

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, 2021 and 2020 was ¥11,470 million and ¥10,708 million, respectively and recorded in 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 its business and appropriate accounting is performed according to the progress. 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.

20. 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, 2021 and 2020 were as follows:

	Amount of Fair Value Measurements			
	Millions of Yen			
	2021			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities:				
Equity securities	¥24,439	¥ -	¥2,431	¥26,870
Derivative:				
Forward exchange contracts	-	6,781	-	6,781
Liabilities				
Derivative:				
Forward exchange contracts	¥ -	¥ 914	¥ -	¥ 914
Commodity swap contracts	-	4	-	4

	Amount of Fair Value Measurements			
	Millions of Yen			
	2020			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities:				
Equity securities	¥18,036	¥ -	¥2,268	¥20,304
Derivative:				
Forward exchange contracts	-	1,125	-	1,125
Liabilities				
Derivative:				
Forward exchange contracts	¥ -	¥1,563	¥ -	¥ 1,563

Investment Securities

Investment securities consist of stocks. Since fair values of marketable securities are valued using quoted market prices in active markets for identical assets and can be observed, these are classified as Level 1. Since fair values of nonmarketable securities without readily determinable fair values are estimated using information mainly obtained from the investee companies, and considering its non-liquidity, such securities are classified as Level 3 because unobservable inputs are used in their measurement.

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.

A reconciliation of Level 3 assets measured at fair value on a recurring basis for the years ended March 31, 2021 and 2020 is as follows:

	Investment Security
	Equity Security
	2021
	Millions of Yen
Balance at beginning of year	¥2,268
Amount included in net income:	
Other expenses (income), net	(217)
Purchases	143
Sales	(5)
Other	242
Balance at end of year	¥2,431

	Investment Security
	Equity Security
	2020
	Millions of Yen
Balance at beginning of year	¥2,036
Amount included in net income:	
Other expenses, net	29
Purchases	203
Sales	-
Balance at end of year	¥2,268

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, 2021 and 2020 were as follows:

	Amount of Fair Value Measurements				
	Millions of Yen				
	2021				
	Total Amount of Gain (Loss)	Level 1	Level 2	Level 3	Total Amount of Fair Value
Assets					
Investment securities	¥ 144	¥ -	¥ 584	¥ -	¥584
Long-lived assets	(1,976)	-	-	0	0

	Amount of Fair Value Measurements				
	Millions of Yen				
	2020				
	Total Amount of Gain (Loss)	Level 1	Level 2	Level 3	Total Amount of Fair Value
Assets					
Investment securities	¥(126)	¥ -	¥5,842	¥ -	¥5,842
Long-lived assets	(498)	-	-	309	309

The Company classified the investment securities listed above as Level 2, as the Company accounted for at its cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. In addition the Company classified long-lived assets listed 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.

21. DISCONTINUED OPERATIONS

(1) Overview of Discontinued Operations

At a meeting held April 16, 2019, the Company board of directors resolved to transfer the entire business of AEC operating segment, to the Nidec Corporation Group (Note 1). The transfer includes the transfer of all shares of three consolidated subsidiaries and the AEC operations that forms part of two other consolidated subsidiaries of OMRON. The three consolidated subsidiaries transferred include OMRON Automotive Electronics Co., Ltd. ("OAE") (Note 2) and OMRON AUTOMOTIVE ELECTRONICS de Mexico, S. de R.L. de C.V.. A share transfer agreement was executed on the same day as the meeting of the board of directors. The Company entered into a share transfer agreement on the same day as the meeting of the board of directors. The transfer agreement was executed on October 31, 2019 with certain exceptions.

In connection with this transfer agreement, the Company transferred the automotive electronic components businesses of subsidiaries OMRON VIETNAM CO., LTD. and PT. OMRON MANUFACTURING OF INDONESIA to the Nidec Corporation Group on November 30, 2020 and December 23, 2020, and totally received ¥2,453 million in payment for the business transfer.

Notes: 1. Nine subsidiaries of OAE were also transferred and as such, were removed as consolidated subsidiaries of the Company.

2. In connection with this determination, the Company has classified profit or loss from this business as discontinuing operation and presented them separately on the consolidated statements of operations from the period ended June 30, 2019.

The Company concluded that the divestiture of the AEC represents a strategic shift that has a major effect on the Company's operations and financial results. Thus, the Company has classified AEC as a discontinued operations in accordance with ASC 205-20 "Presentation of Financial Statements - Discontinued Operations". Consequently, the Company has presented to reflect the AEC as discontinued operations in prior consolidated statements of income.

Consolidated statements of cash flows consist of cash flows from continuing operations and cash flows from discontinued operations. We have not presented cash flows separately for discontinued operations. We recorded ¥2,453 million as proceeds from sale of business, net of cash paid on the consolidated statement of cash flows to reflect the difference between cash and cash equivalents in the transferred business and cash and cash equivalents received in payment for this business transfer.

