Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis for presentation

USHIO INC. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those in their respective countries of domicile.

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

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (collectively, the "Group") are prepared using the accounts of foreign consolidated subsidiaries prepared in accordance with any of the accounting principles generally accepted in Japan, IFRS or accounting principles generally accepted in the United States as adjusted for certain items.

For the purposes of these documents, certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan. In addition, certain reclassifications have been made to the prior year's consolidated financial statements to bring them into conformity with the current year's presentation.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (in both yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

(b) Principles of consolidation and accounting for investments in associates

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which it exerts substantial control either through majority ownership of voting shares and/or other means. As of March 31, 2017, the number of consolidated subsidiaries and associates accounted for using the equity method were 55 and 1 (57 and 2 in 2016), respectively.

The changes in the scope of consolidation for the year ended March 31, 2017 are as follows:

Due to new establishment, USHIO MEDICAL TECHNOLOGY (SUZHOU) CO., LTD. was included in the consolidation scope.

Due to acquisition of shares, Sunsorit Co., Ltd. was included in the consolidation scope.

Due to liquidation, NIHON DENSHI GIJUTSU CO., LTD. was excluded from the consolidation scope.

Due to merger, USHIO EPITEX INC., Arsenal Media Inc. and Necsel Modules Corporation were excluded from the consolidation scope.

The changes in the scope of equity method for the year ended March 31, 2017 are as follows:

Due to sale of all of its shares, Universal Cinema Services Co., Ltd. was excluded from the scope of the equity method.

The closing date of a consolidated subsidiary, USHIO (SUZHOU) CO., LTD., and 11 other consolidated subsidiaries (10 in 2016) is December 31. Their financial accounts are consolidated using their financial statements as of the parent's fiscal year-end, and are prepared solely for consolidation purposes. All significant intercompany balances and transactions have been eliminated in the consolidation.

Additionally, XTREME technologies GmbH, which closes its books on September 30, is consolidated by using its financial statements that are prepared solely for consolidation purposes as of December 31. Material differences in intercompany transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted through consolidation procedures.

Shares of associates (companies over which the Company exercises significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated profit includes the Company's equity in the current profits or losses of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries and associates are revalued on acquisition, if applicable. Goodwill is amortized in equal portions over the period in which it is deemed to be valuable.

(c) Foreign currency translation

Revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets excluding non-controlling interests, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding non-controlling interests are translated at their historical exchange rates. The differences arising from translation when more than two exchange rates have been used are presented as foreign currency translation adjustment on the accompanying consolidated balance sheet.

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the current exchange rates in effect at each balance sheet date. Gains or losses resulting from the settlement of these items are credited or charged to income.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities and investment securities

Trading securities are carried at fair value, and held-to-maturity securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with any valuation difference, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. The cost of securities sold is determined by the moving-average method. In cases where available-for-sale securities have declined significantly in value and such devaluation is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

(f) Inventories

Merchandise and finished goods, and work in process are stated principally at the lower of cost or market, cost being determined by the average method for the Company and its domestic consolidated subsidiaries and at the lower of cost or market, cost being determined by the first-in, first-out method for overseas consolidated subsidiaries.

Raw materials are principally stated at the lower of cost or market, cost being determined by the moving-average method for the Company and its domestic consolidated subsidiaries and at the lower of cost or market, cost being determined by the first-in, first-out method for overseas consolidated subsidiaries.

(g) Depreciation (excluding leased assets)

Depreciation of property, plant and equipment is calculated principally by the straight-line method based on the estimated useful lives of the respective assets.

The depreciation period ranges from 2 years to 60 years for buildings and structures and 3 years to 12 years for machinery and equipment, and vehicles. The others are generally depreciated from 2 years to 15 years.

Intangible assets are amortized by the straight-line method.
In addition, an estimated useful period for amortization for software for internal use is 5 years.

(h) Leased assets

Leased assets related to finance lease transactions that transfer ownership mainly consist of software of the Company's consolidated subsidiaries and are depreciated by the same approach as the depreciation method applied to non-current assets.

Leased assets related to finance lease transactions that do not transfer ownership mainly consist of production facilities (machinery) and inspection instruments (tools and equipment) of the Company's consolidated subsidiaries and are depreciated by the straight-line method over the lease period that is deemed as the useful life, assuming no residual value.

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables, and has been determined based on historical experience with write-offs plus an estimated amount for probable specific doubtful accounts after a review of the collectability of individual receivables.

(k) Provision for bonuses

The provision for bonuses represents the amounts for future payments of employees' bonuses. The provision is recognized in the amount that is expected to be paid.

(l) Provision for directors' retirement benefits

Some of the consolidated subsidiaries recognize provision for retirement benefits for directors, corporate auditors and others in the full amount that would have to be paid if all the directors and corporate auditors resigned at the balance sheet date based on their internal regulations.

(m) Provision for directors' stock payment

Provision for directors' stock payment represents the amounts for future payments of the Company's stock to directors. The provision is recognized based on the amount that is expected to be paid, which is determined using points allocated to each director as prescribed in the share granting rules.

(n) Provision for product warranties

Provision for product warranties is recognized for expenses for after-sales service and free repairs for products sold by the Company and its consolidated subsidiaries in the estimated amount to be incurred in the future.

(o) Provision for loss on orders received

To provide for future losses on contracted orders received, the Company recognizes a provision for loss on orders received equal to the amount of losses it anticipates after the year-end. Such a provision is recognized when losses on orders received are probable and reasonably estimated.

(p) Retirement benefits

(i) Method for attribution of estimated retirement benefits to periods

In the calculation of retirement benefit obligations, the expected retirement benefits are attributed to the period up to the end of the current fiscal year based on the straight-line method.

(ii) Accounting method for actuarial gains or losses and past service costs

Past service costs are amortized as incurred by the straight-line method over a certain period (15 years) that is within the average remaining years of service of the eligible employees when the gains or losses occur.

Actuarial gains or losses are amortized in the year following the year in which the gains or losses are recognized by the straight-line method over a certain period (15 years) that is within the average remaining years of service of the eligible employees when the gains or losses occur.

(q) Derivatives and hedge accounting

The Company and certain consolidated subsidiaries have entered into currency derivative transactions and interest rate swap transactions primarily in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates.

In accordance with the accounting standard for financial instruments, derivative financial instruments are carried at fair value with any changes in unrealized gains or losses charged or credited to income, except for those that meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as assets or liabilities. Certain domestic consolidated subsidiaries apply the assignment for the currency derivative transactions that qualify for the method to the hedges of foreign currency risk that is qualified for the treatment.

Hedging instruments and hedged items used by the Company and certain consolidated subsidiaries are as follows:

Hedging instruments:	Forward foreign exchange contracts and interest rate swaps
Hedged items:	Receivables and payables denominated in foreign currencies, forecasted transactions denominated in foreign currencies, securities denominated in foreign currencies and loans payable

The Company and its consolidated subsidiaries hedge the risks of fluctuation in foreign currencies and interest rates in accordance with internal management rules on financial market risk and derivative transactions.

The hedge effectiveness is assessed by comparing the cumulative changes in fair value or cash flows of the hedged items and those of the hedging instruments during the period from the inception of the hedge to the time of determining the effectiveness, and based on the respective amount of changes.