(2) Income from Discontinued Operations

	Millions of Yen		
	2021	2020	2019
Net sales	¥ -	¥65,793	¥128,148
Costs and expenses:			
Cost of sales	-	52,435	99,540
Selling, general and administrative expenses	-	7,812	10,788
Research and development expenses	-	5,363	8,441
Other expenses (income), net	-	(209)	(141)
Total	-	65,401	118,628
Income before income taxes from discontinued operations	-	392	9,520
Gain on sale of discontinued operations before income taxes	-	51,450	-
Income taxes	-	16,110	1,847
Net income from discontinued operations	¥ -	¥35,732	¥ 7,673

Note: Business performance for discontinued operations during the fiscal year ended March 31, 2020 represent a seven-month period from the beginning of the fiscal year to the business transfer conducted on October 31, 2019.

The Company retains no significant continuing involvement with the discontinued operation.

(3) Depreciation, Amortization and Capital Expenditures

Depreciation of tangible assets, amortization of intangible assets and capital expenditures incurred by the discontinued operation for the years ended March 31, 2021, 2020 and 2019 were as follows:

	Millions of Yen		
	2021	2020	2019
Depreciation and amortization	¥ -	¥2,899	¥5,105
Capital expenditures	-	5,043	6,200

22. 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 has four operating segments: "IAB", "EMC", "SSB", and "HCB". These segments are mainly separated based on the Companies' consideration of their nature of the products and the business standing in the group.

The primary products included in each segment are as follows:

(1) IAB: Programmable controllers, motion controllers, sensing devices, industrial camera/code reader devices, inspection systems, safety devices and industrial robots.

(2) EMC: Relays, switches, connectors, amusement components and units, general sensors, face recognition software, image sensing component and MEMS sensors.

(3) SSB: Energy solutions, railway station service systems, traffic and road management systems, card payment services, security and safety solutions, IoT (power protection, data protection) solutions and related maintenance business.

(4) 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.

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, 2021, 2020 and 2019 was as follows:

2021	IAB	EMC	SSB	HCB	Total	Eliminations and Others	Consolidated
	Millions of Yen						
I. Sales and segment profit (loss)							
1. Sales to external customers	¥346,446	¥ 86,028	¥ 95,663	¥123,087	¥651,224	¥ 4,305	¥655,529
2. Intersegment sales	5,029	43,327	8,994	292	57,642	(57,642)	-
Total	¥351,475	¥129,355	¥104,657	¥123,379	¥708,866	¥(53,337)	¥655,529
Segment profit (loss)	¥ 58,793	¥ 2,962	¥ 5,693	¥ 20,573	¥ 88,021	¥(25,541)	¥ 62,480
II. Assets, depreciation, and capital expenditures							
Assets	¥461,395	¥136,417	¥114,784	¥127,936	¥840,532	¥(20,153)	¥820,379
Depreciation and amortization	6,394	6,664	2,071	2,923	18,052	4,704	22,756
Capital expenditures	4,125	4,055	2,877	4,348	15,405	8,554	23,959

2020	IAB	EMC	SSB	HCB	Total	Eliminations and Others	Consolidated
	Millions of Yen						
I. Sales and segment profit (loss)							
1. Sales to external customers	¥352,762	¥ 88,357	¥116,008	¥111,999	¥669,126	¥ 8,854	¥677,980
2. Intersegment sales	5,120	44,061	9,813	440	59,434	(59,434)	-
Total	¥357,882	¥132,418	¥125,821	¥112,439	¥728,560	¥(50,580)	¥677,980
Segment profit (loss)	¥ 53,595	¥ 918	¥ 10,853	¥ 13,511	¥ 78,877	¥(24,117)	¥ 54,760
II. Assets, depreciation, and capital expenditures							
Assets	¥412,340	¥124,866	¥128,869	¥107,584	¥773,659	¥(15,535)	¥758,124
Depreciation and amortization	6,918	7,323	2,021	2,807	19,069	6,637	25,706
Capital expenditures	4,812	5,940	2,989	5,961	19,702	13,408	33,110

2019	IAB	EMC	SSB	HCB	Total	Eliminations and Others	Consolidated
	Millions of Yen						
I. Sales and segment profit (loss)							
1. Sales to external customers	¥391,826	¥103,123	¥100,564	¥115,493	¥711,006	¥ 21,575	¥732,581
2. Intersegment sales	6,426	51,115	10,021	172	67,734	(67,734)	-
Total	¥398,252	¥154,238	¥110,585	¥115,665	¥778,740	¥(46,159)	¥732,581
Segment profit (loss)	¥ 62,895	¥ 8,165	¥ 6,542	¥ 13,033	¥ 90,635	¥(23,381)	¥ 67,254
II. Assets, depreciation, and capital expenditures							
Assets	¥397,921	¥132,488	¥112,184	¥ 95,335	¥737,928	¥ 11,950	¥749,878
Depreciation and amortization	6,863	7,612	2,038	2,826	19,339	6,016	25,355
Capital expenditures	7,430	11,998	2,511	4,024	25,963	9,698	35,661

Annotations about the above segment information:

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

- Eliminations and Others include not allocated expenses and eliminations of intersegment transactions.