(r) Deferred income taxes

Deferred tax assets and liabilities are recognized in the consolidated financial statements with respect to the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(s) Accounting standards issued but not yet applied

Revenue from Contracts with Customers (Accounting Standard Update (“ASU”) No. 2014-09, issued on May 28, 2014)

(1) Overview

ASU No. 2014-09 provides a comprehensive standard for revenue recognition which replaces the existing revenue recognition guidance under U.S. generally accepted accounting principles (GAAP) issued by the Financial Accounting Standard Board (FASB). The core principle of this standard is that an entity should recognize revenue when the entity transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard will have an impact on certain overseas consolidated subsidiaries that adopt U.S. GAAP.

(2) Date of application

ASU 2014-09 will be applied for fiscal years beginning on or after April 1, 2019.

(3) Impact of application

The impact of this standard on the consolidated financial statements is currently being evaluated.

(t) Additional information

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the year ended March 31, 2017, the Group adopted Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (hereinafter, "ASBJ") Guidance No. 26, revised on March 28, 2016).

Stock Remuneration Plan for Directors

The Company has introduced a stock remuneration plan for directors of the Company (excluding outside directors) and executive officers who have entered into an engagement agreement with the Company (excluding overseas residents, hereinafter "Directors, etc."), in order to raise the incentive to contribute to improving the Company's medium- to long-term business performance and to increasing enterprise value.

(1) Overview

The Company entrusts money equivalent to remuneration of Directors, etc. The Company's shares will be acquired using the entrusted money and the Company's shares and the cash equivalent of the conversion value of the Company's shares will be delivered and paid to Directors, etc., based on his or her position and the degree of accomplishment of business performance. Directors, etc., are eligible to receive the Company's shares and the cash equivalent of the conversion value of the Company's shares, in principle after retiring from the position of Director, etc. In order to maintain neutrality toward management of the Company, the voting rights of the Company's shares in the trust may not be exercised during the trust period.

(2) The Company's shares in the trust

The Company's shares in the trust were recorded as treasury shares in shareholders' equity on the consolidated balance sheets with the carrying value in the trust (excluding ancillary expenses). The carrying value and number of treasury shares in the trust were ¥495 million ($4,414 thousand) and 299,100 shares as of March 31, 2017 and ¥507 million and 306,600 shares as of March 31, 2016, respectively.

Accounting Treatment of Retirement Benefits

Following the enforcement of the Defined-Benefit Corporate Pension Act, the Company received an approval from the Minister of Health, Labour and Welfare for the waiver of future payment obligations on April 1, 2016 for the substitutional portion of the USHIO INC. welfare pension fund, of which the Company is the member. In relation to the return of the substitutional portion of the welfare pension fund, the estimated amount to be returned (the minimum policy reserve) as of March 31, 2017 is ¥7,981 million ($71,145 thousand) and the estimated amount of income to be recognized by applying Section 46 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25) is ¥5,904 million ($52,628 thousand), assuming payment of the amount to be returned (the minimum policy reserve) was made on March 31, 2017.

2. U.S. Dollar Amounts

For the readers' convenience, the accompanying consolidated financial statements with respect to the year ended March 31, 2017 have been presented in U.S. dollars by translating all yen amounts at ¥112.19 = U.S.$1.00, the exchange rate prevailing on March 31, 2017. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

3. Short-Term Loans Payable and Long-Term Loans Payable

Short-term loans payable consisted mainly of unsecured and secured loans payable to banks at interest rates ranging from 0.30% to 12.00% and from 0.35% to 12.00% per annum at March 31, 2017 and 2016, respectively.

Long-term loans payable at March 31, 2017 and 2016 consisted of the following:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
The Company:			
Loans from banks, due through 2019 at a rate of 0.45%	**¥ 2,325**	¥ 2,325	**$ 20,723**
Consolidated subsidiaries:			
Loans from banks, due through 2021 at rates ranging from 0.56% to 3.40%	**19,683**	7,139	**175,451**
Total long-term loans payable	**22,008**	9,464	**196,175**
Less: Current portion	**(4,701)**	(3,066)	**(41,905)**
	¥17,307	¥ 6,397	**$154,269**

The assets pledged as collateral for loans payable as of March 31, 2017 were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash and deposits	¥ 8	$ 74
Notes and accounts receivable – trade	131	1,170
	¥139	$1,244

The related loans payable for which the above assets were pledged as collateral as of March 31, 2017 is summarized as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Short-term loans payable	¥400	$3,565
	¥400	$3,565

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2017 are summarized as follows:

Years ending March 31	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2018	¥ 4,701	$ 41,905
2019	1,121	10,000
2020	8,652	77,119
2021	2,243	20,000
2022 and thereafter	5,289	47,150
Total	¥22,008	$196,175

4. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation taxes, inhabitants' taxes and enterprise taxes, which resulted in an aggregate statutory tax rate of approximately 30.9% for the year ended March 31, 2017 (fiscal year ended March 31, 2016: 33.1%). Income taxes of the overseas consolidated subsidiaries are based, in general, on the tax rates applicable in their respective countries of incorporation.

The significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are summarized as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 273**	¥ 271	**$ 2,434**
Provision for bonuses	**594**	637	**5,300**
Provision for product warranties	**182**	155	**1,628**
Net defined benefit liability	**4,583**	6,267	**40,852**
Provision and accrual for directors' retirement benefits	**349**	368	**3,115**
Loss on valuation of inventories	**1,410**	1,455	**12,573**
Impairment loss	**1,087**	1,339	**9,695**
Loss on liquidation of business	**3,526**	3,526	**31,436**
Net losses carried forward	**4,497**	5,023	**40,085**
Deferred revenue	**2,073**	2,335	**18,484**
Other	**1,746**	2,575	**15,570**
Total gross deferred tax assets	**20,326**	23,957	**181,176**
Valuation allowance	**(5,644)**	(6,312)	**(50,308)**
Total deferred tax assets	**14,682**	17,645	**130,867**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(13,468)**	(13,751)	**(120,046)**
Gain on contribution of securities to retirement benefit trust	**(577)**	(577)	**(5,144)**
Depreciation	**(962)**	(1,051)	**(8,578)**
Retained earnings of subsidiaries and associates	**(86)**	(178)	**(767)**
Other	**(317)**	(409)	**(2,830)**
Total deferred tax liabilities	**(15,411)**	(15,967)	**(137,367)**
Net deferred tax assets (liabilities)	**¥ 729**	¥ 1,677	**$ 6,499**

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of profit before income taxes for the years ended March 31, 2017 and 2016 is summarized as follows:

	2017	2016
Statutory tax rate	**30.9%**	33.1%
Reconciliation:		
Increase (decrease) in valuation allowance for deferred tax assets	**17.0**	3.4
Non-taxable income for income tax purposes	**(1.3)**	(2.0)
Non-deductible expenses for income tax purposes	**1.0**	1.6
Tax deductions related to R&D activities	**(3.1)**	(3.3)
Different tax rates applied to overseas subsidiaries	**(6.4)**	(9.1)
Amortization of goodwill	**3.1**	0.1
Share of loss of entities accounted for using equity method	**0.0**	0.0
Retained earnings of subsidiaries and associates	**1.2**	0.7
Decrease of deferred tax assets at fiscal year-end by the change of tax rate	**–**	2.4
Other	**(1.5)**	(0.5)
Effective tax rates	**40.8%**	26.3%

5. Loss on Valuation of Inventories

The ending inventory balance is the amount after write-down of book value due to decline in profitability, and the loss on valuation of inventories included in cost of sales for the years ended March 31, 2017 and 2016 was as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loss on valuation of inventories	**¥535**	¥883	**$4,773**

6. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Salaries and wages	**¥14,190**	¥14,968	**$126,481**
Provision for bonuses	**818**	968	**7,296**
Retirement benefit expenses	**841**	967	**7,501**
Provision for directors' retirement benefits	**48**	72	**429**
Provision for directors' stock payment	**32**	102	**293**
Research and development expenses	**9,812**	11,228	**87,461**
Provision of allowance for doubtful accounts	**17**	352	**155**

7. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Research and development expenses	**¥9,812**	¥11,228	**$87,461**

8. Impairment Loss

For the year ended March 31, 2017, the Group recognized impairment loss on the following asset groups:

Location	Classification by use	Type of assets	*(Millions of yen)*	*(Thousands of U.S. dollars)*
Gotemba, Shizuoka	Business assets	Machinery, equipment and other and Intangible assets	**¥85**	**$760**
Chiyoda-ku, Tokyo	Business assets	Machinery, equipment and other and Goodwill	**77**	**690**
Takasago, Hyogo	Business assets	Buildings and structures	**55**	**496**

In principle, the Group's business assets are grouped according to division or to whom assets are lent, and the Group's idle assets are grouped on an individual asset basis.

For idle assets that are not used for business, the book values of the group assets whose fair values fall significantly are written down to their recoverable amounts or zero, and these write-downs are recorded as impairment loss under other expenses.

Business assets whose carrying amount may not be recoverable are written down to their recoverable amounts, and these write-downs are recognized as impairment loss under other expenses.

Breakdown of impairment loss by location is as follows:

Impairment loss of ¥85 million ($760 thousand) recognized for Gotemba, Shizuoka includes ¥23 million ($213 thousand) for Machinery, equipment and other and ¥61 million ($546 thousand) for intangible assets.

Impairment loss of ¥77 million ($690 thousand) recognized for Chiyoda-ku, Tokyo includes ¥31 million ($283 thousand) for machinery, equipment and other, and ¥45 million ($407 thousand) for goodwill.

Impairment loss of ¥55 million ($496 thousand) recognized for Takasago, Hyogo is for buildings and structures.

For the year ended March 31, 2016, the Group recognized impairment loss on the following asset groups:

Location	Classification by use	Type of assets	*(Millions of yen)*
Gotemba, Shizuoka Aoba-ku, Yokohama, Kanagawa and others	Business assets	Buildings and structures, Machinery, equipment and other, Intangible assets and other	¥222

In principle, the Group’s business assets are grouped according to division or to whom assets are lent, and the Group’s idle assets are grouped on an individual asset basis.

For idle assets that are not used for business, the book values of the group assets whose fair values fall significantly are written down to their recoverable amounts or zero, and these write-downs are recorded as impairment loss under other expenses.

Breakdown of impairment loss by location is as follows:

Impairment loss of ¥222 million recognized for Gotemba, Shizuoka and others includes ¥22 million for buildings and structures, ¥50 million for machinery, equipment and other, ¥124 million for other and ¥24 million for intangible assets.

9. Office Transfer Expenses

Office transfer expenses of ¥136 million ($1,216 thousand) and ¥482 million were recorded for the years ended March 31, 2017 and 2016, respectively, due to relocation of Ushio Opto Semiconductors, Inc. to Gotemba. In addition, office transfer expenses of ¥61 million were recorded for the year ended March 31, 2016 due to relocation of the head office of the Company.

10. Business Structure Improvement Expenses

Business structure improvement expenses were incurred in implementing the business structure improvement to maintain and improve the profitability of the Company’s businesses. In this connection, the Company recorded additional retirement expenses due to the special early retirement schemes in the amount of ¥1,479 million ($13,190 thousand) and expenses for personnel downsizing, etc. due to the restructuring of CHRISTIE Group in the amount of ¥609 million ($5,434 thousand) for the year ended March 31, 2017. No business structure improvement expenses were recorded for the year ended March 31, 2016.

11. Leases

Future minimum lease payments under operating leases, which are lease transactions other than finance leases for the year ended March 31, 2017, are summarized as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Due within one year	**¥1,265**	$11,280
Due after one year	**2,504**	22,323
Total	**¥3,770**	$33,604

12. Financial Instruments

(1) The Group's policy to manage financial instruments

a. Basic policy on treating financial instruments

The Group invests floating money and funds reserved for future business expansion mainly in highly safe financial assets, according to the Group's cash management plan. Financing instruments are determined based upon the use of funds and financing environment. The Group utilizes derivative transactions only to avoid foreign exchange rate fluctuation risk and interest rate fluctuation risk, and does not use them for trading or speculative purposes.

b. The nature and risk of financial instruments

Notes and accounts receivable – trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies are also exposed to foreign exchange risk which is hedged by using forward foreign exchange contracts.

Securities and investment securities consist mainly of equity securities issued by companies with a business relationship and marketable equity or bond securities held for the purpose of short-term investment of floating money and reserved funds. Investments in money held in trust is also held for the purpose of investment of reserved funds. These investments are exposed to market risk. A part of securities, investment securities, and investments in money held in trust are denominated in foreign currency, and they are exposed to foreign exchange risk; however, such risk is hedged by using forward foreign exchange contracts.

Notes and accounts payable – trade, which are operating payables, are mostly due within one year. Some of them are denominated in foreign currencies and exposed to foreign exchange risk; however, such risk is hedged by using forward foreign exchange contracts.

Short-term and long-term loans payable, which are made to obtain working capital, are mostly due within three years after the end of the current fiscal year. Floating-rate loans payable are exposed to interest rate risk. Certain long-term floating-rate loans payable are hedged by using interest rate swaps.

As for derivative transactions, forward foreign exchange contracts and currency swaps are entered into for the purpose of hedging foreign exchange risk deriving from operating receivables and payables denominated in foreign currencies, loans payable denominated in foreign currencies and securities denominated in foreign currencies. In addition, interest rate swaps are entered into for the purpose of hedging interest rate fluctuation risk deriving from interest payments for loans payable.

c. Risk management structure regarding financial instruments

Credit risk — The Company and its consolidated subsidiaries manage the customer credit risk for operating receivables in accordance with the internal regulations for credit exposure management as follows: the creditability of each customer is reviewed by monitoring the status of each customer on a daily and continuous basis; the due dates and balances are managed for each customer; and the credit line is periodically examined and reviewed.

The credit risk associated with bond securities is immaterial since the Group invests in bond securities with high credit ratings.

Derivative transactions are entered into only with highly rated financial institutions in order to mitigate counterparty risk.

As of the fiscal year-end, the maximum credit risk amount is presented as the consolidated balance sheet amounts of financial assets that are exposed to credit risk.

Market risk — The Company and some consolidated subsidiaries utilize forward foreign exchange contracts and currency swaps for foreign exchange risk identified by currency and by month in relation to operating receivables and payables denominated in foreign currencies, loans payable denominated in foreign currencies and securities denominated in foreign currencies in accordance with the internal rules for market risk management.

For securities and investment securities, market prices and the financial position of the issuers are periodically monitored and reported to directors in charge in accordance with the internal rules for market risk management. In addition, the holding status of shares issued by companies with business relationships is continuously reviewed in consideration of the relationships with those companies.

Derivative transactions are reported to directors in charge on a daily basis as well as to the Board of Directors in accordance with the internal rules for derivative transactions that define the authorization policy and limits of transactions. Consolidated subsidiaries have the internal rule equivalent to the rule of the Company,

Liquidity risk — Liquidity risk of the Company and its consolidated subsidiaries is managed by the Finance and Treasury Departments, preparing and updating the cash management plan based upon reports from each department as well as by maintaining certain liquidity.