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

- In connection with the classification of the AEC as discontinued operations, the Companies have excluded amounts related to the AEC from each segment. In addition, amounts previously under the EMC and Eliminations and Others in the previous consolidated fiscal year have been reclassified for presentation herein. For more about discontinued operations, see Note 21. DISCONTINUED OPERATIONS.

- In 2021, based on the transfer of the Environmental Solutions Business to the SSB and the closure of the Backlights Business, management reclassified a portion of the Other to SSB and the rest to Eliminations and Others. Accordingly, the segment information figures as of March 31, 2020 and 2019 have been restated to conform with the current year categorization as presented for four segments (IAB, EMC, SSB, and HCB).

- Beginning with the current consolidated fiscal year, the OMRON Group has changed depreciation method related to property, plant, and equipment from the declining balance method to the straight-line method for the Company and our domestic consolidated subsidiaries. This change resulted in a decrease in operating expense compared to the prior fiscal year (total of ¥2,120 million, consisting of ¥427 million under the IAB, ¥418 million under the EMC, ¥370 million under the SSB, ¥311 million under the HCB, and ¥594 million under Eliminations and Corporate). Rather than allocate these amounts to each segment, we have posted the entire amount to Eliminations and Corporate.

A reconciliation between segment profit (loss) and income before income taxes and equity in loss (earnings) of affiliates for the years ended March 31, 2021, 2020 and 2019 is as follows:

	Millions of Yen		
	2021	2020	2019
Total amount of segment profit	¥ 88,021	¥ 78,877	¥ 90,635
Other expenses (income), net	(2,609)	2,924	1,342
Eliminations and Others	(25,541)	(24,117)	(23,381)
Income before income taxes and equity in loss (earnings) of affiliates	¥ 65,089	¥ 51,836	¥ 65,912

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, 2021, 2020 and 2019, was as follows:

	Millions of Yen						
	2021						
	Japan	Americas	Europe	Greater China	Southeast Asia and Others	Direct Exports	Consolidated
Sales to external customers	¥276,612	¥63,642	¥101,479	¥151,167	¥61,763	¥866	¥655,529
Property, plant, and equipment	66,104	5,222	3,581	31,366	6,755	-	113,028

	Millions of Yen						
	2020						
	Japan	Americas	Europe	Greater China	Southeast Asia and Others	Direct Exports	Consolidated
Sales to external customers	¥311,511	¥67,800	¥108,507	¥126,054	¥62,742	¥1,366	¥677,980
Property, plant, and equipment	70,508	5,117	3,451	28,598	6,852	-	114,526

	Millions of Yen						
	2019						
	Japan	Americas	Europe	Greater China	Southeast Asia and Others	Direct Exports	Consolidated
Sales to external customers	¥318,684	¥76,475	¥120,261	¥146,476	¥67,936	¥2,749	¥732,581
Property, plant, and equipment	66,311	4,373	4,747	31,972	7,680	-	115,083

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
  (2) Europe: Netherlands, Great Britain, Germany, France, Italy and Spain
  (3) Greater China: China, Hong Kong and Taiwan
  (4) Southeast Asia and Others: Singapore, South Korea, India and Australia
  (5) Direct Exports: Direct delivery exports

- 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, 2021, 2020 and 2019.

- For sales to external customers, there were no amounts specific to particular customers that require separate disclosure for the years ended March 31, 2021, 2020 and 2019.

23. BUSINESS COMBINATIONS

There were no significant acquisitions for the years ended March 31, 2021, 2020 and 2019.

24. SALES OF BUSINESSES

Omron Nohgata Co., Ltd.

On October 26, 2018, the Company reached an agreement to sell 80% of its shares in Omron Nohgata Co., Ltd., a wholly-owned subsidiary of the Company, be sold to Advantech Co., Ltd. Since the completion of the transfer was planned by the end of fiscal year ended March 31, 2019, the assets and the liabilities of Omron Nohgata Co., Ltd. were classified as held-for-sale assets and liabilities in the quarterly consolidated balance sheets for the quarter ended December 31, 2018. As a result of the completion of the transfer of shares on February 1, 2019, a gain on sale of the business of ¥370 million was included in other expenses, net in the consolidated statement of income for the year ended March 31, 2019. Omron Nohgata Co., Ltd. was included in the Other segment.

For Sales of businesses for the year ended March 31, 2020, see Note 21. DISCONTINUED OPERATIONS.

There were no significant sales of businesses for the year ended March 31, 2021.

25. SUBSEQUENT EVENTS

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

No significant subsequent events took place at June 25, 2021, 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, 2021 was available to be issued.

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