(2) Fair value of financial instruments

The table below presents the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2017 and 2016, as well as their differences. Financial instruments whose fair values cannot be reliably determined are not included.

(Millions of yen)

As of March 31, 2017	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	**¥ 63,963**	**¥ 63,963**	**¥ –**
(2) Notes and accounts receivable – trade	**42,349**		
Allowance for doubtful accounts (*1)	**(1,085)**		
	41,264	**41,264**	**–**
(3) Securities and investment securities			
Trading securities	**2,587**	**2,587**	**–**
Available-for-sale securities	**71,142**	**71,142**	**–**
(4) Investments in money held in trust	**2,322**	**2,322**	**–**
Assets, total	**¥181,280**	**¥181,280**	**¥ –**
(1) Notes and accounts payable – trade	**¥ 16,859**	**¥ 16,859**	**¥ –**
(2) Short-term loans payable	**5,763**	**5,763**	**–**
(3) Current portion of long-term loans payable	**4,701**	**4,769**	**68**
(4) Long-term loans payable	**17,307**	**17,942**	**634**
Liabilities, total	**¥ 44,632**	**¥ 45,335**	**¥703**
Derivative transactions (*2)			
for which hedge accounting is not applied	**¥ (4)**	**¥ (4)**	**¥ –**
for which hedge accounting is applied	**(26)**	**(26)**	**–**

(*1): The deducted amount includes general and specific allowance for doubtful accounts relating to notes and accounts receivable – trade.

(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parentheses indicate net liabilities.

(Millions of yen)

As of March 31, 2016	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	¥ 54,595	¥ 54,595	¥ –
(2) Notes and accounts receivable – trade	38,424		
Allowance for doubtful accounts (*1)	(1,061)		
	37,362	37,362	–
(3) Securities and investment securities			
Trading securities	3,270	3,270	–
Available-for-sale securities	67,899	67,899	–
(4) Investments in money held in trust	2,023	2,023	–
Assets, total	¥165,150	¥165,150	¥ –
(1) Notes and accounts payable – trade	¥ 17,797	¥ 17,797	¥ –
(2) Short-term loans payable	5,049	5,049	–
(3) Current portion of long-term loans payable	3,066	3,080	13
(4) Long-term loans payable	6,397	6,413	15
Liabilities, total	¥ 32,311	¥ 32,341	¥29
Derivative transactions (*2)			
for which hedge accounting is not applied	¥ (28)	¥ (28)	¥ –
for which hedge accounting is applied	–	–	–

(*1): The deducted amount includes general and specific allowance for doubtful accounts relating to notes and accounts receivable – trade.

(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parentheses indicate net liabilities.

(Thousands of U.S. dollars)

As of March 31, 2017	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	**$ 570,133**	**$ 570,133**	**$ –**
(2) Notes and accounts receivable – trade	**377,482**		
Allowance for doubtful accounts (*1)	**(9,673)**		
	367,809	**367,809**	**–**
(3) Securities and investment securities			
Trading securities	**23,066**	**23,066**	**–**
Available-for-sale securities	**634,125**	**634,125**	**–**
(4) Investments in money held in trust	**20,699**	**20,699**	**–**
Assets, total	**$1,615,833**	**$1,615,833**	**$ –**
(1) Notes and accounts payable – trade	**$ 150,276**	**$ 150,276**	**$ –**
(2) Short-term loans payable	**51,374**	**51,374**	**–**
(3) Current portion of long-term loans payable	**41,905**	**42,513**	**607**
(4) Long-term loans payable	**154,269**	**159,929**	**5,659**
Liabilities, total	**$ 397,826**	**$ 404,093**	**$6,267**
Derivative transactions (*2)			
for which hedge accounting is not applied	**$ (42)**	**$ (42)**	**$ –**
for which hedge accounting is applied	**(236)**	**(236)**	**–**

(*1): The deducted amount includes general and specific allowance for doubtful accounts relating to notes and accounts receivable – trade.

(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parentheses indicate net liabilities.

The method of fair value measurement is described as follows:

Assets

(1) Cash and deposits and (2) Notes and accounts receivable – trade

The fair value of these accounts approximates their book value because they are settled in a short period of time. Thus, the book value is presented as their fair value.

(3) Securities and investment securities

The fair value of equity securities is based on market prices at the stock exchange, and that of bond securities is obtained from financial institutions.

(4) Investments in money held in trust

The fair value is based upon the price obtained from financial institutions.

Liabilities

(1) Notes and accounts payable – trade and (2) Short-term loans payable

The fair value of these accounts approximates their book value because they are settled in a short period of time. Thus, the book value is presented as their fair value.

(3) Current portion of long-term loans payable and (4) Long-term loans payable

The fair value of long-term loans payable is measured by discounting the total of principal and interest at an assumed rate for similar new borrowings.

Derivative transactions

The fair value is measured based upon the prices obtained from financial institutions.

As of March 31, 2017 and 2016, the consolidated balance sheet includes the following financial instruments whose fair values cannot be reliably determined:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unlisted shares and investments in business partnerships with limited liability	**¥2,536**	¥2,469	**$22,606**

(3) Redemption schedule

The redemption schedule for securities with maturity dates classified as available-for-sale securities as of March 31, 2017 and 2016 is summarized as follows:

	As of March 31, 2017							
	Due within one year	**Due after one year and up to five years**	**Due after five years and up to ten years**	**Due after ten years**	**Due within one year**	**Due after one year and up to five years**	**Due after five years and up to ten years**	**Due after ten years**
	(Millions of yen)				*(Thousands of U.S. dollars)*			
Notes and accounts receivable – trade	**¥41,788**	**¥ 560**	**¥ –**	**¥ –**	**$372,483**	**$ 4,999**	**$ –**	**$ –**
Bonds:								
Corporate bonds	**4,949**	**5,373**	**448**	**7,180**	**44,112**	**47,894**	**4,000**	**64,000**
Total	**¥46,737**	**¥5,934**	**¥448**	**¥7,180**	**$416,596**	**$52,893**	**$4,000**	**$64,000**

	As of March 31, 2016		
	Due within one year	Due after one year and up to five years	Due after five years and up to ten years
	(Millions of yen)		
Notes and accounts receivable – trade	¥37,211	¥ 1,212	¥–
Bonds:			
Corporate bonds	3,313	9,061	–
Total	¥40,525	¥10,273	¥–

Cash and deposits are due within one year. The redemption schedule for long-term loans payable is stated in Note 3.

13. Securities and Investment Securities

(1) Trading securities

Trading securities as of March 31, 2017 and 2016 are summarized as follows:

As of March 31, 2017			
Carrying value	**Gain**	**Carrying value**	**Gain**
(Millions of yen)		*(Thousands of U.S. dollars)*	
¥2,587	**¥156**	**$23,066**	**$1,391**

As of March 31, 2016	
Carrying value	Loss
(Millions of yen)	
¥3,270	¥168

(2) Marketable available-for-sale securities

Marketable available-for-sale securities as of March 31, 2017 and 2016 are summarized as follows:

	As of March 31, 2017					
	Carrying value	**Acquisition cost**	**Unrealized gain (loss)**	**Carrying value**	**Acquisition cost**	**Unrealized gain (loss)**
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Securities whose carrying value exceeds their acquisition costs:						
(1) Shares	**¥51,411**	**¥ 7,522**	**¥43,889**	**$458,257**	**$ 67,051**	**$391,206**
(2) Bonds:						
Corporate bonds	**5,266**	**5,203**	**62**	**46,939**	**46,382**	**556**
(3) Other	**1,383**	**1,019**	**364**	**12,334**	**9,084**	**3,249**
Subtotal	**58,061**	**13,745**	**44,316**	**517,531**	**122,518**	**395,013**
Securities whose carrying value does not exceed their acquisition costs:						
(1) Shares	**345**	**400**	**(54)**	**3,078**	**3,567**	**(489)**
(2) Bonds:						
Corporate bonds	**12,520**	**12,900**	**(380)**	**111,597**	**114,985**	**(3,388)**
(3) Other	**215**	**223**	**(7)**	**1,917**	**1,988**	**(70)**
Subtotal	**13,080**	**13,523**	**(442)**	**116,593**	**120,541**	**(3,947)**
Total	**¥71,142**	**¥27,268**	**¥43,873**	**$634,125**	**$243,059**	**$391,065**

	As of March 31, 2016		
	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition costs:			
(1) Shares	¥52,770	¥8,329	¥44,441
(2) Bonds:			
Corporate bonds	3,388	3,333	54
(3) Other	659	401	257
Subtotal	56,818	12,064	44,753
Securities whose carrying value does not exceed their acquisition costs:			
(1) Shares	449	506	(57)
(2) Bonds:			
Corporate bonds	9,064	9,335	(271)
(3) Other	1,567	1,596	(29)
Subtotal	11,080	11,438	(358)
Total	¥67,899	¥23,503	¥44,395

(3) Available-for-sale securities sold

Available-for-sale securities sold during the years ended March 31, 2017 and 2016 are summarized as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Sales of securities			
(1) Shares	**¥4,491**	¥ 445	**$40,033**
(2) Bonds	**113**	–	**1,013**
(3) Other	**698**	5,899	**6,229**
Aggregate gains on sales			
(1) Shares	**2,627**	283	**23,418**
(2) Bonds	**4**	–	**39**
(3) Other	**137**	–	**1,226**
Aggregate losses on sales			
(1) Shares	–	30	–
(2) Bonds	–	–	–
(3) Other	**7**	–	**68**

(4) Impairment loss recognized on securities

Impairment losses amounted to ¥10 million ($90 thousand) and are recognized in shares classified as available-for-sale securities for the year ended March 31, 2017. No impairment loss was recognized for the year ended March 31, 2016. Impairment loss is recognized when the average market value for the month ended on the balance sheet date falls to less than half of the carrying amounts at the end of the fiscal year. Except in cases in which the market value is recoverable, losses are also recorded when the decline in value is between 30% and 50% of the carrying amounts considering the recoverability.

14. Derivative Transactions

The notional amounts and the estimated fair value of the derivative positions outstanding at March 31, 2017 and 2016 are summarized below.

(1) Derivative transactions for which hedge accounting is not applied

Currency-related transactions:

	As of March 31, 2017			
	Notional amounts	**Maturing after one year**	**Estimated fair value**	**Unrealized gain (loss)**
	(Millions of yen)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
EUR	**¥ 463**	**¥ 309**	**¥ 19**	**¥ 19**
Buy:				
USD	**387**	–	**(1)**	**(1)**
JPY	**774**	–	**(23)**	**(23)**
Currency swaps:				
Receive JPY/ Pay USD	**3,070**	**3,070**	**300**	**300**
Total	**¥4,697**	**¥3,380**	**¥295**	**¥295**

	As of March 31, 2017			
	Notional amounts	**Maturing after one year**	**Estimated fair value**	**Unrealized gain (loss)**
	(Thousands of U.S. dollars)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
EUR	**$ 4,131**	**$ 2,760**	**$ 174**	**$ 174**
Buy:				
USD	**3,458**	**–**	**(11)**	**(11)**
JPY	**6,905**	–	**(205)**	**(205)**
Currency swaps:				
Receive JPY/ Pay USD	**27,372**	**27,372**	**2,680**	**2,680**
Total	**$41,867**	**$30,132**	**$2,638**	**$2,638**

	As of March 31, 2016			
	Notional amounts	Maturing after one year	Estimated fair value	Unrealized loss
	(Millions of yen)			
Bilateral transactions:				
Forward foreign exchange contracts:				
Sell:				
EUR	¥ 465	¥311	¥(12)	¥(12)
Buy:				
USD	160	–	(3)	(3)
JPY	883	–	(12)	(12)
Total	¥1,509	¥311	¥(28)	¥(28)

(2) Derivative transactions for which hedge accounting is applied

Interest-rate-related transactions:

	As of March 31, 2017						
	Hedged item	**Notional amounts**	**Maturing after one year**	**Estimated fair value**	**Notional amounts**	**Maturing after one year**	**Estimated fair value**
		(Millions of yen)			*(Thousands of U.S. dollars)*		
Derivative transactions for which deferral accounting is applied:							
Interest rate swaps:							
Receive floating/ Pay fixed	**Long-term loans payable**	**¥3,450**	**¥3,450**	**¥(26)**	**$30,751**	**$30,751**	**$(236)**
Total		**¥3,450**	**¥3,450**	**¥(26)**	**$30,751**	**$30,751**	**$(236)**

There were no interest-rate-related transactions outstanding as of March 31, 2016.

15. Retirement Benefit Plans

(1) Overview of retirement benefit plan adopted by the Company

To prepare for the payment of employees' retirement benefits, the Company and its consolidated subsidiaries adopted funded and unfunded defined benefit plans as well as a defined contribution plan.

Under the defined benefit corporate pension plans, all of which are funded, the Company provides lump-sum or pension benefits based on salaries and length of service. In addition, retirement benefit trusts are set up for said corporate pension plans of the Company.

Under the lump-sum retirement benefit plans, which are principally unfunded and partially funded as a result of the setup of retirement benefit trusts, the Company provides lump-sum benefits based on salaries and length of service.

Under the defined benefit corporate pension plans and the lump-sum retirement benefit plans for certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by the simplified method.

The Company received an approval from the Minister of Health, Labour and Welfare on April 1, 2016 for the waiver of future payment obligations for the substitutional portion of the welfare pension fund and has made an advance payment of the minimum policy reserve of ¥8,000 million ($ 71,307 thousand).

Although certain domestic consolidated subsidiaries had participated in the Kanto IT Software Pension Fund, a welfare pension fund system of multi-employer plans, the fund dissolved on July 1, 2016, after obtaining approval from the Minister of Health, Labour and Welfare. Additional contribution to the fund due to its dissolution is not expected.

(2) Defined benefit plan

a. Reconciliation between retirement benefit obligations at beginning of period and end of period

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at beginning of period	**¥40,760**	¥32,895	**$363,320**
Current service costs	**1,102**	1,810	**9,824**
Interest costs	**301**	520	**2,689**
Actuarial gains and losses arising during period	**(1,697)**	6,193	**(15,133)**
Retirement benefits paid	**(694)**	(588)	**(6,192)**
Past service costs	**(2,075)**	–	**(18,495)**
Other	**12**	0	**108**
Effect of exchange rate changes	**(8)**	(69)	**(72)**
Retirement benefit obligation at end of period	**¥37,701**	¥40,760	**$336,048**

b. Reconciliation between plan assets at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets at beginning of period	**¥26,350**	¥24,196	**$234,870**
Expected return on plan assets	**473**	543	**4,218**
Actuarial gains and losses arising during period	**(274)**	(1,031)	**(2,446)**
Contributions from employer	**2,285**	3,242	**20,375**
Retirement benefits paid	**(508)**	(544)	**(4,530)**
Effect of exchange rate changes	**(15)**	(55)	**(142)**
Plan assets at end of period	**¥28,310**	¥26,350	**$252,344**

c. Reconciliation between net defined benefit liabilities for plans to which simplified method is applied at beginning of period and end of period

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Net defined benefit liability at beginning of period	**¥512**	¥452	**$4,567**
Retirement benefit expenses	**126**	155	**1,131**
Retirement benefits paid	**(55)**	(82)	**(492)**
Contribution to plans	**(19)**	(10)	**(171)**
Other	**(22)**	2	**(197)**
Effect of exchange rate changes	**(3)**	(5)	**31**
Net defined benefit liability at end of period	**¥539**	¥512	**$4,807**

d. Reconciliation between retirement benefit obligation and plan assets at end of period and defined benefit liability and defined benefit asset for retirement recognized on the consolidated balance sheet

	As of March 31, 2017	As of March 31, 2016	**As of March 31, 2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation for funded plans	**¥ 37,701**	¥ 40,760	**$ 336,048**
Plan assets	**(28,310)**	(26,350)	**(252,344)**
	9,390	14,410	**83,704**
Retirement benefit obligation for unfunded plans	**539**	512	**4,807**
Net balance of liability and asset recognized on the consolidated balance sheet	**9,930**	14,923	**88,511**
Net defined benefit liability	**9,930**	14,923	**88,511**
Net balance of liability and asset recognized on the consolidated balance sheet	**¥ 9,930**	¥ 14,923	**$ 88,511**

e. Retirement benefit expenses and their breakdown

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current service costs	**¥1,102**	¥1,810	**$ 9,824**
Interest costs	**301**	520	**2,689**
Expected return on plan assets	**(473)**	(543)	**(4,218)**
Amortization of actuarial gains and losses	**1,401**	942	**12,495**
Amortization of past service costs	**(157)**	(41)	**(1,404)**
Employees' contribution	**(14)**	(220)	**(129)**
Other	**(137)**	(132)	**(1,225)**
Retirement benefit expenses applying simplified method	**126**	155	**1,131**
Retirement benefit expenses under defined benefit plans	**¥2,149**	¥2,490	**$19,163**

f. Remeasurements of defined benefit plans

The breakdown of the amount recognized in remeasurements of defined benefit plans (before tax) in the consolidated statement of comprehensive income is as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Past service costs	**¥(1,917)**	¥ 41	**$(17,091)**
Actuarial gains and losses	**(2,825)**	6,283	**(25,188)**
Total	**¥(4,743)**	¥6,324	**$(42,279)**

g. Accumulated remeasurements of defined benefit plans

The breakdown of the amount recognized in accumulated remeasurements of defined benefit plans (before tax) on the consolidated balance sheet is as follows:

	As of March 31, 2017	As of March 31, 2016	**As of March 31, 2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrecognized past service costs	**¥ (2,058)**	¥ (140)	**$ (18,343)**
Unrecognized actuarial gains and losses	**11,451**	14,276	**102,068**
Total	**¥ 9,393**	¥14,136	**$ 83,724**

h. Plan assets

(i) Breakdown of plan assets

Percentage of each main category to total plan assets is as follows:

	As of March 31, 2017	As of March 31, 2016
Bonds	**24%**	22%
Securities	**14**	23
Cash and deposits	**7**	33
Alternative investments (Note 1)	**17**	18
Advance payment of the minimum policy reserve	**29**	–
Other	**9**	4
Total (Note 2)	**100%**	100%

Notes 1. Alternative investments mainly consist of investment to hedge funds.

2. Total plan assets include retirement benefit trusts of 5% and 9% that are set up for a corporate pension plan as of March 31, 2017 and 2016, respectively.

(ii) Determination of expected long-term rate of return on plan assets

In determining the expected long-term rate of return on plan assets, the Company takes into consideration the current and future plan asset allocation as well as the current and expected long-term rate of return on various asset categories comprising plan assets.

i. Actuarial assumptions

	2017	2016
Actuarial assumptions at end of period:		
Discount rate	**0.6~1.0%**	0.5~0.8%
Long-term expected rate of return:	**2.0%**	2.5%
Expected rate of salary increase	**1.6~4.9%**	1.5~3.3%

(3) Defined contribution plan

The required contribution to the defined contribution plan amounts to ¥735 million ($6,558 thousand) and ¥1,087 million for the years ended March 31, 2017 and 2016, respectively.

The most recent information about the multi-employer plan for which the required contributions to the pension fund system are accounted for as retirement benefit expenses is as follows:

a. Funded status of the plan

	2017 (As of March 31, 2016)	2016 (As of March 31, 2015)	**2017 (As of March 31, 2016)**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Plan assets	**¥ –**	¥299,860	**$ –**
Total of actuarial benefit obligations under pension funding calculation and minimum policy reserve (Note)	**–**	268,707	**–**
Difference	**¥ –**	¥ 31,153	**$ –**

Note: This item was presented as "Benefit obligations under pension funding calculation" in the previous fiscal year.

b. Ratio of Group's contributions to total contributions to the plan

	2017	2016
Ratio of Group's contributions	**–%**	0.34%

c. Supplemental information

The main factors for the difference in *a. Funded status of the plan* above are as follows:

	2017 (As of March 31, 2016)	2016 (As of March 31, 2015)	**2017 (As of March 31, 2016)**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deficit carried forward	**¥ –**	¥ –	**$ –**
General reserve	**–**	24,963	**–**
Deficit for the year	**–**	6,190	**–**

Note: The information as of March 31, 2016, is not shown as the fund no more exists due to dissolution.

(4) Other matter

In relation to the return of the substitutional portion of the welfare pension fund, the estimated amount to be returned (the minimum policy reserve) as of March 31, 2017 is ¥7,981 million ($71,145 thousand) and the estimated amount of gain to be recognized by applying Section 46 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25) is ¥5,904 million ($52,628 thousand), assuming payment of the amount to be returned (the minimum policy reserve) was made on March 31, 2017.

16. Other Comprehensive Income

Reclassification adjustments and income tax effect allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ 2,102**	¥ 982	**$ 18,740**
Reclassification adjustments	**(3,009)**	(302)	**(26,822)**
Amount before income tax effect	**(906)**	680	**(8,082)**
Income tax effect	**241**	498	**2,154**
Valuation difference on available-for-sale securities	**(665)**	1,179	**(5,927)**
Deferred gains (losses) on hedges:			
Amount arising during the year	**(26)**	–	**(236)**
Reclassification adjustments	**–**	(1)	**–**
Amount before income tax effect	**(26)**	(1)	**(236)**
Income tax effect	**–**	0	**–**
Deferred gains (losses) on hedges	**(26)**	(0)	**(236)**
Foreign currency translation adjustment:			
Amount arising during the year	**(1,270)**	(8,193)	**(11,327)**
Reclassification adjustments	**–**	(37)	**–**
Amount before income tax effect	**(1,270)**	(8,230)	**(11,327)**
Income tax effect	**–**	(13)	**–**
Foreign currency translation adjustment	**(1,270)**	(8,244)	**(11,327)**
Remeasurements of defined benefit plans:			
Amount arising during the year	**3,498**	(7,225)	**31,182**
Reclassification adjustments	**1,244**	900	**11,097**
Amount before income tax effect	**4,743**	(6,324)	**42,279**
Income tax effect	**(1,472)**	1,808	**(13,123)**
Remeasurements of defined benefit plans	**3,271**	(4,515)	**29,156**
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	**(20)**	0	**(181)**
Reclassification adjustments	**–**	–	**–**
Share of other comprehensive income of entities accounted for using equity method	**(20)**	0	**(181)**
Total other comprehensive income	**¥ 1,288**	¥(11,580)	**$ 11,483**

17. Net Assets

Information regarding changes in net assets for the years ended March 31, 2017 and 2016 is as follows:

a. Shares issued and outstanding/Treasury shares

For the year ended March 31, 2017

Types of shares	Number of shares as of April 1, 2016	Increase	Decrease	Number of shares as of March 31, 2017
		(Shares)		
Shares issued:				
Common shares	139,628,721	–	–	139,628,721
Treasury shares:				
Common shares (Note)	10,954,280	921,192	7,500	11,867,972

Note: Details of increase and decrease are as follows:	*(Shares)*
Increase due to market purchase of shares	918,200
Increase due to purchase of shares of less than standard unit	2,992
Decrease due to issuance from trust to eligible person according to stock remuneration for directors	7,500

For the year ended March 31, 2016

Types of shares	Number of shares as of April 1, 2015	Increase	Decrease	Number of shares as of March 31, 2016
		(Shares)		
Shares issued:				
Common shares	139,628,721	–	–	139,628,721
Treasury shares:				
Common shares (Note)	9,072,215	1,882,065	–	10,954,280

Note: Details of increase and decrease are as follows:	*(Shares)*
Increase due to trust for stock remuneration for directors	306,600
Increase due to market purchase of shares	1,570,600
Increase due to purchase of shares of less than standard unit	4,865

b. Dividends

1) Dividends paid

For the year ended March 31, 2017

Resolution	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share	Cut-off date	Effective date
		(Millions of yen)	*(Thousands of U.S. dollars)*	*(Yen)*	*(U.S. dollars)*		
Annual general meeting of the shareholders on June 29, 2016	Common shares	¥3,353	$29,891	¥26	$0.23	March 31, 2016	June 30, 2016

For the year ended March 31, 2016

Resolution	Type of shares	Total dividends	Dividends per share	Cut-off date	Effective date
		(Millions of yen)	*(Yen)*		
Annual general meeting of the shareholders on June 26, 2015	Common shares	¥3,139	¥24	March 31, 2015	June 29, 2015

2) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018

Resolution	**Type of shares**	**Total dividends**	**Total dividends**	**Source of dividends**	**Dividends per share**	**Dividends per share**	**Cut-off date**	**Effective date**
		(Millions of yen)	*(Thousands of U.S. dollars)*		*(Yen)*	*(U.S. dollars)*		
Annual general meeting of the shareholders on June 29, 2017	Common shares	¥3,329	$29,677	Retained earnings	¥26	$0.23	March 31, 2017	June 30, 2017

18. Amounts per Share

The amounts per share of basic earnings and net assets, presented below, are based on the weighted-average number of shares of common shares outstanding during each year and the number of shares of common shares outstanding at each balance sheet date, respectively.

	2017	2016	**2017**
	(Yen)		*(U.S. dollars)*
Basic earnings	**¥ 55.06**	¥ 85.83	**$ 0.49**
Net assets	**1,664.40**	1,621.97	**14.84**

Per share amounts assuming full dilution have not been presented because no potential dilutive shares were outstanding as of March 31, 2017 or 2016.

The Company's shares held by the trust for the stock remuneration plan for directors are recorded as treasury shares in shareholders' equity which are deducted from the total number of shares issued at the balance sheet date for the purpose of calculating net assets per share (299,100 shares and 306,600 shares as of March 31, 2017, and 2016, respectively).

The Company's shares held by the trust for the stock remuneration plan for directors are recorded as treasury shares in shareholders' equity which are deducted from the weighted-average number of shares outstanding during the year for the purpose of calculating the basic earnings per share (301,235 shares and 188,676 shares for the years ended March 31, 2017 and 2016, respectively).

19. Supplementary Cash Flow Information

The following table presents a reconciliation of cash and deposits with cash and cash equivalents as of March 31, 2017 and 2016.

	2017	2016	**2017**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and deposits	**¥ 63,963**	¥54,595	**$ 570,133**
Time deposits with a maturity of more than three months	**(13,003)**	(8,067)	**(115,906)**
Money management funds and others included in securities	**14**	1,285	**128**
Cash and cash equivalents	**¥ 50,974**	¥47,813	**$ 454,356**

20. Business Combination

Finalization of preliminary accounting treatment for business combination

The preliminary accounting treatment for the year ended March 31, 2016 with regard to the business combination with PD-LD, Inc. (currently: Necsel Intellectual Property, Inc.) effective on March 23, 2016 was finalized in the year ended March 31, 2017.

With the finalization of this preliminary accounting treatment, a significant adjustment of the previous allocation of the acquisition costs was reflected in the comparative information included in the consolidated financial statements for the year ended March 31, 2017.

As a result of this adjustment, goodwill preliminary calculated in the amount of ¥1,683 million was reduced by ¥621 million to ¥1,062 million. In addition, other intangible assets as of March 31, 2016 increased by ¥621 million.

21. Segment Information

(1) Summary of reportable segments

The Company defines a reportable segment as a component of the Company for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to assess its business performance and make decisions about resources to be allocated to the segment.

The Company has a division system based on product type and similarity in sales market, etc., and each division develops and implements comprehensive domestic and overseas strategies for its development, manufacturing and sales of products and service, and engages in its business activities globally.

Thus, reportable segments of the Company are divided into two categories based on product type and sales market.

"Light sources business" conducts manufacturing and sales of halogen lamps and discharge lamps, etc.

"Equipment business" conducts manufacturing and sales of visual image equipment and optical equipment, etc.

(2) The basis of measurement of net sales, income or loss, assets, liabilities, and other items by the reportable segment is generally consistent with the significant accounting policies of the Group. Segment income presents the operating income of the segment. Intersegment sales and transfers are recognized based on the market price.

(3) Information about net sales, segment income or loss, assets, liabilities and other items by reportable segment

	Year ended March 31, 2017						
	Reportable segment					Eliminations or	Amounts on consolidated
	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total	unallocated amounts (Note 2)	financial statements (Note 3)
	(Millions of yen)						
Net sales							
Sales to external customers	¥ 71,901	¥ 97,640	¥169,541	¥ 3,298	¥172,840	¥ –	¥172,840
Intersegment sales or transfers	2,144	194	2,338	9	2,348	(2,348)	–
Total	¥ 74,046	¥ 97,834	¥171,880	¥ 3,307	¥175,188	¥ (2,348)	¥172,840
Segment income	¥ 8,119	¥ 74	¥ 8,193	¥ 41	¥ 8,235	¥ 366	¥ 8,602
Segment assets	104,983	121,348	226,331	43,565	269,897	38,533	308,430
Other items:							
Depreciation	2,498	4,045	6,544	43	6,587	–	6,587
Amortization of goodwill	527	793	1,321	–	1,321	–	1,321
Investment in associates under equity method	14	–	14	–	14	–	14
Increase in property, plant and equipment and intangible assets	4,971	4,203	9,174	1,565	10,740	–	10,740

Notes 1. "Other businesses" represents business segments including industrial machinery and others, which are not classified in either reportable segment.

2. Eliminations or unallocated amounts of segment income, amounting to ¥366 million, include elimination of intersegment transactions totaling ¥161 million. Eliminations or unallocated amounts of segment assets, amounting to ¥38,533 million, include elimination of intersegment receivables and payables totaling ¥(16,233) million and unallocated corporate assets totaling ¥54,889 million that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.

3. Segment income is adjusted to operating income on the consolidated statement of income.

4. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

	Year ended March 31, 2016						
	Reportable segment					Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total		
	(Millions of yen)						
Net sales							
Sales to external customers	¥ 77,231	¥ 98,724	¥175,956	¥ 3,164	¥179,121	¥ –	¥179,121
Intersegment sales or transfers	1,343	103	1,447	53	1,500	(1,500)	–
Total	¥ 78,574	¥ 98,828	¥177,403	¥ 3,218	¥180,622	¥ (1,500)	¥179,121
Segment income	¥ 10,976	¥ 1,726	¥ 12,703	¥ 181	¥ 12,885	¥ 245	¥ 13,130
Segment assets	102,972	113,513	216,486	39,026	255,513	¥39,012	294,525
Other items:							
Depreciation	2,146	4,311	6,457	38	6,495	–	6,495
Amortization of goodwill	375	628	1,003	–	1,003	–	1,003
Investment in associates under equity method	21	2	23	–	23	–	23
Increase in property, plant and equipment and intangible assets	5,870	6,871	12,742	481	13,224	–	13,224

Notes 1. "Other businesses" represents business segments including industrial machinery and others, which are not classified in either reportable segment.

2. Eliminations or unallocated amounts of segment income, amounting to ¥245 million, include elimination of intersegment transactions totaling ¥173 million. Eliminations or unallocated amounts of segment assets, amounting to ¥39,012 million, include elimination of intersegment receivables and payables totaling ¥(16,297) million and unallocated corporate assets totaling ¥55,370 million that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.

3. Segment income is adjusted to operating income on the consolidated statement of income.

4. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

	Year ended March 31, 2017						
	Reportable segment						
	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total	Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	(Thousands of U.S. dollars)						
Net sales							
Sales to external customers	$640,891	$ 870,311	$1,511,202	$ 29,400	$1,540,603	$ –	$1,540,603
Intersegment sales or transfers	19,115	1,731	20,846	83	20,930	(20,930)	–
Total	$660,006	$ 872,042	$1,532,049	$ 29,483	$1,561,533	$ (20,930)	$1,540,603
Segment income	$ 72,369	$ 663	$ 73,033	$ 372	$ 73,405	$ 3,269	$ 76,675
Segment assets	935,764	1,081,632	2,017,397	388,317	2,405,715	343,468	2,749,183
Other items:							
Depreciation	22,274	36,059	58,333	384	58,717	–	58,717
Amortization of goodwill	4,706	7,071	11,777	–	11,777	–	11,777
Investment in associates under equity method	129	–	129	–	129	–	129
Increase in property, plant and equipment and intangible assets	44,316	37,463	81,780	13,956	95,736	–	95,736

Notes 1. "Other businesses" represents business segments including industrial machinery and others, which are not classified in either reportable segment.

2. Eliminations or unallocated amounts of segment income, amounting to $3,269 thousand, include elimination of intersegment transactions totaling $1,443 thousand. Eliminations or unallocated amounts of segment assets, amounting to $343,468 thousand, include elimination of intersegment receivables and payables totaling $(144,700) thousand and unallocated corporate assets totaling $489,254 thousand that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.

3. Segment income is adjusted to operating income on the consolidated statement of income.

4. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

(4) Other segment information

	Year ended March 31, 2017						
	Reportable segment						
	Light sources business	**Equipment business**	**Total**	**Other businesses**	**Total**	**Eliminations or unallocated amounts**	**Amounts on consolidated financial statements**
	(Millions of yen)						
Impairment loss	**¥ 56**	**¥ 184**	**¥ 240**	**¥–**	**¥ 240**	**¥–**	**¥ 240**
Goodwill:							
Amortized for the year	**527**	**793**	**1,321**	**–**	**1,321**	**–**	**1,321**
Balance	**1,581**	**2,207**	**3,788**	**–**	**3,788**	**–**	**3,788**

	Year ended March 31, 2016						
	Reportable segment						
	Light sources business	Equipment business	Total	Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements
	(Millions of yen)						
Impairment loss	¥ –	¥ 226	¥ 226	¥–	¥ 226	¥18	¥ 244
Goodwill:							
Amortized for the year	375	628	1,003	–	1,003	–	1,003
Balance	2,334	2,661	4,995	–	4,995	–	4,995

	Year ended March 31, 2017						
	Reportable segment						
	Light sources business	**Equipment business**	**Total**	**Other businesses**	**Total**	**Eliminations or unallocated amounts**	**Amounts on consolidated financial statements**
	(Thousands of U.S. dollars)						
Impairment loss	**$ 500**	**$ 1,645**	**$ 2,146**	**$–**	**$ 2,146**	**$–**	**$ 2,146**
Goodwill:							
Amortized for the year	**4,706**	**7,071**	**11,777**	**–**	**11,777**	**–**	**11,777**
Balance	**14,092**	**19,679**	**33,771**	**–**	**33,771**	**–**	**33,771**

(5) Related information

Information about net sales and property, plant and equipment by geographical area

Year ended March 31, 2017
(Millions of yen/Thousands of U.S. dollars)

		North America			**Asia**		**Other**	
	Japan	**U.S.A.**	**Other**	**Europe**	**China**	**Other**	**areas**	**Total**
Net sales	**¥ 35,153**	**¥ 46,155**	**¥ 2,608**	**¥ 16,368**	**¥ 39,281**	**¥ 31,525**	**¥ 1,748**	**¥ 172,840**
	$313,334	**$411,404**	**$23,246**	**$145,903**	**$350,130**	**$281,001**	**$15,581**	**$1,540,603**

Year ended March 31, 2016
(Millions of yen)

		North America			Asia		Other	
	Japan	U.S.A.	Other	Europe	China	Other	areas	Total
Net sales	¥37,327	¥52,128	¥3,192	¥20,304	¥35,661	¥28,336	¥2,169	¥179,121

Year ended March 31, 2017
(Millions of yen/Thousands of U.S. dollars)

		North America				**Other**	
	Japan	**U.S.A.**	**Canada**	**Europe**	**Asia**	**areas**	**Total**
Property, plant and equipment	**¥ 28,504**	**¥ 8,330**	**¥ 3,089**	**¥ 1,332**	**¥ 3,519**	**¥ 33**	**¥ 44,809**
	$254,074	**$74,256**	**$27,534**	**$11,875**	**$31,373**	**$294**	**$399,410**

Year ended March 31, 2016
(Millions of yen)

		North America				Other	
	Japan	U.S.A.	Canada	Europe	Asia	areas	Total
Property, plant and equipment	¥27,187	¥7,503	¥3,517	¥929	¥3,134	¥37	¥42,310

Information by product and service is omitted since the same information is already disclosed in (3) above.

Information about transactions with major customers is omitted since there is no external customer with a sales amount of 10% or more of the Group’s net sales.

22. Related Party Information

For the years ended March 31, 2017 and 2016, there were no related party transactions.

23. Subsequent Events

The USHIO employees' pension fund, in which the Company participates, received an approval from the Minister of Health, Labour and Welfare on May 1, 2017 for the return of the benefit obligations related to past employee service for the substitutional portion of the welfare pension fund, in accordance with the enforcement of the Defined-Benefit Corporate Pension Act.

In conjunction with this, the Company will recognize the extinguishment of its retirement benefit obligations for the substitutional portion and the accompanying gain and loss on the date of approval based on Section 46 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, revised on March 26, 2015).

As a result, the Company plans to record a gain of ¥6,024 million ($53,702 thousand) on the return of the substitutional portion of the welfare pension fund as other income for the year ending March 31, 2018.

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